

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

CASS COUNTY
WALKER, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**CASS COUNTY
WALKER, MINNESOTA**

For the Year Ended December 31, 2005



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

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**CASS COUNTY
WALKER, MINNESOTA**

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**CASS COUNTY
WALKER, MINNESOTA**

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**CASS COUNTY
WALKER, MINNESOTA**

**ORGANIZATION
AS OF DECEMBER 31, 2005**

		<u>Term Expires</u>
Elected		
Commissioners		
District I	James Demgen	January 2007
District II	Robert Kangas	January 2007
District III	Jeff Peterson	January 2009
District IV	James Dowson	January 2007
District V	Virgil Foster	January 2009
Attorney	Earl Maus	January 2007
Auditor/Treasurer	Sharon K. Anderson	January 2007
Recorder	Kathryn Norby	January 2007
County Sheriff	Randy Fisher	January 2007
Appointed		
Administrator	Robert Yochum	November 2009
Assessor	Steven Kuha	December 2008
Building and Grounds Supervisor	Tom Emery	Indefinite
Highway Engineer	Dave Enblom	May 2009
Land Commissioner	Norm Moody	Indefinite
Medical Examiner	Michael B. McGee	January 2006
Environmental Services Health, Human and Veterans Services	Paul Fairbanks	Indefinite
Dorothy Opheim		Indefinite
Management Information Systems	Tim Richardson	Indefinite
Probation Office	Reno Wells	Indefinite

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Cass County

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cass County, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Cass County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cass County Housing and Redevelopment Authority (HRA) and the Pine River Area Sanitary District (District), which comprise the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA and the District, is based on the reports of the other auditors.

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

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

December 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 2006, on our consideration of Cass County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. It does not include the Cass County HRA and the Pine River Area Sanitary District, which were audited by other auditors.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CASS COUNTY
WALKER, MINNESOTA**

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

As management of Cass County, Minnesota, we offer the readers of the Cass County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Cass County exceeded its liabilities on December 31, 2005, by \$118,186,805 (net assets). Of this amount, \$22,625,863 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of 2005, Cass County's governmental funds reported combined ending fund balances of \$33,966,980, an increase of \$2,634,187 in comparison with 2004. Of this balance amount, \$2,004,370 was unreserved and undesignated by Cass County, and thus available for spending at the government's discretion.
- At the end of 2005, unreserved and undesignated fund balance for the General Fund was \$347,070, or 2.6 percent, of the total General Fund expenditures for that year.
- Cass County's total debt decreased by \$115,657, or 48 percent, during 2005. This debt consists of Cass County's share (95 percent) of the Kitchigami Regional Library Note in the amount of \$125,813.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fund Level Financial Statements

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

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

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside of Cass County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Cass County's own programs or activities. Cass County's fiduciary funds include Taxes and Penalties, State of Minnesota, School Districts, Towns and Cities, Minnesota Counties Information Systems, and Mississippi Headwaters Board Agency Funds.

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Cass County's assets exceeded liabilities by \$118,186,805 at the close of 2005. The largest portion of Cass County's net assets (70 percent) reflects the County's investment in capital assets (land, buildings, equipment, and infrastructure, such as roads and bridges). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Fiscal year 2005 is the County's third year of reporting in accordance with Governmental Accounting Standards Board (GASB) Statement 34. Since three years of data now exist under GASB Statement 34, the County is able to present comparative analysis between the two most current years that will assist users in gaining a better understanding of the impact of the County's financial activities.

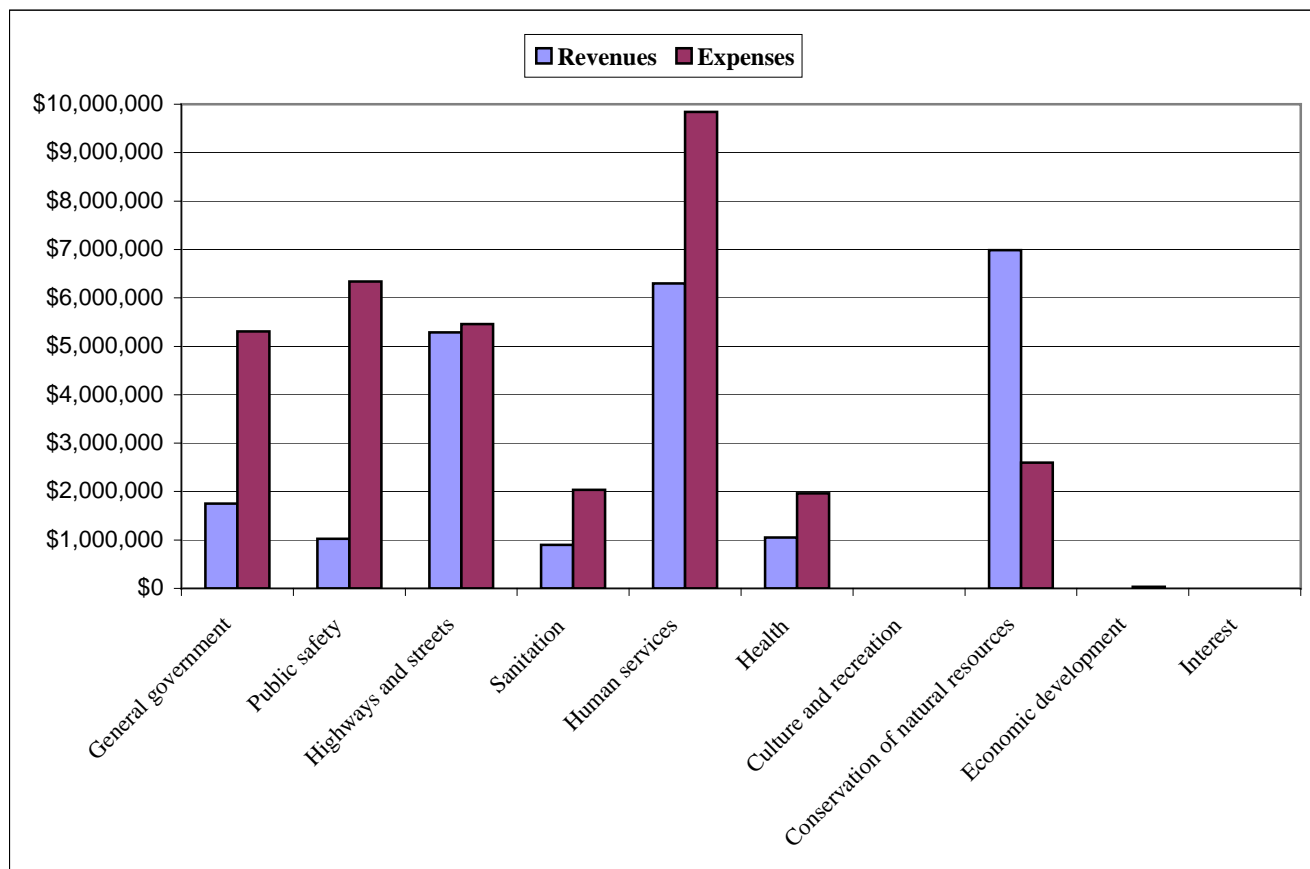
Net Assets (in thousands)		
Governmental Activities	2005	2004
Assets		
Current and other assets	\$ 44,602	\$ 39,651
Capital assets	82,971	79,440
Total Assets	\$ 127,573	\$ 119,091
Liabilities		
Long-term liabilities	\$ 2,535	\$ 2,445
Other liabilities	6,851	6,074
Total Liabilities	\$ 9,386	\$ 8,519
Net Assets		
Invested in capital assets, net of related debt	\$ 82,971	\$ 79,311
Restricted	12,590	9,060
Unrestricted	22,626	22,201
Total Net Assets	\$ 118,187	\$ 110,572

The unrestricted net assets amount of \$22,625,863 as of December 31, 2005, may be used to meet the County's ongoing obligations to citizens and creditors.

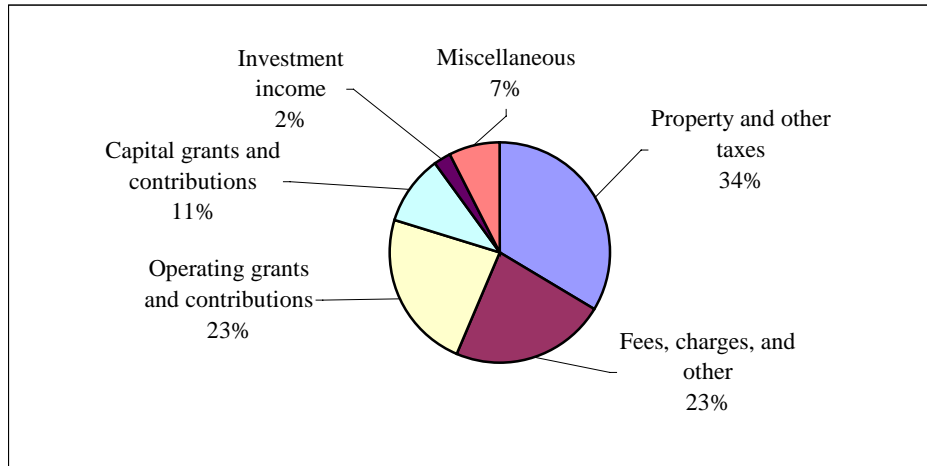
Changes in Net Assets (in thousands)		
Governmental Activities	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 9,434	\$ 6,825
Operating grants and contributions	9,532	11,492
Capital grants and contributions	4,330	4,266
General revenues		
Property taxes	13,730	12,220
Other	4,174	4,122
Total Revenues	\$ 41,200	\$ 38,925

Governmental Activities	2005	2004
Expenses		
General government	\$ 5,288	\$ 5,029
Public safety	6,341	5,862
Highways and streets	5,456	6,285
Sanitation	2,037	1,868
Human services	9,841	8,533
Health	1,965	1,792
Culture and recreation	2	2
Conservation of natural resources	2,620	2,175
Economic development	34	31
Interest	1	4
Total Expenses	<u>\$ 33,585</u>	<u>\$ 31,581</u>
Increase in Net Assets	\$ 7,615	\$ 7,344
Net Assets - January 1	110,572	103,228
Net Assets - December 31	<u>\$ 118,187</u>	<u>\$ 110,572</u>

Expenses and Program Revenues 2005



Revenues by Source 2005



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

As of the end of the current fiscal year, Cass County's governmental funds reported combined ending fund balances of \$33,966,980, an increase of \$2,634,187 in comparison with the prior year. Unreserved and undesignated fund balance, \$3,268,737 of the ending fund balance, may be available for spending at the County's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Cass County. At the end of the current fiscal year, it had an unreserved and undesignated fund balance of \$347,070. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved and undesignated fund balance represents 2.6 percent of total General Fund expenditures. In 2005, ending unreserved and undesignated fund balance in the General Fund decreased by \$842,049. The primary reason for this decrease was the lack of undesignated fund balance within the Road and Bridge Special Revenue Fund to meet the County's cash flow designation policy without assistance from the General Fund. The shortfall in the Road and Bridge Special Revenue Fund required additional funds to be designated for cash flow purposes in the General Fund.

