

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

ITASCA COUNTY
GRAND RAPIDS, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

For the Year Ended December 31, 2008



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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2008**

| | | | <u>Term Expires</u> |
|--|-------------------|------------|---------------------|
| Elected | | | |
| Commissioner | Lori Dowling | District 1 | January 2011 |
| Commissioner | Catherine McLynn | District 2 | January 2009 |
| Commissioner | Karen Burthwick | District 3 | January 2011 |
| Commissioner | Russell Eichorn | District 4 | January 2009 |
| Commissioner | Mark Mandich* | District 5 | January 2011 |
| Attorney | John J. Muhar | | January 2011 |
| Auditor/Treasurer | Jeffrey Walker | | January 2011 |
| County Recorder | Linda Nielsen | | January 2011 |
| County Sheriff | Pat Medure | | January 2011 |
| Appointed | | | |
| Assessor - Interim | Jeffrey Walker | | March 23, 2009 |
| Coroner | Dr. Michael Baich | | Indefinite |
| Coordinator | Irene Koski | | Indefinite |
| Emergency Management Director | Pat Medure | | Indefinite |
| Highway Engineer | Dave Christy | | June 10, 2012 |
| Land Commissioner | Garrett Ous | | Indefinite |
| Surveyor | Tim Wotzka | | December 20, 2011 |
| Veterans Service Officer | Randall Carlson | | Indefinite |
| Health and Human Services Board | | | |
| Chair | Lori Dowling | | January 2011 |
| Vice Chair | Russell Eichorn | | January 2009 |
| Member | Catherine McLynn | | January 2009 |
| Member | Mark Mandich | | January 2011 |
| Member | Karen Burthwick | | January 2011 |
| Director | Lester Kachinske | | Indefinite |

*Chair 2008

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Itasca County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County, Minnesota, as of and for the year ended December 31, 2008, including the Nursing Home Enterprise Fund as of and for the year ended September 30, 2008, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Itasca County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Itasca Medical Care Enterprise Fund, which is both a major fund and 45 percent, 43 percent, and 78 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Itasca Medical Care Enterprise Fund, is based solely on the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of December 31, 2008, including the Nursing Home Enterprise Fund at September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, during the year ended December 31, 2008, the County adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Itasca County's basic financial statements. The supplementary information and other schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 December 4, 2009, on our consideration of Itasca County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 4, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(Unaudited)**

Itasca County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$186,707,742, of which \$127,143,336 is invested in capital assets, net of related debt, and \$19,840,198 is restricted to specific purposes.
- Business-type activities have total net assets of \$12,275,553. Invested in capital assets, net of related debt, represents \$3,689,838 of the total.
- Itasca County's net assets increased by \$12,709,041 for the year ended December 31, 2008. Of the increase, \$12,494,794 was in the governmental activities' net assets, and \$214,247 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$22,550,474 for the current fiscal year. The net cost was funded by general revenues and contributions totaling \$35,045,268.
- Governmental funds' fund balances increased by \$10,150,728.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The government-wide financial statements (the Statement of Net Assets and the Statement of Activities) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. For governmental activities, these statements tell how these

services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

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

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

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

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

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

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds, not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

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

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

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

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

Reporting the County's Fiduciary Responsibilities

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

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

The fiduciary funds financial statements are Exhibits 10 and 11.

THE COUNTY AS A WHOLE

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

Table 1
Net Assets
(in Millions)

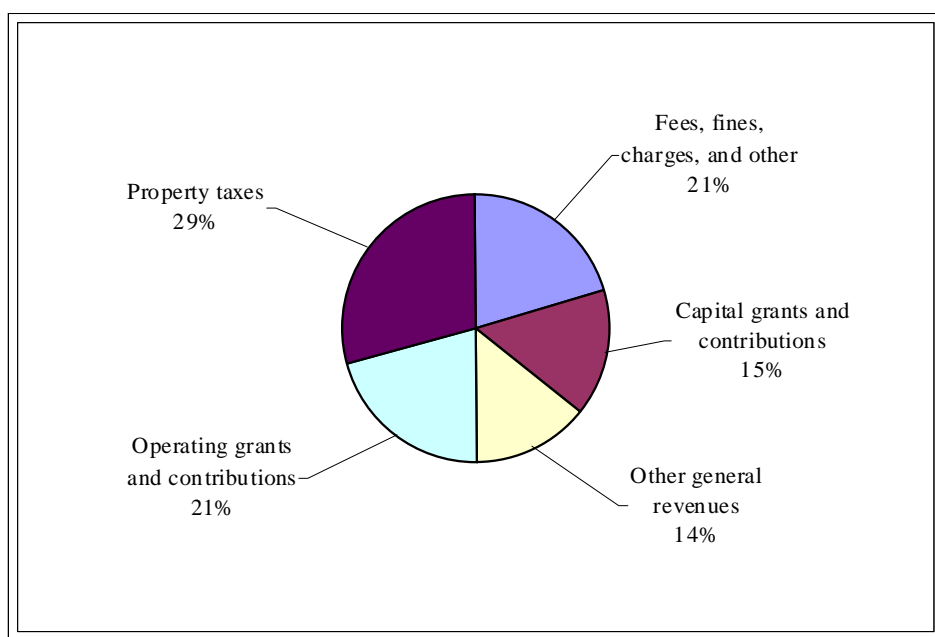
| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|----------|-----------------------------|---------|----------|----------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and other assets | \$ 81.0 | \$ 67.7 | \$ 14.1 | \$ 14.9 | \$ 95.1 | \$ 82.6 |
| Capital assets | 148.4 | 137.1 | 8.6 | 9.1 | 157.0 | 146.2 |
| Total Assets | \$ 229.4 | \$ 204.8 | \$ 22.7 | \$ 24.0 | \$ 252.1 | \$ 228.8 |
| Long-term debt outstanding | \$ 30.3 | \$ 22.9 | \$ 4.7 | \$ 6.0 | \$ 35.0 | \$ 28.9 |
| Other liabilities | 12.4 | 7.7 | 5.7 | 6.4 | 18.1 | 14.1 |
| Total Liabilities | \$ 42.7 | \$ 30.6 | \$ 10.4 | \$ 12.4 | \$ 53.1 | \$ 43.0 |
| Net Assets | | | | | | |
| Invested in capital assets, net of debt | \$ 127.1 | \$ 122.2 | \$ 3.7 | \$ 3.9 | \$ 130.8 | \$ 126.1 |
| Restricted | 19.9 | 15.4 | - | - | 19.9 | 15.4 |
| Unrestricted | 39.7 | 36.6 | 8.6 | 7.7 | 48.3 | 44.3 |
| Total Net Assets | \$ 186.7 | \$ 174.2 | \$ 12.3 | \$ 11.6 | \$ 199.0 | \$ 185.8 |

Table 2
Changes in Net Assets
(in Millions)

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------------------------|----------------------------|---------|-----------------------------|---------|----------|----------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Fees, fines, charges, and other | \$ 16.0 | \$ 9.4 | \$ 47.9 | \$ 45.8 | \$ 63.9 | \$ 55.2 |
| Operating grants and contributions | 16.3 | 18.5 | - | - | 16.3 | 18.5 |
| Capital grants and contributions | 12.1 | 6.1 | - | - | 12.1 | 6.1 |
| General revenues | | | | | | |
| Property taxes | 23.3 | 22.2 | - | - | 23.3 | 22.2 |
| Other taxes | 1.1 | 1.0 | - | - | 1.1 | 1.0 |
| Other general revenues | 10.4 | 10.5 | 0.2 | 0.4 | 10.6 | 10.9 |
| Contributions to permanent fund | - | 1.6 | - | - | - | 1.6 |
| Total Revenues | \$ 79.2 | \$ 69.3 | \$ 48.1 | \$ 46.2 | \$ 127.3 | \$ 115.5 |

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------------|----------------------------|----------|-----------------------------|---------|----------|----------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Expenses | | | | | | |
| General government | \$ 10.6 | \$ 8.7 | \$ - | \$ - | \$ 10.6 | \$ 8.7 |
| Public safety | 10.8 | 9.8 | - | - | 10.8 | 9.8 |
| Culture and recreation | 1.1 | 1.4 | - | - | 1.1 | 1.4 |
| Highways and streets | 13.3 | 15.5 | - | - | 13.3 | 15.5 |
| Human services | 17.3 | 15.9 | - | - | 17.3 | 15.9 |
| Health | 1.5 | 1.6 | - | - | 1.5 | 1.6 |
| Sanitation | 2.1 | 2.1 | - | - | 2.1 | 2.1 |
| Conservation of natural resources | 3.7 | 2.9 | - | - | 3.7 | 2.9 |
| Economic development | 6.0 | 1.8 | - | - | 6.0 | 1.8 |
| Interest | 0.6 | 0.6 | - | - | 0.6 | 0.6 |
| Nursing Home | - | - | 9.5 | 9.2 | 9.5 | 9.2 |
| Itasca Resource Center | - | - | 0.6 | 0.5 | 0.6 | 0.5 |
| Itasca Medical Care | - | - | 37.5 | 34.8 | 37.5 | 34.8 |
| Total Expenses | \$ 67.0 | \$ 60.3 | \$ 47.6 | \$ 44.5 | \$ 114.6 | \$ 104.8 |
| Income (Loss) Before Transfers | \$ 12.2 | \$ 9.0 | \$ 0.5 | \$ 1.7 | \$ 12.7 | \$ 10.7 |
| Transfers in (out) | 0.3 | - | (0.3) | - | - | - |
| Increase (Decrease) in Net Assets | \$ 12.5 | \$ 9.0 | \$ 0.2 | \$ 1.7 | \$ 12.7 | \$ 10.7 |
| Net Assets - January 1 (Restated) | 174.2 | 165.2 | 12.1 | 10.4 | 186.3 | 175.6 |
| Net Assets - December 31 | \$ 186.7 | \$ 174.2 | \$ 12.3 | \$ 12.1 | \$ 199.0 | \$ 186.3 |

Total County Revenues by Source



(Unaudited)

Governmental Activities

The cost of all governmental activities this year was \$67.0 million. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$24.4 million because some of the cost was paid by those who directly benefited from the programs (\$16.0 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$28.4 million).

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

Table 3
Governmental Activities
(in Millions)

| | Total Cost of Services | | Net Cost of Services | |
|--------------------------------------|---------------------------|----------------|-------------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Human services | \$ 17.3 | \$ 15.9 | \$ 8.0 | \$ 7.3 |
| Highways and streets | 13.3 | 15.5 | 3.8 | 7.0 |
| Public safety | 10.8 | 9.8 | 7.5 | 6.5 |
| General government | 10.6 | 8.7 | 8.5 | 6.6 |
| Economic development | 6.0 | | 0.4 | |
| Conservation of natural resources | | 2.9 | | (1.7) |
| All others | 9.0 | 7.5 | (5.6) | 0.6 |
| Totals | <u>\$ 67.0</u> | <u>\$ 60.3</u> | <u>\$ 22.6</u> | <u>\$ 26.3</u> |

Business-Type Activities

Revenues of the County's business-type activities increased by 4.1 percent, and expenses increased by 6.8 percent. The majority of the increase in revenues and the increase in expenses are due to Itasca Medical Care activities.