The Road and Bridge Special Revenue Fund unreserved and undesignated fund balance of \$30,296 at year-end represents 0.33 percent of the fund's annual expenditures. Unreserved and undesignated fund balance decreased \$126,441 during 2005, primarily due to expenditures exceeding revenues.

The Health and Human Services Special Revenue Fund unreserved and undesignated fund balance of \$1,394,322 at year-end represents 11.7 percent of the fund's annual expenditures. Unreserved and undesignated fund balance decreased \$364,832 during 2005, primarily due to expenditures exceeding revenues.

General Fund Budgetary Highlights

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

Actual revenues exceeded final budgeted revenues by \$803,746, primarily due to charges for services, intergovernmental revenue, and investment earnings over budget.

Actual expenditures were \$879,264 under final budgeted expenditures for the period ending December 31, 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Cass County's capital assets for its governmental activities at December 31, 2005, totaled \$82,970,462 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The County's net capital assets increased \$3,530,157, or 4.4 percent, from the previous year. The major capital asset event was \$3.5 million gross investment in infrastructure for 2005.

	Governmental Capital Assets (Net of Depreciation)	
	<u>2005</u>	<u>2004</u>
Land	\$ 1,846,582	\$ 1,685,566
Infrastructure	62,513,586	60,493,611
Buildings	12,727,255	13,095,350
Machinery and equipment	1,567,378	1,618,415
Construction in progress	<u>4,315,661</u>	<u>2,547,363</u>
Totals	<u>\$ 82,970,462</u>	<u>\$ 79,440,305</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had a total outstanding debt of \$125,813, which was backed by the full faith and credit of the government.

Outstanding Debt

	<u>2005</u>	<u>2004</u>
General Obligation Library Note	\$ 125,813	\$ 161,759
Minnesota Finance Energy Loan	-	19,327
Minnesota DHS Title IV-E Payable	-	<u>60,384</u>
Total	<u>\$ 125,813</u>	<u>\$ 241,470</u>

The County's debt related to general obligation bonds and notes decreased by \$115,657, or 48 percent, during the fiscal year due to scheduled principal payments.

Minnesota statutes limit the amount of debt a County may levy to two percent of its total market value. At the end of 2005, Cass County's debt was .0033 percent of its total market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The growth of Cass County's tax base at the end of 2005 was 19.1 percent over 2004. This growth in the tax base allows Cass County to have one of the lowest tax rates among neighboring counties. Demand for lakeshore and recreational land has continued to increase, which aids in the economic growth of the County.

By the end of 2005, Cass County approved its balanced 2006 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Discretely Presented Component Units
<u>Assets</u>		
Cash and pooled investments	\$ 32,356,252	\$ 178,293
Petty cash and change funds	2,391	-
Investments	4,436,095	-
Taxes receivable		
Prior - net	475,053	-
Special assessments receivable		
Prior - net	141,747	3,965
Accounts receivable - net	4,074,322	25,769
Long-term receivables	-	270,554
Accrued interest receivable	268,547	-
Due from other governments	1,539,912	-
Prepaid items	1,056,892	26,173
Inventories	251,121	-
Restricted assets		
Cash and pooled investments	-	120,444
Capital assets		
Nondepreciable	6,162,243	39,754
Depreciable - net of accumulated depreciation	76,808,219	3,071,157
Total Assets	\$ 127,572,794	\$ 3,736,109
<u>Liabilities</u>		
Accounts payable	\$ 1,006,956	\$ 9,353
Salaries payable	543,608	-
Contracts payable	277,407	-
Due to other governments	2,470,502	471
Accrued interest payable	-	4,285
Unearned revenue	16,607	198
Advance from other governments	2,536,339	-
Customer deposits	-	2,900
Long-term liabilities		
Due within one year	261,455	165,969
Due in more than one year	2,273,115	2,321,812
Total Liabilities	\$ 9,385,989	\$ 2,504,988

**CASS COUNTY
WALKER, MINNESOTA**

***EXHIBIT 1
(Continued)***

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

	Primary Government Governmental Activities	Discretely Presented Component Units
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 82,970,462	\$ 700,147
Restricted for		
General government	226,676	-
Public safety	2,243,886	-
Highways and streets	522,248	-
Conservation of natural resources	9,236,669	-
Capital projects	-	38,555
Debt service	143,031	-
Other purposes	217,970	-
Unrestricted	22,625,863	492,419
Total Net Assets	\$ 118,186,805	\$ 1,231,121

**CASS COUNTY
WALKER, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 5,288,213	\$ 1,533,993
Public safety	6,340,789	448,531
Highways and streets	5,456,464	486,969
Sanitation	2,037,351	895,792
Human services	9,840,948	381,551
Health	1,965,453	633,429
Culture and recreation	1,812	-
Conservation of natural resources	2,620,012	5,053,818
Economic development	33,613	-
Interest	744	-
	\$ 33,585,399	\$ 9,434,083
Total governmental activities		
 Component Units		
Housing and Redevelopment Authority	\$ 480,258	\$ 32,569
Pine River Area Sanitary District	415,768	360,121
	\$ 896,026	\$ 392,690
	Total component units	

General Revenues

Property taxes
Mortgage registry and deed tax
Other taxes
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Miscellaneous
Gain on sale of capital assets

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Discretely Presented Component Units
\$ 220,116	\$ -	\$ (3,534,104)	
521,287	57,396	(5,313,575)	
2,122,918	2,675,715	(170,862)	
-	-	(1,141,559)	
5,833,284	-	(3,626,113)	
418,847	-	(913,177)	
-	-	(1,812)	
415,357	1,597,150	4,446,313	
-	-	(33,613)	
-	-	(744)	
\$ 9,531,809	\$ 4,330,261	\$ (10,289,246)	
\$ 436,521	\$ -		\$ (11,168)
-	94,190		38,543
\$ 436,521	\$ 94,190		\$ 27,375
		\$ 13,729,723	\$ -
		70,284	-
		23,603	-
		448,933	-
		2,279,255	-
		1,014,726	4,419
		320,171	16,867
		17,750	1,427
		\$ 17,904,445	\$ 22,713
		\$ 7,615,199	\$ 50,088
		110,571,606	1,181,033
		\$ 118,186,805	\$ 1,231,121

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**CASS COUNTY
WALKER, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 16,766,462	\$ 2,804,688
Petty cash and change funds	2,051	100
Undistributed cash in agency funds	169,834	33,969
Investments	-	-
Taxes receivable		
Prior	240,648	81,911
Special assessments receivable		
Prior	141,747	-
Accounts receivable	146,863	-
Accrued interest receivable	236,536	-
Due from other funds	494,846	43,131
Due from other governments	165,890	649,723
Inventories	-	251,121
Prepaid items	-	-
	\$ 18,364,877	\$ 3,864,643
 <u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 425,515	\$ 85,242
Salaries payable	290,148	72,014
Compensated absences - current	61,817	22,938
Contracts payable	-	277,407
Due to other funds	1,224	-
Due to other governments	-	5,635
Deferred revenue - unavailable	340,101	470,722
Deferred revenue - unearned	16,607	-
Advance from other governments	-	2,536,339
	\$ 1,135,412	\$ 3,470,297

EXHIBIT 3

Health and Human Services	Forfeited Tax Sale	Environmental Trust	Other Governmental Funds	Total Governmental Funds
\$ 5,897,403	\$ 4,565,241	\$ 77,263	\$ 1,982,313	\$ 32,093,370
140	100	-	-	2,391
57,947	-	-	1,132	262,882
-	-	4,436,095	-	4,436,095
142,227	-	-	10,267	475,053
-	-	-	-	141,747
67,094	3,860,129	-	236	4,074,322
-	-	32,011	-	268,547
-	-	-	1,456	539,433
724,299	-	-	-	1,539,912
-	-	-	-	251,121
-	-	-	1,056,892	1,056,892
\$ 6,889,110	\$ 8,425,470	\$ 4,545,369	\$ 3,052,296	\$ 45,141,765
\$ 479,306	\$ 16,810	\$ -	\$ 83	\$ 1,006,956
161,960	19,486	-	-	543,608
46,919	3,968	-	-	135,642
-	-	-	-	277,407
375	507,052	-	30,782	539,433
95,721	740,812	-	470,295	1,312,463
125,732	3,860,129	-	9,646	4,806,330
-	-	-	-	16,607
-	-	-	-	2,536,339
\$ 910,013	\$ 5,148,257	\$ -	\$ 510,806	\$ 11,174,785

**CASS COUNTY
WALKER, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Reserved for		
Prepaid items	\$ -	\$ -
Inventories	-	251,121
Missing heirs	10,672	-
Law library	50,716	-
Recorder's equipment	100,126	-
Recorder's compliance fund	75,834	-
Enhanced 911	107,193	-
Federal projects	207,298	-
Forestry development	-	-
Wetland activity	62,918	-
SSI/DAA fees	-	-
Birth/death certificates	-	-
Unreserved		
Designated for future expenditures	-	23,391
Designated for cash flows	11,636,218	89,538
Designated for capital improvements	350,000	-
Designated for uninsured claims	375,230	-
Designated for health insurance	1,631,024	-
Designated for PHP grant	-	-
Designated for ASP grant	-	-
Designated for petty cash funds	2,051	-
Designated for Prenatal Alcohol Use Prevention grant	-	-
Designated for Region V Mental Health grant	-	-
Designated for Federal LPHG-MCH grant	-	-
Designated for State LPHG-MCH grant	-	-
Designated for Follow Along Program grant	-	-
Designated for Minnesota Care Training grant	-	-
Designated for March of Dimes grant	-	-
Designated for compensated absences	2,273,115	-
Undesignated	347,070	30,296
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service fund	-	-
Capital projects fund	-	-
Total Fund Balances	\$ 17,229,465	\$ 394,346
Total Liabilities and Fund Balances	\$ 18,364,877	\$ 3,864,643

EXHIBIT 3
(Continued)

Health and Human Services	Forfeited Tax Sale	Environmental Trust	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,056,892	\$ 1,056,892
-	-	-	-	251,121
-	-	-	-	10,672
-	-	-	-	50,716
-	-	-	-	100,126
-	-	-	-	75,834
-	-	-	-	107,193
-	-	-	-	207,298
-	2,930,999	4,312,687	-	7,243,686
-	-	-	-	62,918
6,682	-	-	-	6,682
140	-	-	-	140
-	346,214	-	-	369,605
4,461,810	-	-	-	16,187,566
-	-	-	-	350,000
-	-	-	-	375,230
-	-	-	-	1,631,024
1,565	-	-	-	1,565
18,418	-	-	-	18,418
-	-	-	-	2,051
1,578	-	-	-	1,578
28,279	-	-	-	28,279
2,269	-	-	-	2,269
7,645	-	-	-	7,645
27,967	-	-	-	27,967
8,776	-	-	-	8,776
19,646	-	-	-	19,646
-	-	-	-	2,273,115
1,394,322	-	232,682	-	2,004,370
-	-	-	209,808	209,808
-	-	-	151,627	151,627
-	-	-	1,123,163	1,123,163
\$ 5,979,097	\$ 3,277,213	\$ 4,545,369	\$ 2,541,490	\$ 33,966,980
\$ 6,889,110	\$ 8,425,470	\$ 4,545,369	\$ 3,052,296	\$ 45,141,765

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**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$	33,966,980
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		82,970,462
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. This adjustment is deferred revenue - unavailable, less amounts included in deferred revenue that will be paid to other governments when collected.</p>		
<p>Deferred revenue - unavailable</p>	\$ 4,806,330	
<p>Due to other governments</p>	<u>(1,158,039)</u>	3,648,291
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
<p>Notes payable</p>	\$ (125,813)	
<p>Compensated absences</p>	<u>(2,273,115)</u>	<u>(2,398,928)</u>
Net assets of governmental activities (Exhibit 1)		<u><u>\$ 118,186,805</u></u>

**CASS COUNTY
WALKER, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Road and Bridge
Revenues		
Taxes	\$ 7,346,138	\$ 2,327,134
Special assessments	1,633,527	-
Licenses and permits	81,636	-
Intergovernmental	2,645,157	5,360,353
Charges for services	2,656,488	370,611
Fines and forfeits	7,642	-
Gifts and contributions	18,846	-
Interest on investments	896,344	-
Miscellaneous	349,787	116,358
	\$ 15,635,565	\$ 8,174,456
Expenditures		
Current		
General government	\$ 5,074,319	\$ -
Public safety	6,135,398	-
Highways and streets	-	9,169,480
Sanitation	1,995,677	-
Human services	-	-
Health	-	-
Conservation of natural resources	159,546	-
Economic development	33,613	-
Capital outlay	-	-
Debt service		
Principal	-	-
Interest	-	-
	\$ 13,398,553	\$ 9,169,480
Excess of Revenues Over (Under) Expenditures	\$ 2,237,012	\$ (995,024)
Other Financing Sources (Uses)		
Transfers in	\$ 621,298	\$ 526,686
Transfers out	(1,608,186)	(25,868)
	\$ (986,888)	\$ 500,818
Net Change in Fund Balances	\$ 1,250,124	\$ (494,206)
Fund Balances - January 1	15,979,341	836,228
Increase (decrease) in reserved for inventories	-	52,324
Fund Balances - December 31	\$ 17,229,465	\$ 394,346

EXHIBIT 5

Health and Human Services	Forfeited Tax Sale	Environmental Trust	Other Governmental Funds	Total Governmental Funds
\$ 3,959,498	\$ -	\$ -	\$ 139,559	\$ 13,772,329
-	-	-	-	1,633,527
11,775	-	-	-	93,411
6,643,564	258,642	-	50,673	14,958,389
627,616	-	-	2,032	3,656,747
-	-	-	-	7,642
8,212	-	-	-	27,058
-	-	117,682	700	1,014,726
375,589	3,444,069	125,000	37,266	4,448,069
\$ 11,626,254	\$ 3,702,711	\$ 242,682	\$ 230,230	\$ 39,611,898
\$ 147,859	\$ -	\$ -	\$ -	\$ 5,222,178
-	-	-	24,531	6,159,929
-	-	-	160,932	9,330,412
-	-	-	1,227	1,996,904
9,836,732	-	-	-	9,836,732
1,935,328	-	-	-	1,935,328
-	2,289,038	-	-	2,448,584
-	-	-	-	33,613
-	-	10,000	-	10,000
-	-	-	55,273	55,273
-	-	-	1,082	1,082
\$ 11,919,919	\$ 2,289,038	\$ 10,000	\$ 243,045	\$ 37,030,035
\$ (293,665)	\$ 1,413,673	\$ 232,682	\$ (12,815)	\$ 2,581,863
\$ -	\$ -	\$ -	\$ 1,082,956	\$ 2,230,940
(53,777)	(543,109)	-	-	(2,230,940)
\$ (53,777)	\$ (543,109)	\$ -	\$ 1,082,956	\$ -
\$ (347,442)	\$ 870,564	\$ 232,682	\$ 1,070,141	\$ 2,581,863
6,326,539	2,406,649	4,312,687	1,471,349	31,332,793
-	-	-	-	52,324
\$ 5,979,097	\$ 3,277,213	\$ 4,545,369	\$ 2,541,490	\$ 33,966,980

**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 2,581,863

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. Included in deferred revenue are timber sales receivable, that when received will be paid to other governments. On the government-wide financial statements, these are reported as due to other governments. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

December 31		
Deferred revenue - unavailable	\$ 4,806,330	
Less: timber sales	(1,158,039)	
January 1		
Deferred revenue - unavailable	(2,912,783)	
Less: timber sales	835,442	
	1,570,950	1,570,950

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

Expenditures for general capital assets and infrastructure	\$ 5,789,497	
Current year depreciation	(2,259,340)	3,530,157
	3,530,157	

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

Principal repayments		
General obligation notes	\$ 35,946	
Loans	19,327	
Title IV-E	60,384	
	115,657	115,657

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

Change in accrued interest payable	\$ 338	
Change in compensated absences	(236,090)	
Change in inventories	52,324	
	(183,428)	(183,428)

Change in net assets of governmental activities (Exhibit 2) \$ 7,615,199

FIDUCIARY FUNDS

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CASS COUNTY
WALKER, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 1,338,725
Petty cash and change funds	<u>440</u>
Total Assets	<u>\$ 1,339,165</u>
<u>Liabilities</u>	
Accounts payable	\$ 12,938
Salaries payable	26,549
Due to other governments	1,226,651
Prepaid taxes	<u>73,027</u>
Total Liabilities	<u>\$ 1,339,165</u>

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DISCRETELY PRESENTED COMPONENT UNITS

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**CASS COUNTY
WALKER, MINNESOTA**

EXHIBIT 8

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2005**

	Housing and Redevelopment Authority	Pine River Area Sanitary District	Total
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 170,005	\$ 8,288	\$ 178,293
Special assessments - prior	-	3,965	3,965
Accounts receivable - net	14,387	11,382	25,769
Prepaid items	5,766	20,407	26,173
Total current assets	\$ 190,158	\$ 44,042	\$ 234,200
Restricted assets			
Cash and pooled investments	\$ -	\$ 120,444	\$ 120,444
Noncurrent assets			
Long-term receivables	\$ 270,554	\$ -	\$ 270,554
Capital assets			
Nondepreciable	29,754	10,000	39,754
Depreciable - net	432,511	2,638,646	3,071,157
Total noncurrent assets	\$ 732,819	\$ 2,648,646	\$ 3,381,465
Total Assets	\$ 922,977	\$ 2,813,132	\$ 3,736,109
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 4,058	\$ 5,295	\$ 9,353
Due to other governments	471	-	471
Accrued interest payable	-	4,285	4,285
Deferred revenue - unearned	198	-	198
Customer deposits - current	2,900	-	2,900
Notes payable - current	-	165,969	165,969
Total current liabilities	\$ 7,627	\$ 175,549	\$ 183,176
Noncurrent liabilities			
Loans payable	\$ 77,333	\$ -	\$ 77,333
General obligation notes payable - long-term	-	2,240,510	2,240,510
Other noncurrent liabilities	3,969	-	3,969
Total noncurrent liabilities	\$ 81,302	\$ 2,240,510	\$ 2,321,812
Total Liabilities	\$ 88,929	\$ 2,416,059	\$ 2,504,988
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 462,265	\$ 237,882	\$ 700,147
Restricted for capital projects	-	38,555	38,555
Unrestricted	371,783	120,636	492,419
Total Net Assets	\$ 834,048	\$ 397,073	\$ 1,231,121

**CASS COUNTY
WALKER, MINNESOTA**

**COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Expenses	Fees, Charges, Fines, and Other
Component units		
Housing and Redevelopment Authority	\$ 480,258	\$ 32,569
Pine River Area Sanitary District	415,768	360,121
Total component units	\$ 896,026	\$ 392,690
	General Revenues	
	Investment income	
	Miscellaneous	
	Gain on disposal of capital assets	
	Total general revenues	
	Change in net assets	
	Net Assets - Beginning, restated	
	Net Assets - Ending	

EXHIBIT 9

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Housing and Redevelopment Authority	Pine River Area Sanitary District	Total
\$ 436,521	\$ -	\$ (11,168)	\$ -	\$ (11,168)
-	94,190	-	38,543	38,543
\$ 436,521	\$ 94,190	\$ (11,168)	\$ 38,543	\$ 27,375
		\$ 3,016	\$ 1,403	\$ 4,419
		16,867	-	16,867
		1,427	-	1,427
		\$ 21,310	\$ 1,403	\$ 22,713
		\$ 10,142	\$ 39,946	\$ 50,088
		823,906	357,127	1,181,033
		\$ 834,048	\$ 397,073	\$ 1,231,121

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**CASS COUNTY
WALKER, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Cass County was established May 7, 1897, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Cass County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

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

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

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

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

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

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

Additionally, the County reports the following fund types:

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

C. Measurement Focus and Basis of Accounting

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

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Pooled Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$896,344.

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

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

3. Receivables and Payables

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

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

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

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

4. Inventories and Prepaid Items

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

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Inventories and Prepaid Items (Continued)

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	10 - 30
Public domain infrastructure	25 - 75
Furniture, equipment, and vehicles	5 - 15

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Compensated Absences

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

7. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

8. Long-Term Obligations

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

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

**CASS COUNTY
WALKER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Fund Equity

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

10. Use of Estimates

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	\$	32,356,252
Petty cash and change funds		2,391
Investments		4,436,095
Discretely presented component unit		
Cash and pooled investments		178,293
Restricted cash and pooled investments		120,444
Statement of fiduciary net assets		
Cash and pooled investments		1,338,725
Petty cash and change funds		440
		<hr/>
Total Cash and Investments	\$	<u>38,432,640</u>

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk and follows Minnesota statutes regarding pledged collateral. The market value of collateral must equal 110 percent of the deposits not covered by insurance or surety bonds. As of December 31, 2005, the County's deposits were fully covered by insurance, surety bonds, and collateral, and were not exposed to custodial credit risk.

The Pine River Area Sanitary District component unit's bank balance of \$148,232 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized Component unit	<u>\$ 15,281</u>
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**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. Of the County's investments at December 31, 2005, \$9,980,209 was held by the counterparty, or by its trust department or agent, but not in the County's name.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. Agency securities, and obligations backed by

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

U.S. Treasury and/or U.S. Agency securities may be held without limit. At December 31, 2005, the County had 6.3 percent of its portfolio invested in commercial paper.