The County's Funds

As the County completed the year, its governmental funds reported a combined fund balance of \$60.3 million, which is above last year's total of \$50.2 million. Included in this year's total fund balance is a surplus of \$12.3 million in the County's General Fund. The governmental funds fund balances increased by 20.2 percent over last year.

General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County's General Fund budget were \$1.2 million above the final budget amounts. The most significant positive variance (\$0.1 million) occurred in County administration. The most significant negative variance was in the public safety category (\$0.4 million).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the County had \$157.0 million invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$10.9 million, or 7.5 percent, over last year, due to an increase in construction in progress and machinery, furniture, and equipment. For more information on capital assets, see Note 4.A.3. to the financial statements.

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

| | Governmental Activities | | Business-Type Activities | | Totals | |
|-------------------------------------|-------------------------|-----------------|--------------------------|---------------|-----------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Land | \$ 1.1 | \$ 1.1 | \$ 0.3 | \$ 0.3 | \$ 1.4 | \$ 1.4 |
| Construction in progress | 10.4 | 4.0 | - | - | 10.4 | 4.0 |
| Buildings and improvements | 16.8 | 16.9 | 7.8 | 8.1 | 24.6 | 25.0 |
| Machinery, furniture, and equipment | 12.0 | 12.6 | 0.5 | 0.6 | 12.5 | 13.2 |
| Infrastructure | 108.1 | 102.5 | - | - | 108.1 | 102.5 |
| Totals | <u>\$ 148.4</u> | <u>\$ 137.1</u> | <u>\$ 8.6</u> | <u>\$ 9.0</u> | <u>\$ 157.0</u> | <u>\$ 146.1</u> |

Debt

At year-end, the County had \$27.4 million in bonds and notes outstanding, versus \$21.8 million last year--an increase of 25.7 percent--as shown in Table 5. This significant increase is from the issuance of \$6.0 million in bonds.

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

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|-------------------------|----------------|--------------------------|---------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| General obligation bonds and notes (backed by the County) | \$ 22.5 | \$ 16.6 | \$ 0.8 | \$ 1.0 | \$ 23.3 | \$ 17.6 |
| Revenue bonds | - | - | 4.1 | 4.2 | 4.1 | 4.2 |
| Totals | <u>\$ 22.5</u> | <u>\$ 16.6</u> | <u>\$ 4.9</u> | <u>\$ 5.2</u> | <u>\$ 27.4</u> | <u>\$ 21.8</u> |

The state limits the amount of net debt that the County can issue to three percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this \$97.9 million state-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for the business-type activities.

- County expenditures for 2009 are budgeted to decrease 0.72 percent over 2008.
- Property taxes levied have increased 4.53 percent for 2009.

CONTACTING ITASCA COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|-----------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 61,324,045 | \$ 8,759,887 | \$ 70,083,932 |
| Receivable - net | 18,213,779 | 4,712,099 | 22,925,878 |
| Internal balances | (14,256) | 14,256 | - |
| Inventories | 1,441,482 | 52,803 | 1,494,285 |
| Prepaid items | - | 41,745 | 41,745 |
| Restricted assets | | | |
| Cash and pooled investments | - | 327,233 | 327,233 |
| Resident trust funds | - | 18,039 | 18,039 |
| Excess other postemployment benefits contributions | - | 26,641 | 26,641 |
| Deferred charges | 74,473 | 110,874 | 185,347 |
| Capital assets | | | |
| Nondepreciable capital assets | 11,527,925 | 320,495 | 11,848,420 |
| Depreciable capital assets - net of accumulated depreciation | 136,864,599 | 8,313,427 | 145,178,026 |
| Total Assets | \$ 229,432,047 | \$ 22,697,499 | \$ 252,129,546 |
| <u>Liabilities</u> | | | |
| Accounts payable and other current liabilities | \$ 10,913,185 | \$ 5,427,644 | \$ 16,340,829 |
| Accrued interest payable | 349,155 | 46,830 | 395,985 |
| Due to residents | - | 18,039 | 18,039 |
| Long-term liabilities | | | |
| Due within one year | 1,189,642 | 265,000 | 1,454,642 |
| Due in more than one year | 30,272,323 | 4,664,433 | 34,936,756 |
| Total Liabilities | \$ 42,724,305 | \$ 10,421,946 | \$ 53,146,251 |
| <u>Net Assets</u> | | | |
| Invested in capital assets, net of related debt | \$ 127,143,336 | \$ 3,689,838 | \$ 130,833,174 |
| Restricted for | | | |
| General government | 653,082 | - | 653,082 |
| Public safety | 684,216 | - | 684,216 |
| Highways and streets | 591,058 | - | 591,058 |
| Debt service | 2,236,744 | - | 2,236,744 |
| Conservation of natural resources | 5,238,160 | - | 5,238,160 |
| Environmental uses - expendable | 588,519 | - | 588,519 |
| Environmental uses - nonexpendable | 9,848,419 | - | 9,848,419 |
| Unrestricted | 39,724,208 | 8,585,715 | 48,309,923 |
| Total Net Assets | \$ 186,707,742 | \$ 12,275,553 | \$ 198,983,295 |

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Expenses</u> | <u>Fees, Charges, Fines, and Other</u> |
|---------------------------------------|-----------------------|--|
| <u>Functions/Programs</u> | | |
| Primary government | | |
| Governmental activities | | |
| General government | \$ 10,573,255 | \$ 1,413,259 |
| Public safety | 10,831,816 | 688,079 |
| Highways and streets | 13,278,920 | 1,399,462 |
| Sanitation | 2,105,339 | 499,768 |
| Human services | 17,254,858 | 578,233 |
| Health | 1,480,704 | 815,579 |
| Culture and recreation | 1,144,098 | 28,474 |
| Conservation of natural resources | 3,729,526 | 10,641,084 |
| Economic development | 6,007,177 | - |
| Interest | 590,150 | - |
| Total governmental activities | \$ 66,995,843 | \$ 16,063,938 |
| Business-type activities | | |
| Nursing Home | \$ 9,512,586 | \$ 9,970,973 |
| Itasca Resource Center | 616,280 | 414,381 |
| Itasca Medical Care | 37,507,343 | 37,507,343 |
| Total business-type activities | \$ 47,636,209 | \$ 47,892,697 |
| Total | \$ 114,632,052 | \$ 63,956,635 |

General Revenues and Transfers

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

Total general revenues and transfers

Change in net assets

Net Assets - Beginning (Restated, Note 2.C.)

Net Assets - Ending

EXHIBIT 2

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|--|---|-----------------------------|------------------------|
| Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| \$ 702,052 | \$ - | \$ (8,457,944) | \$ - | \$ (8,457,944) |
| 2,010,649 | 666,032 | (7,467,056) | - | (7,467,056) |
| 3,184,957 | 4,937,037 | (3,757,464) | - | (3,757,464) |
| 108,734 | 928,818 | (568,019) | - | (568,019) |
| 8,635,703 | - | (8,040,922) | - | (8,040,922) |
| 786,145 | - | 121,020 | - | 121,020 |
| 417,848 | - | (697,776) | - | (697,776) |
| 433,690 | - | 7,345,248 | - | 7,345,248 |
| - | 5,569,766 | (437,411) | - | (437,411) |
| - | - | (590,150) | - | (590,150) |
| \$ 16,279,778 | \$ 12,101,653 | \$ (22,550,474) | \$ - | \$ (22,550,474) |
| \$ - | \$ - | \$ - | \$ 458,387 | \$ 458,387 |
| - | - | - | (201,899) | (201,899) |
| - | - | - | - | - |
| \$ - | \$ - | \$ - | \$ 256,488 | \$ 256,488 |
| \$ 16,279,778 | \$ 12,101,653 | \$ (22,550,474) | \$ 256,488 | \$ (22,293,986) |
| | | \$ 23,277,783 | \$ - | \$ 23,277,783 |
| | | 935,200 | - | 935,200 |
| | | 196,348 | - | 196,348 |
| | | 707,238 | - | 707,238 |
| | | 5,861,009 | 18,169 | 5,879,178 |
| | | - | 15,635 | 15,635 |
| | | 2,498,779 | 173,955 | 2,672,734 |
| | | 675,935 | - | 675,935 |
| | | 642,976 | - | 642,976 |
| | | 250,000 | (250,000) | - |
| | | \$ 35,045,268 | \$ (42,241) | \$ 35,003,027 |
| | | \$ 12,494,794 | \$ 214,247 | \$ 12,709,041 |
| | | 174,212,948 | 12,061,306 | 186,274,254 |
| | | \$ 186,707,742 | \$ 12,275,553 | \$ 198,983,295 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Health and Human Services</u> |
|---|----------------------|----------------------------|--------------------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 11,376,056 | \$ 5,626,182 | \$ 4,359,573 |
| Petty cash and change funds | 9,470 | 50 | 350 |
| Undistributed cash in agency funds | 383,476 | 379,493 | 477,635 |
| Taxes receivable - prior | 236,615 | 236,408 | 236,268 |
| Special assessments receivable - prior | - | - | - |
| Accounts receivable | 100,106 | 6,661 | 14,449 |
| Accrued interest receivable | 553,753 | - | - |
| Due from other funds | 1,223,159 | 915,646 | - |
| Due from other governments | 464,212 | 1,911,390 | 1,242,557 |
| Loans receivable | 73,722 | - | - |
| Inventories | 5,777 | 1,435,705 | - |
| Total Assets | \$ 14,426,346 | \$ 10,511,535 | \$ 6,330,832 |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 331,013 | \$ 217,564 | \$ 646,611 |
| Salaries payable | 722,945 | 323,139 | 363,689 |
| Escheat property payable | 9,589 | - | - |
| Contracts payable | - | 410,398 | - |
| Due to other funds | 439,899 | - | 142,079 |
| Due to other governments | 54,721 | 4,478 | 987,471 |
| Deferred revenue - unavailable | 524,214 | 1,540,293 | 579,914 |
| Total Liabilities | \$ 2,082,381 | \$ 2,495,872 | \$ 2,719,764 |
| Fund Balances | | | |
| Reserved for | | | |
| Inventories | \$ 5,777 | \$ 1,435,705 | \$ - |
| Recorder's equipment purchases | - | - | - |
| Recorder's compliance fund | - | - | - |
| Enhanced 911 | 609,093 | - | - |
| Election equipment | 16,936 | - | - |
| Permit to carry gun fees | 75,123 | - | - |
| Land replacement | - | - | - |
| Environmental improvements | - | - | - |
| Unreserved, undesignated | 11,637,036 | 6,579,958 | 3,611,068 |
| Unreserved, reported in nonmajor | | | |
| Special revenue funds | - | - | - |
| Debt service fund | - | - | - |
| Total Fund Balances | \$ 12,343,965 | \$ 8,015,663 | \$ 3,611,068 |
| Total Liabilities and Fund Balances | \$ 14,426,346 | \$ 10,511,535 | \$ 6,330,832 |