The following table presents the County's investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Maturity Date	
U.S. government agency securities				
Federal National Mortgage Association Pool	Aaa	Moody's	3/02/2007	\$ 490,000
Federal National Mortgage Association Pool	Aaa	Moody's	2/23/2010	197,250
Total Federal Nation Mortgage Association Pool				\$ 687,250
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's	10/15/2017	\$ 490,938
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's	3/01/2009	430
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's	12/29/2006	149,586
Federal Home Loan Mortgage Corporation Note	Aaa	Moody's	2/25/2008	919,126
Total Federal Home Loan Mortgage Corporation				\$ 1,560,080
Federal Home Loan Bank Bonds	Aaa	Moody's	7/09/2013	\$ 483,280
Federal Home Loan Bank Bonds	Aaa	Moody's	6/22/2007	494,375
Federal Home Loan Bank Bonds	Aaa	Moody's	12/28/2007	494,065
Federal Home Loan Bank Bonds	Aaa	Moody's	11/28/2006	248,828
Federal Home Loan Bank Bonds	Aaa	Moody's	4/12/2007	297,750
Federal Home Loan Bank Bonds	Aaa	Moody's	4/25/2007	248,908
Federal Home Loan Bank Bonds	Aaa	Moody's	12/10/2010	494,375
Federal Home Loan Bank Bonds	Aaa	Moody's	8/23/2010	98,156
Federal Home Loan Bank Bonds	Aaa	Moody's	7/16/2018	471,875
Federal Home Loan Bank Bonds	Aaa	Moody's	8/11/2008	198,438
Federal Home Loan Bank Bonds	Aaa	Moody's	12/19/2008	495,350
Federal Home Loan Bank Bonds	Aaa	Moody's	6/19/2008	491,500
Federal Home Loan Bank Bonds	Aaa	Moody's	8/20/2012	493,750
Federal Home Loan Bank Bonds	Aaa	Moody's	3/24/2008	295,440
Federal Home Loan Bank Bonds	Aaa	Moody's	9/30/2010	292,890
Federal Home Loan Bank Bonds	Aaa	Moody's	9/09/2009	596,880

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Rate Risk Maturity Date	
Federal Home Loan Bank Bonds	Aaa	Moody's	11/28/2007	490,350
Federal Home Loan Bank Bonds	Aaa	Moody's	6/01/2007	490,350
Federal Home Loan Bank Bonds	Aaa	Moody's	12/15/2008	294,150
Federal Home Loan Bank Bonds	Aaa	Moody's	5/14/2013	492,390
Federal Home Loan Bank Bonds	Aaa	Moody's	8/13/2008	246,123
Federal Home Loan Bank Bonds	Aaa	Moody's	5/22/2013	439,218
Federal Home Loan Bank Bonds	Aaa	Moody's	8/19/2009	682,885
Federal Home Loan Bank Bonds	Aaa	Moody's	6/19/2013	195,082
Federal Home Loan Bank Bonds	Aaa	Moody's	6/26/2013	682,689
Federal Home Loan Bank Bonds	Aaa	Moody's	6/26/2013	718,140
Federal Home Loan Bank Bonds	Aaa	Moody's	6/26/2013	711,570
Federal Home Loan Bank Bonds	Aaa	Moody's	7/16/2013	191,210
Federal Home Loan Bank Bonds	Aaa	Moody's	2/09/2007	730,410
Federal Home Loan Bank Bonds	Aaa	Moody's	8/10/2007	973,720
Federal Home Loan Bank Bonds	Aaa	Moody's	2/25/2008	1,228,287
Federal Home Loan Bank Bonds	Aaa	Moody's	10/12/2007	481,920
Federal Home Loan Bank Bonds	Aaa	Moody's	8/13/2008	491,660
Federal Home Loan Bank Bonds	Aaa	Moody's	5/24/2007	149,036
Federal Home Loan Bank Bonds	Aaa	Moody's	12/16/2008	123,725
Federal Home Loan Bank Bonds	Aaa	Moody's	8/19/2009	591,246
Federal Home Loan Bank Bonds	Aaa	Moody's	8/26/2009	246,273
Federal Home Loan Bank Bonds	Aaa	Moody's	9/10/2007	494,030
Federal Home Loan Bank Bonds	Aaa	Moody's	9/17/2007	496,495
Federal Home Loan Bank Bonds	Aaa	Moody's	12/24/2007	295,584
Federal Home Loan Bank Bonds	Aaa	Moody's	5/01/2013	391,268
Federal Home Loan Bank Bonds	Aaa	Moody's	4/08/2008	589,836
Federal Home Loan Bank Bonds	Aaa	Moody's	10/15/2009	146,072
Federal Home Loan Bank Bonds	Aaa	Moody's	5/12/2009	298,260
Federal Home Loan Bank Bonds	Aaa	Moody's	2/25/2008	349,115
Federal Home Loan Bank Bonds	Aaa	Moody's	10/12/2007	249,075
Federal Home Loan Bank Bonds	Aaa	Moody's	10/27/2006	373,905
Federal Home Loan Bank Bonds	Aaa	Moody's	11/09/2007	247,115
Federal Home Loan Bank Bonds	Aaa	Moody's	11/28/2006	497,355
Federal Home Loan Bank Bonds	Aaa	Moody's	12/29/2006	199,208
Federal Home Loan Bank Bonds	Aaa	Moody's	12/29/2006	498,480
Federal Home Loan Bank Bonds	Aaa	Moody's	7/28/2006	249,068
Federal Home Loan Bank Bonds	Aaa	Moody's	3/23/2006	199,880
Federal Home Loan Bank Bonds	Aaa	Moody's	10/27/2006	249,483
Federal Home Loan Bank Bonds	Aaa	Moody's	9/22/2006	498,800
Federal Home Loan Bank Bonds	Aaa	Moody's	10/27/2006	499,295
Total Federal Home Loan Bank Bonds				\$ 23,668,618

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Rate Risk Maturity Date	
Federal Home Loan Bank Repurchase Agreement				
Federal Home Loan Bank				\$ 494,844
Federal Farm Credit				296,063
Total Federal Home Loan Bank Repurchase Agreement				\$ 790,907
Commercial paper				
Commercial paper 1 - MJSK	A1	Moody's	2/10/2006	\$ 493,937
Commercial paper 2 - MJSK	A1	Moody's	2/24/2006	493,043
Commercial paper 3 - Wells Fargo	A1	Moody's	1/13/2006	499,219
Commercial paper 4 - Wells Fargo	A1	Moody's	1/27/2006	498,264
Total Commercial Paper				\$ 1,984,463
Investment pools/mutual funds				
MAGIC Fund				\$ 480,000
Negotiable certificates of deposit				
Northwest Georgia Bank	N/A	N/A	9/29/2006	\$ 94,410
Mid First Bank	N/A	N/A	8/28/2006	97,233
Discover Bank	N/A	N/A	11/13/2006	94,982
Premier Bank of Puerto Rico	N/A	N/A	1/30/2006	97,902
Bridgeview Bank	N/A	N/A	6/11/2007	96,367
Amcore Bank	N/A	N/A	6/15/2007	96,356
Pacific Capital Bank	N/A	N/A	6/25/2007	96,536
Pennsylvania Federal Savings Bank	N/A	N/A	6/25/2007	96,536
Madison Community Bank	N/A	N/A	11/30/2007	95,775
M&I Bank	N/A	N/A	12/20/2012	95,388
Standard Federal Bank - Troy, Michigan	N/A	N/A	1/26/2011	94,012
Waypoint Bank	N/A	N/A	7/08/2013	95,351
Shore Bank - Illinois	N/A	N/A	6/09/2008	94,038
Great Southern Bank	N/A	N/A	10/30/2013	92,802
Lasalle Bank	N/A	N/A	9/24/2008	93,564
New South Federal Savings Step Up CD	N/A	N/A	8/18/2009	92,931
Acacia Federal Savings Bank	N/A	N/A	9/12/2006	96,352
Banner Bank - Walla Walla, Washington	N/A	N/A	2/21/2006	97,734
Farmers & Merchant - Lakeland, Georgia	N/A	N/A	5/30/2006	94,360
Gold Bank - Hennessey, Oklahoma	N/A	N/A	2/06/2006	97,826
Bank of Little Rock, Arkansas	N/A	N/A	8/03/2007	96,593
Federal Bank - Sanford, Florida	N/A	N/A	10/16/2006	97,252
First National Bank of Arizona	N/A	N/A	4/18/2006	97,710

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Rate Risk Maturity Date	
First State Bank of Gothenburg	N/A	N/A	2/28/2006	74,779
Western Bank - Puerto Rico	N/A	N/A	4/16/2007	96,880
Total negotiable certificates of deposit				\$ 2,373,669
Total investments				\$ 31,544,987
Deposits - primary government				6,586,525
Deposits - component unit				298,737
Petty cash				2,391
Total Cash and Investments				<u>\$ 38,432,640</u>

N/A - not applicable

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 475,053	\$ -
Special assessments	141,747	-
Due from other governments	1,539,912	-
Accounts	4,074,322	-
Interest	268,547	-
Total Governmental Activities	<u>\$ 6,499,581</u>	<u>\$ -</u>

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,685,566	\$ 161,016	\$ -	\$ 1,846,582
Construction in progress	2,547,363	1,768,298	-	4,315,661
Total capital assets not depreciated	\$ 4,232,929	\$ 1,929,314	\$ -	\$ 6,162,243
Capital assets depreciated				
Buildings	\$ 18,503,748	\$ -	\$ -	\$ 18,503,748
Machinery, furniture, and equipment	4,438,409	323,030	255,873	4,505,566
Infrastructure	75,860,262	3,537,153	-	79,397,415
Total capital assets depreciated	\$ 98,802,419	\$ 3,860,183	\$ 255,873	\$ 102,406,729
Less: accumulated depreciation for				
Buildings	\$ 5,408,398	\$ 368,095	\$ -	\$ 5,776,493
Machinery, furniture, and equipment	2,819,994	374,067	255,873	2,938,188
Infrastructure	15,366,651	1,517,178	-	16,883,829
Total accumulated depreciation	\$ 23,595,043	\$ 2,259,340	\$ 255,873	\$ 25,598,510
Total capital assets depreciated, net	\$ 75,207,376	\$ 1,600,843	\$ -	\$ 76,808,219
Capital Assets, Net	\$ 79,440,305	\$ 3,530,157	\$ -	\$ 82,970,462

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

Governmental Activities	
General government	\$ 45,281
Public safety	105,695
Highways and streets, including depreciation of infrastructure assets	1,874,016
Health and human services	49,430
Sanitation	33,852
Culture and recreation	1,812
Conservation of natural resources	149,254
Total Depreciation Expense - Governmental Activities	\$ 2,259,340

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Forfeited Tax Sale	\$ 494,846
Road and Bridge	General	\$ 1,224
	Health and Human Services	375
	Forfeited Tax Sale	10,750
	Other Governmental	30,782
Total Due to Road and Bridge Fund		\$ 43,131
Other Governmental	Forfeited Tax Sale	\$ 1,456
Total Due To/From Other Funds		\$ 539,433

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfers to General Fund from		
Road and Bridge Fund	\$ 25,868	Self-insurance payments
Health and Human Services Fund	53,777	Self-insurance payments
Forfeited Tax Sale		Forfeited tax sale distribution and
	541,653	self-insurance payments
Total transfers to General Fund	\$ 621,298	
Transfers to Road and Bridge Fund		Providing funds for capital outlay and
from General Fund	\$ 526,686	legal costs

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

2. Interfund Transfers (Continued)

Transfers to nonmajor governmental funds from		
General Fund	\$ 1,081,500	Providing funds for jail annex and loan principal and interest payment
Forfeited Tax Sale	<u>1,456</u>	Forfeited tax sale distribution
Total transfers to nonmajor governmental funds	<u>\$ 1,082,956</u>	
Total Interfund Transfers	<u><u>\$ 2,230,940</u></u>	

C. Liabilities

1. Other Postemployment Benefits - Retirees

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

As of year-end, the County has 100 eligible participants for health insurance and 106 eligible participants for life insurance. During 2005, the County expended \$642,305 for these benefits.