EXHIBIT 3

| Forfeited Tax | Capital Projects | Environmental Permanent | Other Governmental Funds | Total Governmental Funds |
|--------------------------|-----------------------------|------------------------------------|---|---|
| \$ 10,056,469 | \$ 7,332,845 | \$ 10,436,938 | \$ 7,319,215 | \$ 56,507,278 |
| - | - | - | 325 | 10,195 |
| - | - | - | 197,408 | 1,438,012 |
| - | - | - | 94,406 | 803,697 |
| - | - | - | 124,156 | 124,156 |
| 5,131,244 | 282,123 | - | 113,780 | 5,648,363 |
| - | - | - | - | 553,753 |
| - | - | - | 2,269,767 | 4,408,572 |
| - | 7,253,832 | - | 296 | 10,872,287 |
| - | 87,000 | - | - | 160,722 |
| - | - | - | - | 1,441,482 |
| \$ 15,187,713 | \$ 14,955,800 | \$ 10,436,938 | \$ 10,119,353 | \$ 81,968,517 |
| \$ 12,181 | \$ 2,150,070 | \$ - | \$ 375,994 | \$ 3,733,433 |
| - | - | - | 70,239 | 1,480,012 |
| - | - | - | - | 9,589 |
| - | 767,789 | - | - | 1,178,187 |
| 3,338,825 | 26,278 | - | 475,747 | 4,422,828 |
| 1,477,962 | - | - | 635 | 2,525,267 |
| 4,684,968 | 733,515 | - | 218,562 | 8,281,466 |
| \$ 9,513,936 | \$ 3,677,652 | \$ - | \$ 1,141,177 | \$ 21,630,782 |
| \$ - | \$ - | \$ - | \$ - | \$ 1,441,482 |
| - | 344,308 | - | - | 344,308 |
| - | 291,838 | - | - | 291,838 |
| - | - | - | - | 609,093 |
| - | - | - | - | 16,936 |
| - | - | - | - | 75,123 |
| 5,238,160 | - | - | - | 5,238,160 |
| - | - | 10,436,938 | - | 10,436,938 |
| 435,617 | 10,642,002 | - | - | 32,905,681 |
| - | - | - | 6,741,432 | 6,741,432 |
| - | - | - | 2,236,744 | 2,236,744 |
| \$ 5,673,777 | \$ 11,278,148 | \$ 10,436,938 | \$ 8,978,176 | \$ 60,337,735 |
| \$ 15,187,713 | \$ 14,955,800 | \$ 10,436,938 | \$ 10,119,353 | \$ 81,968,517 |

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

| | | |
|---|-----------|-------------------|
| Fund balances - total governmental funds (Exhibit 3) | \$ | 60,337,735 |
|---|-----------|-------------------|

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

| | | |
|--|--|-------------|
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | 148,392,524 |
|--|--|-------------|

| | | |
|--|--|-----------|
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. See Note 2.A. for details. | | 6,337,262 |
|--|--|-----------|

Internal service funds are used by management to charge the costs of self-insurance to individual funds. Internal service fund assets and liabilities are included in governmental activities in the statement of net assets.

| | | |
|--|--|-----------|
| Total internal service fund net assets | | 2,565,775 |
|--|--|-----------|

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

| | | |
|-----------------------------------|-----------------|--------------|
| General obligation bonds | \$ (22,115,000) | |
| Bond discount | 53,005 | |
| Capital lease | (451,768) | |
| Compensated absences | (6,112,438) | |
| Net other postemployment benefits | (2,024,671) | |
| Accrued interest payable | (349,155) | |
| Deferred debt issuance charges | 74,473 | |
| | (30,925,554) | (30,925,554) |

| | | |
|--|-----------|---------------------------|
| Net Assets of Governmental Activities (Exhibit 1) | \$ | <u>186,707,742</u> |
|--|-----------|---------------------------|

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Health and Human Services</u> |
|---|-----------------------|----------------------------|--------------------------------------|
| Revenues | | | |
| Taxes | \$ 6,754,215 | \$ 7,188,348 | \$ 7,167,515 |
| Special assessments | - | - | - |
| Licenses and permits | 85,539 | - | - |
| Intergovernmental | 5,366,725 | 11,190,886 | 10,841,454 |
| Charges for services | 1,152,154 | 1,062,261 | 1,043,376 |
| Fines and forfeits | 44,921 | - | - |
| Gifts and contributions | 10,044 | - | - |
| Investment earnings | 2,058,262 | - | - |
| Miscellaneous | 655,035 | 870,724 | 355,348 |
| Total Revenues | \$ 16,126,895 | \$ 20,312,219 | \$ 19,407,693 |
| Expenditures | | | |
| Current | | | |
| General government | \$ 7,483,219 | \$ - | \$ - |
| Public safety | 9,061,300 | - | - |
| Highways and streets | - | 21,331,596 | - |
| Sanitation | 82,277 | - | - |
| Human services | - | - | 16,587,703 |
| Health | 42,837 | - | 1,705,360 |
| Culture and recreation | 463,943 | - | - |
| Conservation of natural resources | 234,246 | - | - |
| Economic development | 142,000 | - | - |
| Debt service | | | |
| Principal | 93,073 | - | - |
| Interest | 15,850 | - | - |
| Bond issuance costs | - | - | - |
| Administrative (fiscal) charges | - | - | - |
| Total Expenditures | \$ 17,618,745 | \$ 21,331,596 | \$ 18,293,063 |
| Excess of Revenues Over (Under) Expenditures | \$ (1,491,850) | \$ (1,019,377) | \$ 1,114,630 |
| Other Financing Sources (Uses) | | | |
| Transfers in | \$ 1,527,981 | \$ - | \$ 263,596 |
| Transfers out | (1,524,015) | (158,923) | - |
| Capital lease/installment purchase | - | 544,841 | - |
| Bonds and notes issued | - | - | - |
| Discount on bonds/notes issued | - | - | - |
| Proceeds from sale of capital assets | - | - | - |
| Total Other Financing Sources (Uses) | \$ 3,966 | \$ 385,918 | \$ 263,596 |
| Change in Fund Balance | \$ (1,487,884) | \$ (633,459) | \$ 1,378,226 |
| Fund Balance - January 1 | 13,830,960 | 8,747,407 | 2,232,842 |
| Increase (decrease) in reserved for inventories | 889 | (98,285) | - |
| Fund Balance - December 31 | \$ 12,343,965 | \$ 8,015,663 | \$ 3,611,068 |

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

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EXHIBIT 5

| Forfeited Tax | Capital Projects | Environmental Permanent | Other Governmental Funds | Total Governmental Funds |
|--------------------------|-----------------------------|------------------------------------|---|---|
| \$ - | \$ - | \$ - | \$ 3,173,551 | \$ 24,283,629 |
| - | - | - | 940,033 | 940,033 |
| - | - | - | 443 | 85,982 |
| - | 7,384,630 | - | 1,010,146 | 35,793,841 |
| - | 127,023 | - | 505,742 | 3,890,556 |
| - | - | - | - | 44,921 |
| - | - | - | - | 10,044 |
| - | - | 348,093 | 16,850 | 2,423,205 |
| 10,185,676 | 42,037 | - | 493,293 | 12,602,113 |
| \$ 10,185,676 | \$ 7,553,690 | \$ 348,093 | \$ 6,140,058 | \$ 80,074,324 |
| \$ 1,477,962 | \$ 581,052 | \$ - | \$ 572,276 | \$ 10,114,509 |
| - | 3,249,416 | - | 606,976 | 12,917,692 |
| - | 4,915,274 | - | 1,503,534 | 27,750,404 |
| - | 38,008 | - | 1,865,945 | 1,986,230 |
| - | - | - | - | 16,587,703 |
| - | - | - | - | 1,748,197 |
| - | - | - | 618,485 | 1,082,428 |
| 1,640,538 | - | 493,503 | 728,070 | 3,096,357 |
| - | 5,865,177 | - | - | 6,007,177 |
| - | - | - | 525,000 | 618,073 |
| - | - | - | 638,267 | 654,117 |
| - | 37,424 | - | - | 37,424 |
| - | - | - | 1,366 | 1,366 |
| \$ 3,118,500 | \$ 14,686,351 | \$ 493,503 | \$ 7,059,919 | \$ 82,601,677 |
| \$ 7,067,176 | \$ (7,132,661) | \$ (145,410) | \$ (919,861) | \$ (2,527,353) |
| \$ - | \$ - | \$ - | \$ 2,570,721 | \$ 4,362,298 |
| (2,015,345) | (200,000) | (118,000) | (96,015) | (4,112,298) |
| - | - | - | - | 544,841 |
| - | 6,000,000 | - | - | 6,000,000 |
| - | (19,364) | - | - | (19,364) |
| - | 6,000,000 | - | - | 6,000,000 |
| \$ (2,015,345) | \$ 11,780,636 | \$ (118,000) | \$ 2,474,706 | \$ 12,775,477 |
| \$ 5,051,831 | \$ 4,647,975 | \$ (263,410) | \$ 1,554,845 | \$ 10,248,124 |
| 621,946 | 6,630,173 | 10,700,348 | 7,423,331 | 50,187,007 |
| - | - | - | - | (97,396) |
| \$ 5,673,777 | \$ 11,278,148 | \$ 10,436,938 | \$ 8,978,176 | \$ 60,337,735 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 10,248,124**

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. For details of the adjustment, See Note 2.B. (1,085,816)

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

| | | |
|--|--------------------|------------|
| Expenditures for general capital assets and infrastructure | \$ 21,897,361 | |
| Current year depreciation | <u>(4,801,132)</u> | 17,096,229 |

In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of. (5,823,445)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | | |
|------------------------|----------------|-------------|
| Bonds issued | \$ (6,000,000) | |
| Capital lease | (544,841) | |
| Issuance costs | 37,424 | |
| Discount on bonds sold | <u>19,364</u> | (6,488,053) |

| | | |
|--------------------------|---------------|---------|
| Principal repayment | | |
| General obligation bonds | \$ 525,000 | |
| Capital lease | <u>93,073</u> | 618,073 |

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 | \$ 71,762 | |
| Amortization of deferred issuance costs | (3,557) | |
| Amortization of bond discount | (2,872) | |
| Change in compensated absences | (106,185) | |
| Change in net other postemployment benefits liability | (2,024,671) | |
| Change in inventories | <u>(97,396)</u> | (2,162,919) |

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

| | | |
|---|--|---------------|
| Change in net assets of the Internal Service Fund | | <u>92,601</u> |
|---|--|---------------|

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 12,494,794**

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

PROPRIETARY FUNDS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008**

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities Internal Service Fund |
|---|--|--------------------------------|--|----------------------|--|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center (Nonmajor) | Totals | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and pooled investments | \$ 1,374,030 | \$ 6,497,819 | \$ 886,478 | \$ 8,758,327 | \$ 3,368,560 |
| Petty cash and change funds | 1,560 | - | - | 1,560 | - |
| Accounts receivable - net | 1,065,442 | 3,644,977 | 1,680 | 4,712,099 | 41,546 |
| Accrued interest receivable | - | - | - | - | 9,255 |
| Due from other funds | - | - | 14,256 | 14,256 | - |
| Inventories | 52,803 | - | - | 52,803 | - |
| Prepaid items | 30,714 | - | 11,031 | 41,745 | - |
| Total current assets | \$ 2,524,549 | \$ 10,142,796 | \$ 913,445 | \$ 13,580,790 | \$ 3,419,361 |
| Restricted assets | | | | | |
| Cash and pooled investments | \$ 327,233 | \$ - | \$ - | \$ 327,233 | \$ - |
| Resident trust funds | 18,039 | - | - | 18,039 | - |
| Total restricted assets | \$ 345,272 | \$ - | \$ - | \$ 345,272 | \$ - |
| Noncurrent assets | | | | | |
| Excess other postemployment benefits contributions | \$ 26,641 | \$ - | \$ - | \$ 26,641 | \$ - |
| Deferred debt issuance costs | 110,874 | - | - | 110,874 | - |
| Capital assets | | | | | |
| Nondepreciable | 63,695 | - | 256,800 | 320,495 | - |
| Depreciable - net | 7,363,372 | - | 950,055 | 8,313,427 | - |
| Total noncurrent assets | \$ 7,564,582 | \$ - | \$ 1,206,855 | \$ 8,771,437 | \$ - |
| Total Assets | \$ 10,434,403 | \$ 10,142,796 | \$ 2,120,300 | \$ 22,697,499 | \$ 3,419,361 |

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008**

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities |
|---|--|--------------------------------|--|----------------------|------------------------------------|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center (Nonmajor) | Totals | Internal Service Fund |
| <u>Liabilities</u> | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 249,153 | \$ 555,897 | \$ 716 | \$ 805,766 | \$ 16,536 |
| Salaries payable | 115,272 | 180,412 | - | 295,684 | 3,869 |
| Compensated absences payable - current | 196,381 | - | - | 196,381 | - |
| Claims and judgments payable - current | - | 4,128,553 | - | 4,128,553 | - |
| Due to other governments | - | - | 1,260 | 1,260 | 22,088 |
| Accrued interest payable | 46,830 | - | - | 46,830 | - |
| General obligation bonds payable - current | 185,000 | - | - | 185,000 | - |
| Revenue bonds payable - current | 80,000 | - | - | 80,000 | - |
| Total current liabilities | \$ 872,636 | \$ 4,864,862 | \$ 1,976 | \$ 5,739,474 | \$ 42,493 |
| Current liabilities payable from restricted assets | | | | | |
| Due to residents | \$ 18,039 | \$ - | \$ - | \$ 18,039 | \$ - |
| Noncurrent liabilities | | | | | |
| Claims and judgments payable | \$ - | \$ - | \$ - | \$ - | \$ 811,093 |
| General obligation bonds payable | 609,433 | - | - | 609,433 | - |
| Revenue bonds payable | 4,055,000 | - | - | 4,055,000 | - |
| Total noncurrent liabilities | \$ 4,664,433 | \$ - | \$ - | \$ 4,664,433 | \$ 811,093 |
| Total Liabilities | \$ 5,555,108 | \$ 4,864,862 | \$ 1,976 | \$ 10,421,946 | \$ 853,586 |
| <u>Net Assets</u> | | | | | |
| Invested in capital assets - net of related debt | \$ 2,497,634 | \$ - | \$ 1,192,204 | \$ 3,689,838 | \$ - |
| Unrestricted | 2,381,661 | 5,277,934 | 926,120 | 8,585,715 | 2,565,775 |
| Total Net Assets | \$ 4,879,295 | \$ 5,277,934 | \$ 2,118,324 | \$ 12,275,553 | \$ 2,565,775 |

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities Internal Service Fund |
|-------------------------------------|--|--------------------------------|--|----------------------|--|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center (Nonmajor) | Totals | |
| Operating Revenues | | | | | |
| Charges for services | \$ - | \$ - | \$ 414,381 | \$ 414,381 | \$ - |
| Patient services revenues | 8,045,537 | - | - | 8,045,537 | - |
| Insurance dividends | - | - | - | - | 197,107 |
| Miscellaneous | 1,925,436 | 511,474 | - | 2,436,910 | 386,460 |
| Capitation revenue | - | 36,995,869 | - | 36,995,869 | - |
| Total Operating Revenues | \$ 9,970,973 | \$ 37,507,343 | \$ 414,381 | \$ 47,892,697 | \$ 583,567 |
| Operating Expenses | | | | | |
| Capitation expense | \$ - | \$ 615,268 | \$ - | \$ 615,268 | \$ - |
| Provider settlements | - | (1,371,529) | - | (1,371,529) | - |
| Pharmacy claims expense | - | 5,262,388 | - | 5,262,388 | - |
| Medical claims expense | - | 29,714,587 | - | 29,714,587 | - |
| Employee benefits and payroll taxes | 1,092,416 | - | 24,775 | 1,117,191 | - |
| Other postemployment benefits | 55,393 | - | - | 55,393 | - |
| Professional services | - | - | 97,210 | 97,210 | 17,620 |
| Nursing services | 3,296,757 | - | - | 3,296,757 | - |
| Plant operations | 981,298 | - | - | 981,298 | - |
| Claims paid | - | - | - | - | 370,703 |
| Administration and fiscal services | 1,067,144 | 3,286,629 | - | 4,353,773 | - |
| Other care-related | 262,723 | - | - | 262,723 | - |
| Other services and charges | 832,661 | - | - | 832,661 | 20 |
| Supplies | - | - | 60,081 | 60,081 | 5 |
| Payroll | - | - | 45,465 | 45,465 | 60,930 |
| Employee benefits | - | - | - | - | 22,744 |
| Travel | - | - | - | - | 279 |
| Telephone | - | - | 11,135 | 11,135 | 551 |
| Utilities | - | - | 56,747 | 56,747 | - |
| Fuel | - | - | 19,323 | 19,323 | - |
| Insurance | - | - | - | - | 91,809 |
| Staff training | - | - | - | - | 908 |
| Licenses and dues | - | - | - | - | 854 |
| Postage | - | - | - | - | 44 |
| Vehicle expense | - | - | - | - | 73 |
| Other property and related costs | 62,754 | - | - | 62,754 | - |
| Laundry | 100,107 | - | - | 100,107 | - |
| Dietary | 847,367 | - | - | 847,367 | - |
| Housekeeping | 217,402 | - | - | 217,402 | - |
| Amortization | 7,486 | - | - | 7,486 | - |
| Depreciation | 403,366 | - | 251,423 | 654,789 | - |
| Repairs | - | - | 50,121 | 50,121 | - |
| Total Operating Expenses | \$ 9,226,874 | \$ 37,507,343 | \$ 616,280 | \$ 47,350,497 | \$ 566,540 |

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 8
(Continued)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities |
|---|--|--------------------------------|--|----------------------|------------------------------------|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center (Nonmajor) | Totals | Internal Service Fund |
| Operating Income (Loss) | \$ 744,099 | \$ - | \$ (201,899) | \$ 542,200 | \$ 17,027 |
| Nonoperating Revenues (Expenses) | | | | | |
| Intergovernmental | \$ 18,169 | \$ - | \$ - | \$ 18,169 | \$ - |
| Interest income | 10,402 | 163,553 | - | 173,955 | 75,574 |
| Contributions and donations | 15,635 | - | - | 15,635 | - |
| Interest expense | (285,712) | - | - | (285,712) | - |
| Total Nonoperating Revenues (Expenses) | \$ (241,506) | \$ 163,553 | \$ - | \$ (77,953) | \$ 75,574 |
| Income (Loss) Before Transfers | \$ 502,593 | \$ 163,553 | \$ (201,899) | \$ 464,247 | \$ 92,601 |
| Transfers out | (250,000) | - | - | (250,000) | - |
| Change in Net Assets | \$ 252,593 | \$ 163,553 | \$ (201,899) | \$ 214,247 | \$ 92,601 |
| Net Assets - Beginning (Restated, Note 2.C.) | 4,626,702 | 5,114,381 | 2,320,223 | 12,061,306 | 2,473,174 |
| Net Assets - Ending | \$ 4,879,295 | \$ 5,277,934 | \$ 2,118,324 | \$ 12,275,553 | \$ 2,565,775 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008
Increase (Decrease) in Cash and Cash Equivalents**

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities |
|--|--|------------------------------------|--|-----------------------|------------------------------------|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center (Nonmajor) | Totals | Internal Service Fund |
| Cash Flows from Operating Activities | | | | | |
| Receipts from customers and users | \$ 10,041,097 | \$ - | \$ 486,741 | \$ 10,527,838 | \$ - |
| Receipts from internal services provided | - | - | - | - | 439,726 |
| Receipts from capitation and other | - | 37,331,045 | - | 37,331,045 | - |
| Receipts from other operating revenue | - | - | - | - | 197,107 |
| Payments to suppliers | (4,824,107) | - | (284,046) | (5,108,153) | (532,397) |
| Payments to employees | (3,954,320) | - | (70,240) | (4,024,560) | (82,368) |
| Payments to providers, suppliers, and employees | - | (41,058,404) | - | (41,058,404) | - |
| Net cash provided by (used in) operating activities | \$ 1,262,670 | \$ (3,727,359) | \$ 132,455 | \$ (2,332,234) | \$ 22,068 |
| Cash Flows from Noncapital Financing Activities | | | | | |
| Contributions and donations | \$ 15,635 | \$ - | \$ - | \$ 15,635 | \$ - |
| Nursing Home payment adjustment | 18,169 | - | - | 18,169 | - |
| Operating transfers to Itasca County | (250,000) | - | - | (250,000) | - |
| Net cash provided by (used in) noncapital financing activities | \$ (216,196) | \$ - | \$ - | \$ (216,196) | \$ - |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Acquisition of capital assets | \$ (180,751) | \$ - | \$ (52,895) | \$ (233,646) | \$ - |
| Principal and interest paid on general obligation revenue bonds | (216,905) | - | - | (216,905) | - |
| Principal and interest paid on revenue bonds | (324,700) | - | - | (324,700) | - |
| Bond administration fees | (834) | - | - | (834) | - |
| Net cash provided by (used in) capital and related financing activities | \$ (723,190) | \$ - | \$ (52,895) | \$ (776,085) | \$ - |
| Cash Flows from Investing Activities | | | | | |
| Interest received | \$ 10,402 | \$ 163,553 | \$ - | \$ 173,955 | \$ 69,032 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 333,686 | \$ (3,563,806) | \$ 79,560 | \$ (3,150,560) | \$ 91,100 |
| Cash and Cash Equivalents Beginning | 1,369,137 | 10,061,625 | 806,918 | 12,237,680 | 3,277,460 |
| Ending | \$ 1,702,823 | \$ 6,497,819 | \$ 886,478 | \$ 9,087,120 | \$ 3,368,560 |