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Advance From Other Agencies

The Minnesota Department of Transportation (MnDOT) has advanced to the County a portion of future years' regular and municipal construction allotment funds for the purpose of financing current County state-aid projects. The balance of \$2,536,339 reported in the County's financial statements as Advance From Other Agencies represents funds received from MnDOT that will be recognized as revenue in the year the allotments normally would have accrued. As a result, the County anticipates receiving one-half of its normal construction and municipal allotments during years 2006 and 2007, respectively.

3. Long-Term Debt

Note Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
1999 G.O. Joint Library Notes	2006	\$35,947	-	\$ 305,545	<u>\$ 125,813</u>

Loan Payable

In 1995, the County entered into a loan agreement with the Minnesota Department of Finance for energy conservation projects. The loan was repaid through savings on energy costs.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
1995 Energy Conservation Loan	2005	\$19,327	5.60	\$ 193,270	<u>\$ -</u>

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

IV-E Payable

In 2003, the County entered into a three-year interest free payment schedule for the repayment of \$181,153 in questioned costs regarding the 2001 Title IV-E Foster Care State Audit.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
2003 Repayment for Title IV-E	2005	\$60,384	-	\$ 181,153	\$ -

4. Debt Service Requirements

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

<u>Year Ending December 31</u>	<u>General Obligation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2006	<u>\$ 125,813</u>	<u>\$ 6,616</u>

5. Changes in Long-Term Liabilities

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation note	\$ 161,759	\$ -	\$ 35,946	\$ 125,813	\$ 125,813
Loans payable	19,327	-	19,327	-	-
Title IV-E payable	60,384	-	60,384	-	-
Compensated absences	2,203,491	1,283,236	1,077,970	2,408,757	135,642
Governmental Activities					
Long-Term Liabilities	<u>\$ 2,444,961</u>	<u>\$ 1,283,236</u>	<u>\$ 1,193,627</u>	<u>\$ 2,534,570</u>	<u>\$ 261,455</u>

**CASS COUNTY
WALKER, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Construction Commitments

In March 2005, Cass County entered into an agreement with Crow Wing County to fund the construction of a Crow Wing County jail annex to meet its projected County inmate bed requirements. The annex will be designed to house a maximum of 60 inmates from Cass County. Cass County will be responsible for all costs associated with the design and construction of the annex. The current cost estimate for the annex is \$2,000,000.

Upon completion, Crow Wing County will assume ownership. Crow Wing County will provide all related jail services for Cass County inmates. Cass County will reimburse Crow Wing County for the cost of services provided at the current daily, contracted per diem rate in effect at that time. Any additional costs incurred in the provision of inmate health and welfare services will also be borne by Cass County. The housing portion of the agreement is effective for ten years commencing on the date the facility becomes available. Construction costs are being recorded as a prepaid item, which will be expensed over the ten years. Cass County anticipates it can begin housing inmates in January 2007.

The contract commitment on this project at December 31, 2005, was:

	<u>Estimated Cost</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Capital Projects Fund	<u>\$ 2,000,000</u>	<u>\$ 1,056,892</u>	<u>\$ 943,108</u>

3. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Cass County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund,

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

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

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

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 535,358	\$ 156,223	\$ 67,204
2004	517,871	131,735	60,441
2003	517,509	117,311	60,225

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

B. Defined Contribution Plan

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

**CASS COUNTY
WALKER, MINNESOTA**

3. Pension Plans

B. Defined Contribution Plans Continued)

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

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

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$6,238, \$6,047, and \$5,765, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT) to cover both workers' compensation and property and casualty liabilities. The County self-insures for employee medical and short-term disability coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

Employee medical and short-term disability insurance coverage is accounted for in the General Fund of the County. Costs include medical coverage for employees, dependents, and retirees, and short-term disability coverage for employees. Costs also include charges for claims management by a third-party administrator. Premiums are based on an actuarial study by the third-party administrator and include a provision for expected future catastrophic losses; the premiums also include a provision for administrative costs and stop-loss insurance. The County carries individual specific stop-loss insurance for claims that exceed \$100,000 per year per employee contract, or 125 percent, of the annual premium base. All County funds with personnel are charged for the County's share of costs for providing insurance coverage. Employees contribute a share of coverage costs through payroll deductions and retirees are paid for, in part, by County funds and by the retirees themselves. The liability at year-end is based on subsequent claims and it includes a reasonable provision for incurred but not reported claims. A claims liability is included in the General Fund accounts payable at year-end.

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

	Year Ended December 31	
	2005	2004
Unpaid claims, beginning of fiscal year	\$ 136,580	\$ 169,436
Incurred claims (including IBNRs)	3,151,467	2,954,143
Claims payments	(3,109,908)	(2,986,999)
Unpaid Claims, End of Fiscal Year	\$ 178,139	\$ 136,580

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.

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

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

C. Tax-Forfeited Land

The County manages approximately 253,815 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to cities, towns, and school districts within the County according to state statute.

D. Joint Ventures

Northwestern Minnesota Juvenile Center

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

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

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwestern Minnesota Juvenile Center (Continued)

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. No payments were required from Cass County during 2005. Beltrami County, in an agent capacity, reports the cash transactions of the Center as an agency fund on its financial statements. Complete financial information can be obtained from:

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

Minnesota Counties Information System (MCIS)

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

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

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

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

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Minnesota Counties Information System (MCIS) (Continued)

Separate financial information can be obtained from:

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

Mississippi Headwaters Board

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

Complete financial information can be obtained from:

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

Northwest Minnesota Household Hazardous Waste Management Group

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

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

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

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Cass County paid an assessment of \$8,067 to the Waste Management Group in 2005. Clearwater County, in an agent capacity, reports the cash transactions of the Waste Management Group as an agency fund on its financial statements.

Separate financial information can be obtained from:

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

Paul Bunyan Task Force

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

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

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

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Paul Bunyan Task Force (Continued)

The Paul Bunyan Task Force has no long-term debt. Financing is provided by the profits from forfeitures and seizures pursuant to Minn. Stat. § 609.531. Cass County provided no cash contributions to the Paul Bunyan Task Force in 2005, but paid for the salary and benefits of one officer of the Paul Bunyan Task Force, which amounted to \$52,120. The City of Bemidji, in an agent capacity, reports the cash transactions of the Paul Bunyan Task Force on its financial statements. Complete financial information can be obtained from:

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

Cass-Todd-Wadena-Morrison Community Health Services

The County Boards of Cass, Todd, Wadena, and Morrison Counties entered into a joint powers agreement for the purpose of maintaining an integrated system of community health services under Minn. Stat. ch. 145. The full Board of Health is composed of five County Commissioners in each of the four counties. The Board appoints an executive committee composed of two County Commissioners from each of the four counties. An advisory committee composed of three representatives from each of the single county advisory committees makes recommendations to the Board throughout the year. An administrative task force composed of the four public health directors meets on a monthly basis.

The four counties share responsibility to provide secretarial and financial services and to carry out the administrative requirements of the Board of Health. The four public health directors rotate the administrator position each year. The Cass County Auditor serves as the fiscal agent. Complete financial information can be obtained from:

Cass County Courthouse
Cass County Auditor's Office
P. O. Box 3000
Walker, Minnesota 56484

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Cass-Todd-Wadena-Morrison Community Health Services (Continued)

The Cass County Board of Commissioners adopted Resolution 72-04 on October 5, 2005, to withdraw from Cass-Todd-Wadena-Morrison Community Health Services effective January 1, 2006.

Central Minnesota Emergency Medical Services Region

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

Complete financial information can be obtained from:

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

Rural Fire Association

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

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Rural Fire Association (Continued)

In the event of the withdrawal by any member, their investment shall be forfeited, except by a three-quarters vote of the entire Joint Powers Board. Any such investment may not be withdrawn until the end of the calendar year of withdrawal. Cass County paid the Cass Lake Volunteer Rural Fire Association \$6,024 in 2005.

E. Jointly-Governed Organization

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

Cass County/Leech Lake Reservation Children's Initiative Collaborative

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

F. Subsequent Events

South Country Health Alliance

Cass County entered into an agreement with the South Country Health Alliance (SCHA) in order to provide integrated medical services to eligible Medical Assistance and General Assistance program recipients within the County. SCHA is a multi-county joint powers board currently composed of nine Minnesota counties. SCHA was created in 2001 and is organized under Minn. Stat. §§ 256B.692 and 471.51, and applicable state and federal laws. SCHA is treated as a health-maintenance organization under Minn. Stat. ch. 62D. Its purpose is to coordinate and integrate health care services through the use of a single-care delivery system instead of multiple-managed health care plans.

SCHA admission requires completion of a "Due Diligence" study in which the feasibility of an applicant's potential membership in SCHA is evaluated. Cass County successfully completed the Due Diligence review and is considered eligible for membership. On June 12, 2006, the SCHA Board of Directors approved the

**CASS COUNTY
WALKER, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

F. Subsequent Events

South Country Health Alliance (Continued)

membership of Cass County, along with Crow Wing, Morrison, Todd, and Wadena Counties. On June 20, 2006, the Cass County Board approved the SCHA membership agreement.