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008
Increase (Decrease) in Cash and Cash Equivalents**

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities Internal Service Fund |
|--|--|------------------------------------|--|-----------------------|--|
| | Nursing Home | Itasca Medical Care | Itasca Resource Center (Nonmajor) | Totals | |
| Cash and Cash Equivalents - Exhibit 7 | | | | | |
| Cash and pooled investments | \$ 1,374,030 | \$ 6,497,819 | \$ 886,478 | \$ 8,758,327 | \$ 3,368,560 |
| Petty cash and change funds | 1,560 | - | - | 1,560 | - |
| Restricted cash and pooled investments | 327,233 | - | - | 327,233 | - |
| Total Cash and Cash Equivalents | \$ 1,702,823 | \$ 6,497,819 | \$ 886,478 | \$ 9,087,120 | \$ 3,368,560 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | | | | | |
| Operating Income (Loss) | \$ 744,099 | \$ - | \$ (201,899) | \$ 542,200 | \$ 17,027 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | | | |
| Depreciation expense | \$ 403,366 | \$ - | \$ 251,423 | \$ 654,789 | \$ - |
| Amortization expense | 7,486 | - | - | 7,486 | - |
| (Increase) decrease in | | | | | |
| Accounts receivable | 89,771 | (176,298) | 7,056 | (79,471) | 53,266 |
| Provider settlement receivable | - | (2,228,107) | - | (2,228,107) | - |
| Due from other funds | - | - | 65,304 | 65,304 | - |
| Inventories | (1,541) | - | - | (1,541) | - |
| Prepaid items | 12,322 | - | 11,031 | 23,353 | - |
| Excess other postemployment benefits contributions | (26,641) | - | - | (26,641) | - |
| Increase (decrease) in | | | | | |
| Accounts payable | 28,227 | (85,131) | (460) | (57,364) | 5,852 |
| Salaries payable | 25,210 | - | - | 25,210 | 1,306 |
| Accrued vacation payable | 18 | - | - | 18 | - |
| Due to other governments | (19,647) | - | - | (19,647) | (1,450) |
| Claims payable | - | (1,221,981) | - | (1,221,981) | (53,933) |
| Other current liabilities | - | (15,842) | - | (15,842) | - |
| Total adjustments | \$ 518,571 | \$ (3,727,359) | \$ 334,354 | \$ (2,874,434) | \$ 5,041 |
| Net Cash Provided by (Used in) Operating Activities | \$ 1,262,670 | \$ (3,727,359) | \$ 132,455 | \$ (2,332,234) | \$ 22,068 |

FIDUCIARY FUNDS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2008**

| | <u>Cemetery Investment Trust</u> | <u>Agency Funds</u> |
|---|--|----------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 108,336 | \$ 1,677,543 |
| Investments | 94,200 | - |
| Receivables | | |
| Interest | 58 | - |
| Total Assets | <u>\$ 202,594</u> | <u>\$ 1,677,543</u> |
| <u>Liabilities</u> | | |
| Taxes collected in advance | \$ - | \$ 11,509 |
| Due to other governments | 8,972 | 1,666,034 |
| Total Liabilities | <u>\$ 8,972</u> | <u>\$ 1,677,543</u> |
| <u>Net Assets</u> | | |
| Net assets held in trust for participants | <u>\$ 193,622</u> | |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Investment Trust</u> |
|---|---------------------------------|
| <u>Additions</u> | |
| Investment earnings | \$ 7,506 |
| <u>Deductions</u> | |
| Distributions to participants | <u>7,234</u> |
| Change in Net Assets | \$ 272 |
| Net Assets - Beginning of the Year | <u>193,350</u> |
| Net Assets - End of the Year | <u><u>\$ 193,622</u></u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

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, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so.

A. Financial Reporting Entity

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

Blended Component Units

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Blended Component Units (Continued)

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

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

Joint Ventures

Joint Ventures - The County is involved in several joint ventures with surrounding counties and other units of government. Details on these joint ventures are included in Note 7.D.

Jointly-Governed Organizations - The County is involved with several jointly-governed organizations. Details on these jointly-governed organizations are included in Note 7.E.

Related Organization - A related organization is discussed in Note 7.F.

B. Basic Financial Statements

1. Government-Wide Statements

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

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

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

The County reports the following major proprietary funds:

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund types:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, 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 2008 were \$2,676,284.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

Loans receivable consist of a loan made to the Grand Rapids-Itasca County Joint Airport Commission to finance the construction of airport improvements and loans made to individuals to improve septic systems.

4. Inventories and Prepaid Items

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Inventories and Prepaid Items (Continued)

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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

7. Compensated Absences

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

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

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

8. Deferred Revenue

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Fund Equity

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

11. Use of Estimates

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

2. Reconciliations and Restatements

A. Governmental Funds Balance Sheet and Statement of Net Assets

Exhibit 4 provides reconciliation between fund balances as reported in the governmental funds balance sheet and net assets--governmental activities as reported in the statement of net assets. One element of that reconciliation is "other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds." The details of this \$6,337,262 are as follows:

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

| | |
|--|---------------------|
| Deferred revenue | \$ 8,281,466 |
| Due to other governments | <u>(1,944,204)</u> |
| Adjustment to Increase Fund Balances to Arrive at Net Assets--Governmental Activities | <u>\$ 6,337,262</u> |

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

Exhibit 6 provides a reconciliation between the increase in governmental funds' fund balance and the increase in net assets--governmental activities. One element of that increase is "in the funds, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned." The adjustment to revenues is the increase or decrease in revenues deferred as unavailable. The details of the (\$1,085,816) adjustment are:

| | |
|---|-----------------------|
| Deferred revenue at December 31, 2008 | \$ 8,281,466 |
| Deferred revenue at December 31, 2007 | <u>(9,080,260)</u> |
| Decrease in deferred revenue | \$ (798,794) |
| Less: Increase in deferred revenue attributable to forfeited tax sales, reported as due to other governments | <u>(287,022)</u> |
| Adjustment to Change in Fund Balances to Arrive at Change in Net Assets--Governmental Activities | <u>\$ (1,085,816)</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

2. Reconciliations and Restatements (Continued)

C. Restatements

In 2008, the Itasca Nursing Home Enterprise Fund prospectively implemented the requirements of a new accounting pronouncement, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In prior years, the Nursing Home estimated its liability for other postemployment benefits based on assumptions related to the number of current retirees (vested) and the number of future retirees (likely to vest) and their estimated life expectancy. This liability was reported in the financial statements as compensated absences payable. GASB Statement 45 requires this other postemployment benefit liability to be accrued using approved actuarial methods and assumptions. As a result, the Nursing Home has obtained an actuarial valuation to measure the other postemployment benefits expense in accordance with the new standard, and the liability as previously measured has been eliminated from the financial statements as follows:

| | Exhibit 2 Business-Type Activities | Exhibit 8 Nursing Home |
|--|--|---------------------------|
| Net Assets, Beginning - as previously reported | \$ 11,617,781 | \$ 4,183,177 |
| Prior period restatement | 443,525 | 443,525 |
| Net Assets, Beginning - as Restated | <u>\$ 12,061,306</u> | <u>\$ 4,626,702</u> |

3. Stewardship, Compliance, and Accountability

The following funds had expenditures in excess of budget for the year ended December 31, 2008:

| | Budget | Expenditures | Excess |
|---------------------------|---------------|---------------|--------------|
| General Fund | \$ 16,413,891 | \$ 17,618,745 | \$ 1,204,854 |
| Special Revenue Funds | | | |
| Road and Bridge | 15,883,689 | 21,331,596 | 5,447,907 |
| Health and Human Services | 18,167,986 | 18,293,063 | 125,077 |
| Solid Waste Management | 1,642,851 | 1,847,577 | 204,726 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

| | |
|--------------------------------|--------------------------|
| Primary government | |
| Cash and pooled investments | \$ 70,083,932 |
| Restricted assets | |
| Cash and pooled investments | 327,233 |
| Fiduciary funds | |
| Cash and pooled investments | |
| Investment trust funds | 108,336 |
| Agency funds | 1,677,543 |
| Investments | |
| Investment trust funds | <u>94,200</u> |
| Total Cash and Investments | <u>\$ 72,291,244</u> |

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit 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 and revenue obligations rated "AA" or better, irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has a policy requiring certificates of deposit to be collateralized in accordance with Minnesota statutes. The policy requires collateral to be deposited in the name of Itasca County and subject to release by the County Auditor/Treasurer. As of December 31, 2008, the primary government's bank balances of \$58,395,328 were not exposed to custodial credit risk.

b. Investments

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute. At December 31, 2008, the County had investments of \$446,004 in the Franklin Fund Mutual Fund and \$534,497 in the MM Federated US Treasury Cash Reserve Fund, which were both rated AAA by Standard and Poor's.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

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

At December 31, 2008, Itasca County had \$10,045,912 of governmental securities which were both acquired and held by the counterparty's same trust department and were therefore subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County does not have a policy regarding the concentration of credit risk.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2008, and the information relating to potential investment risks:

| Investment Type | Concentration Risk Over 5 Percent of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|--|---|---|-----------------------------|
| U.S. government agency securities | | | |
| Federal National Mortgage Association | 7% | 04/28/2010 | \$ 1,025,940 |
| Federal Home Loan Bank Bonds | | 04/28/2009 | \$ 500,780 |
| Federal Home Loan Bank Bonds | | 12/30/2010 | 501,565 |
| Federal Home Loan Bank Bonds | | 04/25/2011 | 500,940 |
| Federal Home Loan Bank Bonds | | 05/13/2011 | 501,720 |
| Federal Home Loan Bank Bonds | | 05/19/2011 | 500,155 |
| Federal Home Loan Bank Bonds | | 01/23/2012 | 1,001,880 |
| Federal Home Loan Bank Bonds | | 04/16/2012 | 500,155 |
| Federal Home Loan Bank Bonds | | 05/21/2012 | 500,155 |
| Federal Home Loan Bank Bonds | | 04/09/2013 | 503,440 |
| Federal Home Loan Bank Bonds | | 12/30/2013 | 495,625 |
| Total Federal Home Loan Bank Bonds | 37% | | \$ 5,506,415 |
| Federal Farm Credit Bank | <5% | 12/15/2011 | \$ 505,315 |
| Federal Home Loan Mortgage Corporation | | 10/28/2009 | \$ 500,755 |
| Federal Home Loan Mortgage Corporation | | 05/07/2010 | 500,390 |
| Federal Home Loan Mortgage Corporation | | 03/18/2013 | 803,648 |
| Federal Home Loan Mortgage Corporation | | 04/15/2013 | 200,214 |
| Federal Home Loan Mortgage Corporation | | 05/06/2013 | 501,465 |
| Federal Home Loan Mortgage Corporation | | 05/13/2013 | 501,770 |
| Total Federal Home Loan Mortgage Corporation | 20% | | \$ 3,008,242 |
| Investment pools/mutual funds | | | |
| Franklin Fund Mutual Fund | <5% | N/A | \$ 446,004 |
| MM Federated US Treasury Cash Reserve | <5% | N/A | 534,497 |
| Total investment pools/mutual funds | | | \$ 980,501 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Concentration Risk Over 5 Percent Of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|--|---|---|-----------------------------|
| Negotiable certificates of deposit | | | |
| Farm Bureau Bank | <5% | 01/13/2009 | \$ 99,092 |
| Lehman Brothers Bank | <5% | 02/17/2009 | 97,033 |
| Minnwest Bank | <5% | 04/13/2009 | 97,754 |
| Parke Bank | <5% | 04/20/2009 | 99,833 |
| Lakeside Bank | <5% | 04/21/2009 | 99,841 |
| New Century Bank | <5% | 04/21/2009 | 97,824 |
| Greatbank | <5% | 05/26/2009 | 100,167 |
| Monroe Bank & Trust | <5% | 06/29/2009 | 99,257 |
| Premier Bank | <5% | 08/23/2009 | 99,571 |
| Private Bank & Trust | <5% | 08/26/2009 | 98,633 |
| Buckhead Community Bank | <5% | 09/28/2009 | 99,501 |
| Montgomery Bank & Trust | <5% | 09/28/2009 | 99,501 |
| Farmers & Merchants Bank | <5% | 10/26/2009 | 99,655 |
| ACACIA Federal Savings Bank | <5% | 11/09/2009 | 95,423 |
| Bank of Elk River | <5% | 11/23/2009 | 99,527 |
| Horizon Bank | <5% | 11/27/2009 | 99,545 |
| Bank of Holland | <5% | 02/01/2010 | 98,767 |
| Security Bank | <5% | 02/16/2010 | 100,271 |
| Cooperative Bank | <5% | 06/22/2010 | 100,426 |
| Meridian Bank | <5% | 06/28/2010 | 96,443 |
| Macatawa Bank | <5% | 07/29/2010 | 40,639 |
| Business Bank of St. Louis | <5% | 08/03/2010 | 100,365 |
| Discover Bank | <5% | 08/20/2010 | 95,299 |
| New Market Bank | <5% | 08/27/2010 | 99,590 |
| United Community Bank | <5% | 08/27/2010 | 101,293 |
| Paragon Commercial Bank | <5% | 09/20/2010 | 98,721 |
| Flagstar Bank | <5% | 09/21/2010 | 97,325 |
| Citizens National Bank | <5% | 09/27/2010 | 100,116 |
| Bank of Whiteman | <5% | 10/21/2010 | 99,416 |
| Amcore Bank | <5% | 12/06/2010 | 98,879 |
| Commerce Bank Geneva Minnesota | <5% | 03/28/2011 | 95,471 |
| Summit Community Bank | <5% | 03/17/2011 | 100,261 |
| Lubbock National Bank | <5% | 03/31/2011 | 98,169 |
| Capital One Bank | <5% | 04/04/2011 | 98,080 |
| State Bank of India | <5% | 04/25/2011 | 97,252 |
| Medallion Bank | <5% | 05/31/2011 | 97,537 |
| Broadway Bank | <5% | 07/28/2011 | 97,570 |
| Wachovia Mortgage | <5% | 09/12/2011 | 96,263 |
| Money Bank | <5% | 11/14/2011 | 98,353 |
| Advanta Bank Corp. | <5% | 11/21/2011 | 98,153 |
| GE Capital Financial | <5% | 09/11/2013 | 99,109 |
| Total negotiable certificates of deposit | | | \$ 3,985,925 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Concentration Risk Over 5 Percent of Portfolio | Interest Rate Risk Maturity Date | Carrying (Fair) Value |
|--------------------------------|---|---|-----------------------------|
| Total investments | | | \$ 15,012,338 |
| Deposits | | | 57,267,151 |
| Petty cash and change funds | | | 11,755 |
| Total Investments and Deposits | | | <u>\$ 72,291,244</u> |

N/A - Not Applicable

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

2. Receivables

Receivables as of December 31, 2008, for the County's governmental activities and business-type activities are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|-------------------------------|----------------------|--|
| Governmental Activities | | |
| Taxes | \$ 803,697 | \$ - |
| Special assessments | 124,156 | - |
| Due from other governments | 10,872,287 | - |
| Accounts | 5,689,909 | - |
| Interest | 563,008 | - |
| Loans | 160,722 | 77,000 |
| Total Governmental Activities | <u>\$ 18,213,779</u> | <u>\$ 77,000</u> |
| Business-Type Activities | | |
| Accounts | <u>\$ 4,712,099</u> | <u>\$ -</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Governmental Activities

Governmental capital asset activity for the year ended December 31, 2008, was as follows:

| | Beginning Balance | Increase | Decrease | Reclassification | Ending Balance |
|--|----------------------|---------------|--------------|------------------|----------------|
| Capital assets not depreciated | | | | | |
| Land | \$ 1,120,596 | \$ - | \$ - | \$ - | \$ 1,120,596 |
| Construction in progress | 3,959,254 | 11,904,573 | - | (5,456,498) | 10,407,329 |
| Total capital assets not depreciated | \$ 5,079,850 | \$ 11,904,573 | \$ - | \$ (5,456,498) | \$ 11,527,925 |
| Capital assets depreciated | | | | | |
| Buildings | \$ 25,651,633 | \$ - | \$ 43,185 | \$ 526,711 | \$ 26,135,159 |
| Machinery, furniture, and equipment | 23,635,059 | 1,744,804 | 6,595,176 | 4,929,787 | 23,714,474 |
| Infrastructure | 131,172,769 | 8,247,984 | - | - | 139,420,753 |
| Total capital assets depreciated | \$ 180,459,461 | \$ 9,992,788 | \$ 6,638,361 | \$ 5,456,498 | \$ 189,270,386 |
| Less: accumulated depreciation for | | | | | |
| Buildings | \$ 8,778,272 | \$ 639,924 | \$ 43,185 | \$ - | \$ 9,375,011 |
| Machinery, furniture, and equipment | 10,984,931 | 1,485,819 | 771,731 | - | 11,699,019 |
| Infrastructure | 28,656,368 | 2,675,389 | - | - | 31,331,757 |
| Total accumulated depreciation | \$ 48,419,571 | \$ 4,801,132 | \$ 814,916 | \$ - | \$ 52,405,787 |
| Total capital assets depreciated, net | \$ 132,039,890 | \$ 5,191,656 | \$ 5,823,445 | \$ 5,456,498 | \$ 136,864,599 |
| Governmental Activities Capital Assets, Net | \$ 137,119,740 | \$ 17,096,229 | \$ 5,823,445 | \$ - | \$ 148,392,524 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

Business-type capital asset activity for the County Nursing Home at September 30, 2008, Itasca Medical Center at December 31, 2008, and the Itasca Resource Center at December 31, 2008, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---------------------------------------|----------------------|--------------|----------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 279,296 | \$ - | \$ - | \$ 279,296 |
| Construction in progress | - | 41,199 | - | 41,199 |
| Total capital assets not depreciated | \$ 279,296 | \$ 41,199 | \$ - | \$ 320,495 |
| Capital assets depreciated | | | | |
| Buildings | \$ 13,984,724 | \$ 92,557 | \$ - | \$ 14,077,281 |
| Improvements other than buildings | 191,994 | 8,060 | - | 200,054 |
| Machinery, furniture, and equipment | 1,509,715 | 91,830 | - | 1,601,545 |
| Total capital assets depreciated | \$ 15,686,433 | \$ 192,447 | \$ - | \$ 15,878,880 |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 5,858,482 | \$ 525,633 | \$ - | \$ 6,384,115 |
| Improvements other than buildings | 121,536 | 8,061 | - | 129,597 |
| Machinery, furniture, and equipment | 930,647 | 121,094 | - | 1,051,741 |
| Total accumulated depreciation | \$ 6,910,665 | \$ 654,788 | \$ - | \$ 7,565,453 |
| Total capital assets depreciated, net | \$ 8,775,768 | \$ (462,341) | \$ - | \$ 8,313,427 |
| Business-Type Activities | | | | |
| Capital Assets, Net | \$ 9,055,064 | \$ (421,142) | \$ - | \$ 8,633,922 |

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

| | |
|---|--------------|
| Governmental Activities | |
| General government | \$ 151,374 |
| Public safety | 826,669 |
| Highways and streets, including depreciation of infrastructure assets | 3,598,035 |
| Human services | 38,289 |
| Sanitation | 105,388 |
| Culture and recreation | 40,643 |
| Conservation of natural resources | 40,734 |
| Total Depreciation Expense - Governmental Activities | \$ 4,801,132 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

| | |
|---|-----------------------|
| Business-Type Activities | |
| Nursing Home | \$ 403,366 |
| Itasca Resource Center | <u>251,422</u> |
| Total Depreciation Expense - Business-Type Activities | <u>\$ 654,788</u> |

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

On February 1, 1997, Itasca County entered into a 15-year lease agreement with Independent School District No. 318 to occupy 6,353 square feet of space. The rental rate is currently \$7.15 per square foot.

On February 1, 1997, Itasca County entered into a 15-year lease with Itasca County Health and Human Services. On July 1, 2008, the lease was amended, and the Human Services Department currently occupies 24,159 square feet at a rental rate of \$7.15 per square foot.

On March 1, 1997, Itasca County entered into a 15-year lease agreement with KOOTASCA Community Action, Inc., to occupy space in the Itasca County Resource Center. The lease was amended in July 2008, and KOOTASCA currently occupies 9,336 square feet at a rental rate of \$7.15 per square foot.

On March 1, 2007, Itasca County entered into a 5-year lease agreement with the State of Minnesota. The lease was amended in August 2008, and the State of Minnesota currently occupies 3,496 square feet at a rental rate of \$12.75 per square foot.