Resolution 33-06 adopted June 6, 2006, requests that the Minnesota Department of Human Services (DHS) award SCHA a single-plan managed care contract for Cass County enrollees. Upon approval, Cass County will be required to invest in SCHA a capital contribution of \$1,437,511 as a membership fee due on December 31, 2006. SCHA offers new applicants the option of making semi-annual payments over a four-year period. The installments are due on June 30 and December 31 of each year. Simple interest will accrue on the installments based upon the Wall Street Journal prime rate in effect at each payment due date. Should Cass County receive DHS approval, membership will become effective 180 days after notification.

Ambulance Subordinate Service District

Minn. Stat., ch. 375B establishes the authority for the creation of subordinate service districts. On June 6, 2006, the Cass County Board of Commissioners approved Resolution 32-06 authorizing the creation of a subordinate service district within the County under authority granted it by Minn. Stat. § 471.476. The Service District was created for the purpose of providing emergency medical services to the City of Longville and the surrounding area. The County is authorized to fund the services provided through a property tax levy, service charge, or some combination thereof. The County is in the process of developing a business plan and is soliciting proposals from contractors for the provision of emergency medical services. Current ambulance services will be maintained by the City of Longville until December 31, 2006, at which time Cass County will assume responsibility. The service district will be accounted for as a department in the County's General Fund.

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Reporting Entities

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

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

Measurement Focus and Basis of Accounting

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

B. Detailed Notes

1. Assets

Deposits and Investments

a. Deposits

The HRA's investments are stated at fair value, except for non-negotiable certificates of deposit, which are on a cost basis, and short-term money market investments which are stated at amortized cost.

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

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets

Deposits and Investments

a. Deposits (Continued)

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

	Pine River Area Sanitary District	Cass County HRA
Government-wide statement of net assets		
Business-type activities		
Cash	\$ 7,988	\$ 108,398
Petty cash	300	-
Restricted assets		
Cash	120,444	-
Investments	-	61,607
Total Cash and Investments	\$ 128,732	\$ 170,005

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

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

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets

Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the deposits of the HRA or the District may not be returned. Neither the HRA nor the District has a deposit policy for custodial credit risk. As of December 31, 2005, \$15,281 of the District's bank balance of \$148,232 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u>\$ 15,281</u>
--------------------------------	------------------

b. Investments

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

- (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;

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets

Deposits and Investments

b. Investments (Continued)

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

As of, and during the year ended December 31, 2005, neither the HRA nor the District owned any investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk, or concentration of credit risk.

Receivables

Receivables as of December 31, 2005, for each discretely presented component unit, including any applicable allowances for uncollectible accounts, are as follows:

	Cass County HRA	Pine River Area Sanitary District	Total Receivables	Amounts Not Scheduled for Collection During the Year
Special assessments	\$ -	\$ 3,965	\$ 3,965	\$ -
Accounts	14,387	11,382	25,769	-
Note	270,554	-	270,554	270,554
Total Component Units	\$ 284,941	\$ 15,347	\$ 300,288	\$ 270,554

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Capital Assets

Component unit capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land				
Cass County HRA	\$ 25,753	\$ -	\$ -	\$ 25,753
Pine River Area Sanitary District	10,000	-	-	10,000
Construction in progress				
Cass County HRA	19,464	-	15,463	4,001
Total capital assets not depreciated	\$ 55,217	\$ -	\$ 15,463	\$ 39,754
Capital assets depreciated				
Buildings				
Cass County HRA	\$ 678,303	\$ 19,464	\$ -	\$ 697,767
Pine River Area Sanitary District	2,276,354	-	-	2,276,354
Total buildings	\$ 2,954,657	\$ 19,464	\$ -	\$ 2,974,121
Water treatment facilities				
Pine River Area Sanitary District	\$ 4,038,297	\$ -	\$ -	\$ 4,038,297
Machinery, furniture, and equipment				
Cass County HRA	\$ 122,663	\$ 5,721	\$ -	\$ 128,384
Pine River Area Sanitary District	86,316	-	-	86,316
Total machinery, furniture, and equipment	\$ 208,979	\$ 5,721	\$ -	\$ 214,700
Total capital assets depreciated	\$ 7,201,933	\$ 25,185	\$ -	\$ 7,227,118
Less: accumulated depreciation for				
Buildings				
Cass County HRA	\$ 263,178	\$ 17,388	\$ -	\$ 280,566
Pine River Area Sanitary District	2,263,095	2,792	-	2,265,887
Total buildings	\$ 2,526,273	\$ 20,180	\$ -	\$ 2,546,453
Water treatment facilities				
Pine River Area Sanitary District	\$ 1,270,026	\$ 141,517	\$ -	\$ 1,411,543

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

1. Assets

Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Machinery, furniture, and equipment				
Cass County HRA	\$ 109,645	\$ 4,928	\$ 1,499	\$ 113,074
Pine River Area Sanitary District	83,446	1,445	-	84,891
Total machinery, furniture, and equipment	\$ 193,091	\$ 6,373	\$ 1,499	\$ 197,965
Total accumulated depreciation	\$ 3,989,390	\$ 168,070	\$ 1,499	\$ 4,155,961
Total capital assets depreciated, net	\$ 3,212,543	\$ (142,885)	\$ (1,499)	\$ 3,071,157
Total Capital Assets, Net	\$ 3,267,760	\$ (142,885)	\$ 13,964	\$ 3,110,911

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

Cass County HRA	\$ 22,316
Pine River Area Sanitary District	145,754
Total Depreciation Expense	\$ 168,070

2. Liabilities

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

Loan Date	Term	Balance December 31, 2005
February 25, 1992	20 years	\$ 34,205
July 30, 1993	20 years	43,128
Total		\$ 77,333

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes on All funds

2. Liabilities (Continued)

The HRA forgave a 20-year \$21,742 loan issued July 30, 1993. The terms of the loan agreement for debt forgiveness were met in the prior year. The loan was recorded as a write-off during the current year and is recorded as a prior year adjustment.

Long-Term Debt

Long-term debt outstanding at December 31, 2005, for the Pine River Area Sanitary District consists of the following:

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Remaining Commitment</u>
1997A PFA G.O. Sewer Revenue Note	2019	\$ 70,975	1.13	\$ 1,366,190	\$ 1,040,716
1997B PFA G.O. Sewer Revenue Note	2020	94,191	0.00	1,883,810	<u>1,365,762</u>
Total					<u>\$ 2,406,478</u>

Debt Service Requirements

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

<u>Year Ending December 31</u>	<u>Principal and Interest</u>
2006	\$ 177,527
2007	177,527
2008	177,527
2009	177,527
2010	177,527
2011 --2015	887,635
2016 - 2020	<u>715,539</u>
Total	\$ 2,490,809
Less: Interest	<u>(84,331)</u>
Total	<u>\$ 2,406,478</u>

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes

2. Liabilities (Continued)

Changes in Long-Term Liabilities

The following is a summary of the District's long-term debt transactions for the year ended December 31, 2005.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
PFA G.O Sewer Revenue Notes payable	\$ 2,571,644	\$ -	\$ 165,166	\$ 2,406,478	\$ 165,969

3. Risk Management

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

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

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

**CASS COUNTY
WALKER, MINNESOTA**

5. Component Unit Disclosures

B. Detailed Notes (Continued)

4. Fund Restatements and Reclassifications

The HRA determined that net assets were understated due to prior period adjustments, equity transfers, and correction of errors. This resulted in a restatement of net assets, as detailed below.

Net Assets - January 1, 2005, as previously reported	\$ 805,019
Prior period adjustment, equity transfers, and correction of errors	<u>18,887</u>
Net Assets - January 1, 2005, restated	<u><u>\$ 823,906</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

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**CASS COUNTY
WALKER, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,934,931	\$ 7,630,268	\$ 7,346,138	\$ (284,130)
Special assessments	1,600,000	1,600,000	1,633,527	33,527
Licenses and permits	77,900	77,900	81,636	3,736
Intergovernmental	1,818,326	2,422,989	2,645,157	222,168
Charges for services	2,195,662	2,195,662	2,656,488	460,826
Fines and forfeits	-	-	7,642	7,642
Gifts and contributions	-	-	18,846	18,846
Investment earnings	675,000	675,000	896,344	221,344
Miscellaneous	230,000	230,000	349,787	119,787
Total Revenues	\$ 14,531,819	\$ 14,831,819	\$ 15,635,565	\$ 803,746
Expenditures				
Current				
General government				
Commissioners	\$ 236,855	\$ 309,665	\$ 222,949	\$ 86,716
Courts	52,200	96,710	86,059	10,651
Law library	40,000	40,000	37,832	2,168
County administration	174,171	175,970	161,979	13,991
County auditor	930,361	1,027,570	984,747	42,823
County assessor	637,106	677,803	658,680	19,123
Attorney	759,378	774,668	750,617	24,051
Recorder	267,263	327,700	319,839	7,861
Planning and zoning	540,000	719,368	680,602	38,766
Buildings and plant	491,761	590,460	522,673	67,787
MIS	522,018	660,223	629,069	31,154
Other general government	709,000	-	19,273	(19,273)
Total general government	\$ 5,360,113	\$ 5,400,137	\$ 5,074,319	\$ 325,818
Public safety				
Sheriff	\$ 3,129,299	\$ 3,439,347	\$ 3,372,599	\$ 66,748
Boat and water safety	243,670	337,776	323,907	13,869
Emergency services	27,800	55,800	48,902	6,898
Coroner	85,000	85,000	68,259	16,741
Law enforcement center	1,750,234	1,815,291	1,779,092	36,199
Sentence to serve	62,537	64,322	55,077	9,245
Probation and parole	493,566	511,785	487,562	24,223
Total public safety	\$ 5,792,106	\$ 6,309,321	\$ 6,135,398	\$ 173,923
Sanitation				
Solid waste	\$ 2,357,000	\$ 2,360,557	\$ 1,995,677	\$ 364,880

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Cooperative extension	\$ 29,000	\$ 29,000	\$ 22,171	\$ 6,829
Environmental services	94,000	143,802	137,375	6,427
Total conservation of natural resources	\$ 123,000	\$ 172,802	\$ 159,546	\$ 13,256
Economic development				
Administration	-	35,000	33,613	1,387
Total Expenditures	\$ 13,632,219	\$ 14,277,817	\$ 13,398,553	\$ 879,264
Excess of Revenues Over (Under) Expenditures	\$ 899,600	\$ 554,002	\$ 2,237,012	\$ 1,683,010
Other Financing Sources (Uses)				
Transfers in	-	-	621,298	621,298
Transfers out	(1,060,000)	(1,060,000)	(1,608,186)	(548,186)
Total Other Financing Sources (Uses)	\$ (1,060,000)	\$ (1,060,000)	\$ (986,888)	\$ 73,112
Net Change in Fund Balance	\$ (160,400)	\$ (505,998)	\$ 1,250,124	\$ 1,756,122
Fund Balance - January 1	15,979,341	15,979,341	15,979,341	-
Fund Balance - December 31	\$ 15,818,941	\$ 15,473,343	\$ 17,229,465	\$ 1,756,122

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,529,906	\$ 2,529,906	\$ 2,327,134	\$ (202,772)
Intergovernmental	7,029,666	7,029,666	5,360,353	(1,669,313)
Charges for services	339,000	339,000	370,611	31,611
Miscellaneous	2,000	2,000	116,358	114,358
Total Revenues	\$ 9,900,572	\$ 9,900,572	\$ 8,174,456	\$ (1,726,116)
Expenditures				
Current				
Highways and streets				
Administration	\$ 748,463	\$ 748,463	\$ 660,798	\$ 87,665
Maintenance	3,030,610	3,030,610	2,286,841	743,769
Construction	5,300,000	5,368,000	4,792,736	575,264
Equipment maintenance and shop	1,102,216	1,280,216	1,290,156	(9,940)
Other	187,283	187,283	138,949	48,334
Total Expenditures	\$ 10,368,572	\$ 10,614,572	\$ 9,169,480	\$ 1,445,092
Excess of Revenues Over (Under) Expenditures	\$ (468,000)	\$ (714,000)	\$ (995,024)	\$ (281,024)
Other Financing Sources (Uses)				
Transfers in	\$ 468,000	\$ 468,000	\$ 526,686	\$ 58,686
Transfers out	-	-	(25,868)	(25,868)
Total Other Financing Sources (Uses)	\$ 468,000	\$ 468,000	\$ 500,818	\$ 32,818
Net Change in Fund Balance	\$ -	\$ (246,000)	\$ (494,206)	\$ (248,206)
Fund Balance - January 1	836,228	836,228	836,228	-
Increase (decrease) in reserved for inventories	-	-	52,324	52,324
Fund Balance - December 31	\$ 836,228	\$ 590,228	\$ 394,346	\$ (195,882)

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,301,245	\$ 4,301,245	\$ 3,959,498	\$ (341,747)
Licenses and permits	9,000	9,000	11,775	2,775
Intergovernmental	5,745,392	5,882,519	6,643,564	761,045
Charges for services	665,283	665,283	627,616	(37,667)
Gifts and contributions	6,200	6,200	8,212	2,012
Miscellaneous	427,404	427,404	375,589	(51,815)
Total Revenues	\$ 11,154,524	\$ 11,291,651	\$ 11,626,254	\$ 334,603
Expenditures				
Current				
General government				
Veterans service officer	\$ 155,960	\$ 155,960	\$ 147,859	\$ 8,101
Human services				
Income maintenance	\$ 2,116,728	\$ 2,116,728	\$ 2,080,649	\$ 36,079
Social services	6,403,736	6,962,336	6,968,982	(6,646)
Children's initiative	505,000	787,101	787,101	-
Total human services	\$ 9,025,464	\$ 9,866,165	\$ 9,836,732	\$ 29,433
Health				
Public health	\$ 1,973,100	\$ 1,973,100	\$ 1,935,328	\$ 37,772
Total Expenditures	\$ 11,154,524	\$ 11,995,225	\$ 11,919,919	\$ 75,306
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (703,574)	\$ (293,665)	\$ 409,909
Other Financing Sources (Uses)				
Transfers out	-	-	(53,777)	(53,777)
Net Change in Fund Balance	\$ -	\$ (703,574)	\$ (347,442)	\$ 356,132
Fund Balance - January 1	6,326,539	6,326,539	6,326,539	-
Fund Balance - December 31	\$ 6,326,539	\$ 5,622,965	\$ 5,979,097	\$ 356,132

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 238,000	\$ 238,000	\$ 258,642	\$ 20,642
Miscellaneous	2,289,000	2,289,000	3,444,069	1,155,069
Total Revenues	\$ 2,527,000	\$ 2,527,000	\$ 3,702,711	\$ 1,175,711
Expenditures				
Current				
Conservation of natural resources				
Reforestation	\$ 220,000	\$ 395,000	\$ 400,668	\$ (5,668)
In-lieu	90,760	90,760	41,252	49,508
Roads	30,000	66,000	62,774	3,226
Trails	170,000	170,000	151,134	18,866
Land commissioner	920,025	920,025	1,633,210	(713,185)
Total Expenditures	\$ 1,430,785	\$ 1,641,785	\$ 2,289,038	\$ (647,253)
Excess of Revenues Over (Under) Expenditures	\$ 1,096,215	\$ 885,215	\$ 1,413,673	\$ 528,458
Other Financing Sources (Uses)				
Transfers out	(988,975)	(988,975)	(543,109)	445,866
Net Change in Fund Balance	\$ 107,240	\$ (103,760)	\$ 870,564	\$ 974,324
Fund Balance - January 1	2,406,649	2,406,649	2,406,649	-
Fund Balance - December 31	\$ 2,513,889	\$ 2,302,889	\$ 3,277,213	\$ 974,324

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**CASS COUNTY
WALKER, MINNESOTA**

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

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the Forfeited Tax Sale Fund by \$647,253. These over-expenditures were a result of statutory distributions made to local governments, as required by Minn. Stat. § 280.08, and were funded by greater than anticipated revenues within the Forfeited Tax Sale Fund.

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SUPPLEMENTARY INFORMATION

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GOVERNMENTAL FUNDS

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**CASS COUNTY
WALKER, MINNESOTA**

Statement 1

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

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
<u>Assets</u>				
Cash and pooled investments	\$ 238,040	\$ 150,815	\$ 1,593,458	\$ 1,982,313
Undistributed cash in agency funds	685	447	-	1,132
Taxes receivable				
Prior	2,444	7,823	-	10,267
Accounts receivable	236	-	-	236
Due from other funds	1,456	-	-	1,456
Prepaid items	-	-	1,056,892	1,056,892
Total Assets	\$ 242,861	\$ 159,085	\$ 2,650,350	\$ 3,052,296
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 83	\$ -	\$ -	\$ 83
Due to other funds	30,782	-	-	30,782
Due to other governments	-	-	470,295	470,295
Deferred revenue - unavailable	2,188	7,458	-	9,646
Total Liabilities	\$ 33,053	\$ 7,458	\$ 470,295	\$ 510,806
Fund Balances				
Reserved for prepaid items	\$ -	\$ -	\$ 1,056,892	\$ 1,056,892
Unreserved				
Designated for debt service	-	143,031	-	143,031
Designated for cash flows	77,200	-	-	77,200
Undesignated	132,608	8,596	1,123,163	1,264,367
Total Fund Balances	\$ 209,808	\$ 151,627	\$ 2,180,055	\$ 2,541,490
Total Liabilities and Fund Balances	\$ 242,861	\$ 159,085	\$ 2,650,350	\$ 3,052,296

**CASS COUNTY
WALKER, MINNESOTA**

Statement 2

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

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
Taxes	\$ 132,054	\$ 7,505	\$ -	\$ 139,559
Intergovernmental	50,673	-	-	50,673
Charges for services	2,032	-	-	2,032
Investment earnings	700	-	-	700
Miscellaneous	1,320	35,946	-	37,266
Total Revenues	\$ 186,779	\$ 43,451	\$ -	\$ 230,230
Expenditures				
Current				
Public safety	\$ 24,531	\$ -	\$ -	\$ 24,531
Highways and streets	160,932	-	-	160,932
Sanitation	1,227	-	-	1,227
Debt service				
Principal	-	55,273	-	55,273
Interest	-	1,082	-	1,082
Total Expenditures	\$ 186,690	\$ 56,355	\$ -	\$ 243,045
Excess of Revenues Over (Under) Expenditures	\$ 89	\$ (12,904)	\$ -	\$ (12,815)
Other Financing Sources (Uses)				
Transfers in	1,456	21,500	1,060,000	1,082,956
Net Change in Fund Balance	\$ 1,545	\$ 8,596	\$ 1,060,000	\$ 1,070,141
Fund Balance - January 1	208,263	143,031	1,120,055	1,471,349
Fund Balance - December 31	\$ 209,808	\$ 151,627	\$ 2,180,055	\$ 2,541,490

**CASS COUNTY
WALKER, MINNESOTA**

Statement 3

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

	Unorganized Town	Shingobee	Total
<u>Assets</u>			
Cash and pooled investments	\$ 205,712	\$ 32,328	\$ 238,040
Undistributed cash in agency funds	685	-	685
Taxes receivable			
Prior	2,444	-	2,444
Accounts receivable	-	236	236
Due from other funds	1,456	-	1,456
	\$ 210,297	\$ 32,564	\$ 242,861
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ -	\$ 83	\$ 83
Due to other funds	30,782	-	30,782
Deferred revenue - unavailable	2,188	-	2,188
	\$ 32,970	\$ 83	\$ 33,053
 Fund Balances			
Unreserved			
Designated for cash flows	\$ 77,200	\$ -	\$ 77,200
Undesignated	100,127	32,481	132,608
	\$ 177,327	\$ 32,481	\$ 209,808
	\$ 210,297	\$ 32,564	\$ 242,861

**CASS COUNTY
WALKER, 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, 2005**

	Unorganized Town	Shingobee	Total
Revenues			
Taxes	\$ 132,054	\$ -	\$ 132,054
Intergovernmental	50,673	-	50,673
Charges for services	-	2,032	2,032
Investment earnings	-	700	700
Miscellaneous	1,320	-	1,320
Total Revenues	\$ 184,047	\$ 2,732	\$ 186,779
Expenditures			
Current			
Public safety	\$ 24,531	\$ -	\$ 24,531
Highways and streets	160,932	-	160,932
Sanitation	-	1,227	1,227
Total Expenditures	\$ 185,463	\$ 1,227	\$ 186,690
Excess of Revenues Over (Under) Expenditures	\$ (1,416)	\$ 1,505	\$ 89
Other Financing Sources (Uses)			
Transfers in	1,456	-	1,456
Net Change in Fund Balance	\$ 40	\$ 1,505	\$ 1,545
Fund Balance - January 1	177,287	30,976	208,263
Fund Balance - December 31	\$ 177,327	\$ 32,481	\$ 209,808

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
UNORGANIZED TOWN SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 138,000	\$ 138,000	\$ 132,054	\$ (5,946)
Intergovernmental	43,000	43,000	50,673	7,673
Miscellaneous	-	-	1,320	1,320
Total Revenues	\$ 181,000	\$ 181,000	\$ 184,047	\$ 3,047
Expenditures				
Current				
Public safety				
Other public safety	\$ 35,000	\$ 35,000	\$ 24,531	\$ 10,469
Highways and streets				
Maintenance	146,000	158,000	160,932	(2,932)
Total Expenditures	\$ 181,000	\$ 193,000	\$ 185,463	\$ 7,537
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (12,000)	\$ (1,416)	\$ 10,584
Other Financing Sources (Uses)				
Transfers in	-	-	1,456	1,456
Net Change in Fund Balance	\$ -	\$ (12,000)	\$ 40	\$ 12,040
Fund Balance - January 1	177,287	177,287	177,287	-
Fund Balance - December 31	\$ 177,287	\$ 165,287	\$ 177,327	\$ 12,040