Minimum future rents on non-cancelable leases are:

| <u>Year Ending December 31</u> | |
|------------------------------------|-------------------------|
| 2009 | \$ 329,487 |
| 2010 | 329,487 |
| 2011 | 329,487 |
| 2012 | <u>36,734</u> |
| Total | <u>\$ 1,025,195</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

1. Due To/From Other Funds

| Receivable Fund | Payable Fund | Amount | Purpose |
|--|-----------------------------------|--------------|---|
| General | Health and Human Services | \$ 127,823 | Reimbursement for services |
| | Forfeited Tax | 1,069,058 | Apportionment of net proceeds |
| | Capital Projects | 26,278 | Septic loan funds receipted in wrong fund |
| | Total due to General Fund | \$ 1,223,159 | |
| Road and Bridge | General | \$ 439,899 | Reimbursement for services, correct lease proceeds received in wrong fund |
| | Other governmental funds | 475,747 | Road maintenance charges |
| | Total due to Road and Bridge Fund | \$ 915,646 | |
| Other governmental funds | Forfeited Tax | \$ 2,269,767 | Apportionment of net proceeds |
| Itasca Resource Center Enterprise Fund | Health and Human Services | \$ 14,256 | Reimbursement for services |
| Total Due To/From Other Funds | | \$ 4,422,828 | |

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

Transfers to General Fund from

| | | |
|------------------------------|--------------|--|
| Road and Bridge Fund | \$ 108,923 | Reimburse General Fund for lease payments made |
| Forfeited Tax Fund | 1,069,058 | Distribute net proceeds |
| Environmental Permanent Fund | 100,000 | Funding for septic loan program |
| Nursing Home Enterprise Fund | 250,000 | Provide funding |
| Transfers to General Fund | \$ 1,527,981 | |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

2. Interfund Transfers (Continued)

Transfers to Health and Human Services Fund from

| | | |
|--------------------------|---------------|---------------------------------------|
| General Fund | \$ 25,000 | Provide funding for ambulance |
| Capital Projects Fund | 200,000 | Provide funding for ambulance |
| Other governmental funds | <u>38,596</u> | Provide funding and transfer interest |

Transfers to Health and Human Services Fund \$ 263,596

Transfers to other governmental funds from

| | | |
|------------------------------------|---------------|--|
| General Fund | \$ 1,499,015 | Provide funding for severance pay and weed control |
| Road and Bridge Fund | 50,000 | Provide funding for severance pay |
| Forfeited Tax Fund | 946,287 | Distribute net proceeds |
| Environmental Trust Permanent Fund | 18,000 | Transfer firewise grant |
| Other nonmajor governmental funds | <u>57,419</u> | Provide funding for severance pay |

Total transfers to other governmental funds \$ 2,570,721

Total Interfund Transfers \$ 4,362,298

C. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

| | Governmental Activities | Business-Type Activities |
|--------------------------|-----------------------------|-----------------------------|
| Accounts | \$ 3,749,969 | \$ 805,766 |
| Salaries | 1,483,881 | 295,684 |
| Accrued vacation payable | - | 196,381 |
| Escheat property | 9,589 | - |
| Contracts | 1,178,187 | - |
| Due to other governments | 4,491,559 | 1,260 |
| Claims and judgments | <u>-</u> | <u>4,128,553</u> |
| Total Payables | <u><u>\$ 10,913,185</u></u> | <u><u>\$ 5,427,644</u></u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Long-Term Debt

Governmental Activities

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2008 |
|--|-------------------|--------------------------|-------------------------|-----------------------------|--|
| General obligation bonds | | | | | |
| 2002 G.O. Capital Improvement Bonds | 2017 | \$220,000 - \$835,000 | 2.50 - 4.80 | \$ 8,300,000 | \$ 6,115,000 |
| 2007 G.O. Capital Improvement Bonds | 2023 | \$345,000 - \$890,000 | 4.00 | 10,000,000 | 10,000,000 |
| 2008 G.O. Capital Improvement Bonds | 2023 | \$100,000 - \$535,000 | 3.00 - 4.15 | 6,000,000 | 6,000,000 |
| Total general obligation bonds | | | | \$ 24,300,000 | \$ 22,115,000 |
| Less: unamortized discount | | | | | (53,005) |
| Total general obligation bonds, net | | | | | \$ 22,061,995 |
| Capital leases | | | | | |
| 2008 equipment lease | 2013 | \$49,208 | 3.17 | 544,841 | 451,768 |
| Totals | | | | <u>\$ 24,844,841</u> | <u>\$ 22,513,763</u> |

Business-Type Activities

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance September 30, 2008 |
|--|-------------------|--------------------------|-------------------------|-----------------------------|---|
| General obligation bonds | | | | | |
| 1998 G.O. Crossover Refunding Bonds | 2012 | \$135,000 - \$210,000 | 4.10 - 4.85 | \$ 1,880,000 | \$ 795,000 |
| 2003 Gross Revenue Nursing Home Bonds | 2033 | \$70,000 - \$305,000 | 2.50 - 6.25 | 4,435,000 | 4,135,000 |
| Total General Obligation Bonds | | | | <u>\$ 6,315,000</u> | \$ 4,930,000 |
| Less: unamortized discount | | | | | (567) |
| Total General Obligation Bonds, Net | | | | | <u>\$ 4,929,433</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Governmental Activities

| Year Ending December 31 | General Obligation Bonds | | Capital Leases | |
|----------------------------|--------------------------|---------------------|-------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2009 | \$ 995,000 | \$ 842,721 | \$ 84,761 | \$ 13,655 |
| 2010 | 1,435,000 | 820,446 | 87,470 | 10,946 |
| 2011 | 1,495,000 | 764,944 | 90,264 | 8,152 |
| 2012 | 1,560,000 | 706,407 | 93,148 | 5,267 |
| 2013 | 1,625,000 | 644,545 | 96,125 | 1,524 |
| 2014 - 2018 | 8,435,000 | 2,153,549 | - | - |
| 2019 - 2023 | 6,570,000 | 684,805 | - | - |
| Total | <u>\$ 22,115,000</u> | <u>\$ 6,617,417</u> | <u>\$ 451,768</u> | <u>\$ 39,544</u> |

Business-Type Activities

| Year Ending September 30 | General Obligation Crossover Refunding Bonds | | Gross Revenue Nursing Home Bonds | |
|-----------------------------|---|------------------|-------------------------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2009 | \$ 185,000 | \$ 33,532 | \$ 80,000 | \$ 241,400 |
| 2010 | 195,000 | 24,554 | 85,000 | 237,787 |
| 2011 | 205,000 | 15,054 | 90,000 | 233,782 |
| 2012 | 210,000 | 5,092 | 95,000 | 229,386 |
| 2013 | - | - | 95,000 | 224,708 |
| 2014 - 2018 | - | - | 570,000 | 1,040,298 |
| 2019 - 2023 | - | - | 755,000 | 852,356 |
| 2024 - 2028 | - | - | 1,010,000 | 585,138 |
| 2029 - 2033 | - | - | 1,355,000 | 221,719 |
| Total | <u>\$ 795,000</u> | <u>\$ 78,232</u> | <u>\$ 4,135,000</u> | <u>\$ 3,866,574</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

Governmental Activities

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|---------------------|-------------------|----------------------|------------------------|
| General obligation bonds | \$ 16,640,000 | \$ 6,000,000 | \$ 525,000 | \$ 22,115,000 | \$ 995,000 |
| Less: unamortized discounts | (36,513) | (19,364) | (2,872) | (53,005) | - |
| Capital leases | - | 544,841 | 93,073 | 451,768 | 84,761 |
| Compensated absences | 6,006,253 | 106,185 | - | 6,112,438 | 109,881 |
| Claims and judgments | 865,026 | 223,621 | 277,554 | 811,093 | - |
| Net other postemployment benefits | - | 2,024,671 | - | 2,024,671 | - |
| Governmental Activities Long-Term Liabilities | <u>\$ 23,474,766</u> | <u>\$ 8,879,954</u> | <u>\$ 892,755</u> | <u>\$ 31,461,965</u> | <u>\$ 1,189,642</u> |

Long-term liabilities for internal service funds are included as part of the above totals. For the Internal Service Fund, \$811,093 of claims and judgments payable are included in the amounts for the governmental activities at year-end.

In 2008, the County Board approved \$1,000,000 for an equipment lease. The County has drawn down only \$544,841 on this lease but intends to draw the remaining \$455,159 in 2009.

Business-Type Activities

| | Restated Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------------------|-------------|-------------------|---------------------|------------------------|
| Bonds payable | | | | | |
| General obligation bonds | \$ 970,000 | \$ - | \$ 175,000 | \$ 795,000 | \$ 185,000 |
| Gross revenue bonds | 4,215,000 | - | 80,000 | 4,135,000 | 80,000 |
| Less: deferred amounts for issuance discounts | (715) | - | (148) | (567) | - |
| Total bonds payable | <u>\$ 5,184,285</u> | <u>\$ -</u> | <u>\$ 254,852</u> | <u>\$ 4,929,433</u> | <u>\$ 265,000</u> |
| Provider settlements | <u>692,076</u> | <u>-</u> | <u>692,076</u> | <u>-</u> | <u>-</u> |
| Business-Type Activities Long-Term Liabilities | <u>\$ 5,876,361</u> | <u>\$ -</u> | <u>\$ 946,928</u> | <u>\$ 4,929,433</u> | <u>\$ 265,000</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Conduit Debt

In 2004, the County issued \$9,980,000 of Industrial Development Revenue Bonds to provide financial assistance to the Charles K. Blandin Foundation, a Minnesota nonprofit corporation, to be used to assist the Grand Itasca Clinic and Hospital in the construction of a new hospital and clinic deemed to be in the public interest. The bonds are payable solely from revenues of the Foundation. The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds will not be reported as liabilities in the County's financial statements. The balance of \$7,860,000 is outstanding at December 31, 2008.

In 2006, the County issued \$1,250,000 of industrial development revenue notes to provide financial assistance to North Homes, Inc., a Minnesota nonprofit corporation, to be used to construct a 16-bed group home for youth with mental disabilities and to refinance and renovate a transitional home for boys, which homes are deemed to be in the public interest. The notes are payable solely from the revenues of the nonprofit corporation. The County is not obligated in any manner for repayment of the notes. Accordingly, the notes will not be reported as liabilities in the County's financial statements. The amount of notes outstanding at December 31, 2008, was \$1,128,844.

In 2008, the County issued \$1,250,000 of revenue notes to provide financial assistance to North Homes, Inc., a Minnesota nonprofit corporation, to be used to acquire 8,200 square feet of the Itaskin Juvenile Center. The notes are payable solely from the revenues of the nonprofit corporation. The County is not obligated in any manner for repayment of the notes. Accordingly, the notes will not be reported as liabilities in the County's financial statements. The amount of notes outstanding at December 31, 2008, was \$1,143,228.