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 6

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 7,505	\$ 7,505
Miscellaneous	37,840	37,840	35,946	(1,894)
Total Revenues	\$ 37,840	\$ 37,840	\$ 43,451	\$ 5,611
Expenditures				
Debt service				
Principal	\$ 59,340	\$ 59,340	\$ 55,273	\$ 4,067
Interest	-	-	1,082	(1,082)
Total Expenditures	\$ 59,340	\$ 59,340	\$ 56,355	\$ 2,985
Excess of Revenues Over (Under) Expenditures	\$ (21,500)	\$ (21,500)	\$ (12,904)	\$ 8,596
Other Financing Sources (Uses)				
Transfers in	21,500	21,500	21,500	-
Net Change in Fund Balance	\$ -	\$ -	\$ 8,596	\$ 8,596
Fund Balance - January 1	143,031	143,031	143,031	-
Fund Balance - December 31	\$ 143,031	\$ 143,031	\$ 151,627	\$ 8,596

FIDUCIARY FUNDS

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**CASS COUNTY
WALKER, MINNESOTA**

Statement 5

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 365,812	\$ 37,983,922	\$ 37,990,636	\$ 359,098
<u>Liabilities</u>				
Due to other governments	\$ 263,306	\$ 37,807,661	\$ 37,784,896	\$ 286,071
Prepaid taxes	102,506	176,261	205,740	73,027
Total Liabilities	\$ 365,812	\$ 37,983,922	\$ 37,990,636	\$ 359,098
<u>STATE OF MINNESOTA</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 207,092	\$ 10,998,380	\$ 10,959,258	\$ 246,214
<u>Liabilities</u>				
Due to other governments	\$ 207,092	\$ 10,998,380	\$ 10,959,258	\$ 246,214
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 6,727,548	\$ 6,727,548	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 6,727,548	\$ 6,727,548	\$ -

**CASS COUNTY
WALKER, MINNESOTA**

*Statement 5
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 11,503	\$ 8,150,814	\$ 8,155,422	\$ 6,895
<u>Liabilities</u>				
Due to other governments	\$ 11,503	\$ 8,150,814	\$ 8,155,422	\$ 6,895
 <u>MINNESOTA COUNTIES INFORMATION SYSTEMS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 534,887	\$ 1,553,995	\$ 1,483,419	\$ 605,463
Petty cash and change funds	400	-	-	400
Total Assets	\$ 535,287	\$ 1,553,995	\$ 1,483,419	\$ 605,863
<u>Liabilities</u>				
Accounts payable	\$ 25,075	\$ 8,405	\$ 25,075	\$ 8,405
Salaries payable	25,812	25,625	25,812	25,625
Due to other governments	484,400	1,519,965	1,432,532	571,833
Total Liabilities	\$ 535,287	\$ 1,553,995	\$ 1,483,419	\$ 605,863

**CASS COUNTY
WALKER, MINNESOTA**

*Statement 5
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>MISSISSIPPI HEADWATERS BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 107,255	\$ 116,625	\$ 102,825	\$ 121,055
Petty cash and change funds	40	-	-	40
Total Assets	<u>\$ 107,295</u>	<u>\$ 116,625</u>	<u>\$ 102,825</u>	<u>\$ 121,095</u>
<u>Liabilities</u>				
Accounts payable	\$ 2,468	\$ 4,533	\$ 2,468	\$ 4,533
Salaries payable	932	924	932	924
Due to other governments	103,895	111,168	99,425	115,638
Total Liabilities	<u>\$ 107,295</u>	<u>\$ 116,625</u>	<u>\$ 102,825</u>	<u>\$ 121,095</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,226,549	\$ 65,531,284	\$ 65,419,108	\$ 1,338,725
Petty cash and change funds	440	-	-	440
Total Assets	<u>\$ 1,226,989</u>	<u>\$ 65,531,284</u>	<u>\$ 65,419,108</u>	<u>\$ 1,339,165</u>
<u>Liabilities</u>				
Accounts payable	\$ 27,543	\$ 12,938	\$ 27,543	\$ 12,938
Salaries payable	26,744	26,549	26,744	26,549
Due to other governments	1,070,196	65,315,536	65,159,081	1,226,651
Prepaid taxes	102,506	176,261	205,740	73,027
Total Liabilities	<u>\$ 1,226,989</u>	<u>\$ 65,531,284</u>	<u>\$ 65,419,108</u>	<u>\$ 1,339,165</u>

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OTHER SCHEDULE

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**CASS COUNTY
WALKER, MINNESOTA**

Schedule 7

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

	Governmental Funds	Component Units
Shared Revenue		
State		
Highway users tax	\$ 4,647,835	\$ -
County program aid	899,106	-
PERA rate reimbursement	51,886	-
Disparity reduction aid	7,486	-
Police aid	150,456	-
E-911	71,450	-
Market value credit aid	1,148,719	-
Market value credit - residential	32,075	-
	\$ 7,009,013	\$ -
Reimbursement for Services		
Minnesota Department of Human Services	\$ 2,948,705	\$ -
Payments		
Local		
Local contributions	\$ 139,977	\$ -
Payments in lieu of taxes	448,933	-
	\$ 588,910	\$ -
Grants		
State		
Minnesota Department of		
Corrections	\$ 160,264	\$ -
Public Safety	58,259	-
Employment and Economic Development	24,020	-
Health	164,159	-
Natural Resources	267,230	-
Human Services	1,849,343	-
Office of Environmental Assistance	64,025	-
Miscellaneous boards	1,234	-
	\$ 2,588,534	\$ -
Federal		
Department of		
Agriculture	\$ 412,486	\$ -
Defense	2,389	-
Interior	162,551	-
Justice	25,694	-
Transportation	143,137	-
Health and Human Services	988,430	-
Homeland Security	88,540	-
Housing and Urban Development	-	436,521
	\$ 1,823,227	\$ 436,521
Total State and Federal Grants	\$ 4,411,761	\$ 436,521
Total Intergovernmental Revenue	\$ 14,958,389	\$ 436,521

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**CASS COUNTY
WALKER, MINNESOTA**

Schedule 8

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Cass County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Cass County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The reportable condition is not a material weakness.
- C. No instances of noncompliance material to the financial statements of Cass County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Cass County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

National Forest Land	CFDA #10.665
Social Services Block Grant	CFDA #93.667
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Cass County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-7 Departmental Internal Accounting Controls

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

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

Client's Response:

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB.

These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

Some of the issues that governmental entities need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County determines that the establishment of a trust is desirable in order to fund the OPEB, it will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County will have to decide whether to hire an actuary.

Cass County has determined that GASB Statement 45 is applicable and will be implemented for the year ended December 31, 2007.

During 2005, the County projected the long-term cost of its postemployment benefits for both active and retired employees. The estimated liability of the expected benefits to be paid to retirees was projected to be \$31,100,000. The County has not reported a liability for future postemployment benefits in the financial statements. Within the next two years, Cass County intends to have a plan in place to address the OPEB liability, including having an actuarial study. The County intends to fund the liability on a pay-as-you-go basis.

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OTHER REQUIRED REPORTS

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Cass County

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Cass County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the Cass County Housing and Redevelopment Authority (HRA) and the Pine River Area Sanitary District (District), discretely presented component units. The financial statements for the HRA and the District were audited by other auditors. Separate reports on compliance and on internal control over financial reporting based on audits of financial statements performed in accordance with *Government Auditing Standards* issued by other auditors for the HRA and the District are available.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cass 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 operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-7.

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 believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

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: August 30, 2006

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Cass County

Compliance

We have audited the compliance of Cass County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. Cass County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Cass County's basic financial statements include the operations of the Cass County Housing and Redevelopment Authority (HRA), which expended \$436,521 in federal awards during the year ended December 31, 2005, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Cass County HRA because it was audited by other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cass County's compliance with those requirements and performing such other procedures as we considered

necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Cass County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Cass County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

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

This report is intended solely for the information and use of the Board of County Commissioners, management, and 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: August 30, 2006

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**CASS COUNTY
WALKER, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 99,254	\$ -
Passed Through Minnesota Department of Finance National Forest Lands	10.665	313,232	-
Total U.S. Department of Agriculture		\$ 412,486	\$ -
U.S. Department of Defense			
Passed Through Minnesota Department of Finance Flood Plain Management Grant	12.104	\$ 2,389	\$ -
U.S. Department of the Interior			
Direct Federal Payments in Lieu of Taxes	15.226	\$ 162,551	\$ -
U.S. Department of Justice			
Passed Through Minnesota Department of Public Safety Victims of Crime Grant	16.575	\$ 25,694	\$ -
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction Grant	20.205	\$ 513,364	\$ -
Safe and Sober Grant	20.600	4,877	-
Alcohol, Traffic, Safety, and Drunk Driving Grant	20.601	5,437	-
Total U.S. Department of Transportation		\$ 523,678	\$ -
U.S. Department of Health and Human Services			
Direct Rural Health Outreach Grant	93.912	\$ 52,272	\$ 17,600
Passed Through Central Minnesota Council on Aging Title IIIIF Special Program for the Aging	93.043	8,293	-
Passed Through Cass-Todd-Wadena-Morrison Community Health Board Centers for Disease Control and Prevention - Public Health Preparedness Grant	93.283	34,147	-
Maternal and Child Health	93.994	45,942	-

**CASS COUNTY
WALKER, MINNESOTA**

Schedule 9
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Health and Human Services (Continued)			
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	14,055	-
Temporary Assistance for Needy Families	93.558	305,189	-
Child Care Development Block Grant	93.575	17,803	-
IVB1 Alternative Response	93.645	3,769	-
Foster Care Title IV-E	93.658	207,111	-
Social Services Block Grant	93.667	243,533	-
Chafee Foster Care Independence Program	93.674	22,409	-
Children's Mental Health Grant	93.958	14,780	-
Passed Through Minnesota Department of Education			
Child Care Mandatory and Matching Funds	93.596	19,127	-
Total U.S. Department of Health and Human Services		\$ 988,430	\$ 17,600
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Public Safety			
Boating Safety Financial Assistance	97.012	\$ 11,149	\$ -
Homeland Security Grant	97.067	57,396	-
Law Enforcement Terrorism Prevention Grant	97.074	19,995	-
Total U.S. Department of Homeland Security		\$ 88,540	\$ -
Total Federal Awards		\$ 2,203,768	\$ 17,600

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Cass County. The County's reporting entity is defined in Note 1 to the basic financial statements. The schedule does not include \$436,521 in federal awards expended by the Cass County Housing and Redevelopment Authority component unit, which has a separate audit performed by other auditors.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Expenditures on this schedule differ from federal revenues reported due to certain expenditures reported when the revenues are not available for recognition using the modified accrual basis of accounting.
3. Pass-through grant numbers were provided if available.