6. Itasca Medical Care (IMCare) Liabilities

Claims Payable

Claims payable represents the estimated ultimate net cost of all reported and unreported claims incurred prior to and unpaid at the end of the year. The liability for unpaid claims is estimated primarily by the use of cost per contract data and completion factors developed from historical lag patterns. Those estimates are

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

C. Liabilities

6. Itasca Medical Care (IMCare) Liabilities

Claims Payable (Continued)

subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for claims payable is adequate. The estimates are reviewed and adjusted as experience develops or new information becomes known, and such adjustments are included in current operations. Activity in the liability for unpaid claims and claim adjustment expense for IMCare is summarized as follows:

| | 2008 | 2007 |
|-----------------------------|---------------------|---------------------|
| Balance - Beginning of Year | \$ 4,658,458 | \$ 3,971,412 |
| Amount incurred, related to | | |
| Prior years | (564,479) | (855,271) |
| Current year | 34,785,193 | 31,192,374 |
| Amount paid, related to | | |
| Prior years | (4,088,625) | (3,098,615) |
| Current year | (30,661,994) | (26,551,442) |
| Balance - End of Year | <u>\$ 4,128,553</u> | <u>\$ 4,658,458</u> |

Stop-Loss Insurance

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

Provider Settlement

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

| | <u>2008</u> | <u>2009</u> |
|---------------------------------------|-------------|-------------|
| Public Employees Retirement Fund | | |
| Basic Plan members | 11.78% | 11.78% |
| Coordinated Plan members | 6.50 | 6.75 |
| Public Employees Police and Fire Fund | 12.90 | 14.10 |
| Public Employees Correctional Fund | 8.75 | 8.75 |

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---------------------------------------|--------------|--------------|--------------|
| Public Employees Retirement Fund | \$ 1,320,573 | \$ 1,204,924 | \$ 1,146,698 |
| Public Employees Police and Fire Fund | 440,194 | 409,121 | 363,579 |
| Public Employees Correctional Fund | 45,948 | 39,137 | 30,507 |

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

B. Defined Contribution Plan

Five of the eligible elected officials of the County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. 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.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

5. Pension Plans

B. Defined Contribution Plan (Continued)

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

Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA received 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2008, were:

| | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount | \$ 11,099 | \$ 11,099 |
| Percentage of covered payroll | 5% | 5% |

Required contribution rates were 5.00 percent.

6. Postemployment Benefits

In 2008, Itasca County prospectively implemented the requirements of a new accounting statement, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

A. Plan Description and Funding Policy

Itasca County provides postemployment health insurance benefits for certain eligible retired employees and their spouses under a single-employer defined benefit plan. The authority to provide these benefits is established in Minn. Stat. § 471.61, subd. 2a. A separate report is not issued for the plan.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

6. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

Road and Bridge and Courthouse employees who were hired prior to January 1, 2000, and meet the eligibility requirements established by PERA are eligible for employer paid health insurance benefits. Itasca County will pay for 100 percent of the health insurance premiums of the employee and 50 percent of the health insurance premiums for the spouse for life. For Road and Bridge and Courthouse employees hired after January 1, 2000, the maximum County share for health insurance premiums is capped at \$20,000.

Health and Human Services and Attorney's employees hired prior to January 1, 1994, and Sheriff's Department employees hired prior to January 1, 1998, who meet the eligibility requirements established by PERA are eligible for employer-paid health insurance benefits. Itasca County will pay for 100 percent of the health insurance premiums of the employee and 50 percent of the health insurance premiums for the spouse for life. For Health and Human Services and Attorney's employees hired after January 1, 1994, and Sheriff's Department employees hired after January 1, 1998, the maximum County share for health insurance premiums is capped at \$10,000. Attorney's employees must have 10 years of County service to be eligible. After January 1, 2000, Sheriff's Department employees must also have 15 years of County service to be eligible.

Itasca County supervisory and confidential employees hired prior to December 22, 1995, who meet the eligibility requirements established by PERA and have ten years of service to Itasca County are eligible for employer-paid health insurance benefits. Itasca County will pay for 100 percent of the health insurance premiums of the employee and 50 percent of the health insurance premiums for the spouse for life. For supervisory and confidential employees hired after December 22, 1995, the maximum County share for health insurance premiums is capped at \$10,000.

Itasca Nursing Home employees who were hired before July 1, 1994, are continuously employed until retirement, have at least 15 years of service with the Nursing Home, have participated in the health care insurance program for 15 years prior to retirement, and have met the eligibility requirements of PERA, are eligible to receive hospital/medical benefits for the life of the retiree or surviving spouse. The Itasca Nursing Home will pay 100 percent of the retiree's premium and 50 percent of the spouse's premium for these employees. For employees hired after July 1, 1994, the retiree is responsible for 50 percent of the premium.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

6. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

Employees who retire under contract provisions which limit the amount of benefit to a \$10,000 or \$20,000 cap or employees who do not qualify for the aforementioned benefits will be eligible to continue coverage with respect to both themselves and their eligible dependents under the County's health benefits program. These retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, these retirees are receiving an implicit rate subsidy.

As of December 31, 2008, there were 213 retirees receiving health benefits from the County's health plan and 408 active employees covered under the plan. The cost of other postemployment benefits is funded on a "pay-as-you-go" method.

B. Annual OPEB Cost and Net OPEB Obligation

The County's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

| | Itasca County December 31, 2008 | Itasca Nursing Home September 30, 2008 |
|--|------------------------------------|---|
| ARC | \$ 3,929,760 | \$ 55,393 |
| Interest on net OPEB obligation | - | - |
| Adjustment to ARC | - | - |
| Annual OPEB cost | \$ 3,929,760 | \$ 55,393 |
| Contributions during the year | (1,905,089) | (82,034) |
| Increase (decrease) in net OPEB obligation/excess OPEB contributions | \$ 2,024,671 | \$ (26,641) |
| Net OPEB Liability/Excess Contributions - Beginning of Year | - | - |
| Net OPEB Liability/Excess Contributions - End of Year | \$ 2,024,671 | \$ (26,641) |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

6. Postemployment Benefits

B. Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation/excess contributions for 2008 were as follows:

| | Itasca County December 31, 2008 | Itasca Nursing Home September 30, 2008 |
|--|------------------------------------|---|
| Percentage of annual OPEB cost contributed | 48.5% | 148.0% |
| Annual OPEB cost | \$ 3,929,760 | \$ 55,393 |
| Contributions during the year | (1,905,089) | (82,034) |
| Net OPEB Liability/Excess Contributions | \$ 2,024,671 | \$ (26,641) |

C. Funding Status and Funding Progress

The actuarial accrued liability for benefits for Itasca County at December 31, 2008, is \$60,330,182. The County currently has no assets that have been irrevocably deposited in a trust for future health benefits; thus, the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is \$21,138,584. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 285.4 percent.

The actuarial accrued liability for benefits for the Itasca Nursing Home at September 30, 2008, is \$1,138,640. The Nursing Home currently has no assets that have been irrevocably deposited in a trust for future health benefits; thus, the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is \$3,868,671. The ratio of UAAL to covered payroll is 29.43 percent.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

6. Postemployment Benefits

C. Funding Status and Funding Progress (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the December 31, 2007, and September 30, 2008, actuarial valuations, the entry age normal level percentage of pay actuarial cost method was used. The actuarial assumptions included a five percent discount rate, which is based on the estimated long-term investment yield on the general assets of the County and the Nursing Home. The annual healthcare cost trend rate is ten percent initially, reduced incrementally to an ultimate rate of five percent after six years. The unfunded actuarial accrued liability is being amortized as a level percentage of pay over 30 years.

7. Summary of Significant Contingencies and Other Items

A. Risk Management

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

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

The County's Risk Management Internal Service Fund is used to manage the workers' compensation claims which are self-insured by the County. Premiums are paid into the Risk Management Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has not had an actuarial study to determine a claims liability for workers' compensation, but the claims administrator, a private company, has estimated a liability of \$811,093, which does not include incurred but not reported claims, at December 31, 2008. This amount is shown as a liability in the Risk Management Internal Service Fund. The County is a member of the Workers' Compensation Reinsurance Association. Under the plan, the County is liable for the first \$410,000 toward any claim arising from a single occurrence. The Association covers claims over \$410,000.

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

| | Year Ended December 31 | |
|---|------------------------|-------------------|
| | 2008 | 2007 |
| Unpaid Claims, Beginning of Fiscal Year | \$ 865,026 | \$ 754,633 |
| Incurred claims | 223,621 | 630,430 |
| Claims payments | (277,554) | (520,037) |
| Unpaid Claims, End of Fiscal Year | <u>\$ 811,093</u> | <u>\$ 865,026</u> |

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

B. Contingent Liabilities

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

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. Steel Mill Project

Itasca County has entered into a reimbursement agreement between Itasca County, the State of Minnesota, and Essar Global Limited. Essar Global is the parent company of Minnesota Steel Industries that is developing a steelmaking facility in Itasca County. The State of Minnesota has provided funding to Itasca County for construction of certain public infrastructure improvements related to the steel mill project. If the project is not fully and completely constructed and placed into operation, the State of Minnesota may require Itasca County to return all or a portion of these grant funds. Under the terms of the reimbursement agreement, Essar Global and Minnesota Steel will reimburse Itasca County for any and all costs it directly incurs relating to the construction of the public infrastructure, up to a maximum amount of \$65,900,000, if the project is not completely constructed and operated by October 1, 2015.

It has been determined that the use of the grant funds constitutes a business subsidy under Minn. Stat. §§ 116J.993 to 116J.995 because the public infrastructure will principally benefit a single business at the time the improvements are made. As required by these statutes, Itasca County has also entered into a business subsidy agreement with Essar Global and Minnesota Steel. The agreement requires Minnesota Steel to meet certain job and wage goals and to remain operational for at least five years. If these job, wage, and operational goals are not met, Minnesota Steel is responsible for repayment of a pro-rated share of the grant funds subsidized.

D. Joint Ventures

Itasca County-Grand Rapids Airport Commission

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Itasca County-Grand Rapids Airport Commission (Continued)

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

A summary of the financial information of the Itasca County-Grand Rapids Airport Commission's government-wide statements for the year ended December 31, 2008, was:

| | |
|----------------------|--------------|
| Total Assets | \$ 6,789,110 |
| Total Liabilities | 356,249 |
| Total Net Assets | 6,432,861 |
| Total Revenues | 2,241,951 |
| Total Expenses | 653,007 |
| Change in Net Assets | 1,588,944 |

Itasca County contributed \$130,000 during 2008 to the Itasca County-Grand Rapids Airport Commission.

Separate financial information can be obtained from:

Airport Manager
420 North Pokegama Avenue
Grand Rapids, Minnesota 55744

Aitkin-Itasca-Koochiching Community Health Services Board

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Aitkin-Itasca-Koochiching Community Health Services Board (Continued)

The CHS Board is composed of two members from Aitkin and Koochiching Counties and three members from Itasca County, each appointed by the participating counties. Funding is obtained through federal, state, local, and private sources. Itasca County receives all funds and appropriates to each county its share through its agency fund. Itasca County records its revenues and expenditures in the Health and Human Services Special Revenue Fund. CHS agency fund assets and liabilities were \$10,421 as of December 31, 2008.

No separate financial statements are available.

Northeast Minnesota Office of Job Training

Aitkin, Carlton, Cook, Itasca, Koochiching, Lake, and St. Louis Counties (excluding the City of Duluth) entered into a joint powers agreement, pursuant to Minn. Stat. § 471.59, for the purpose of developing and implementing a private and public job training program. The United States Congress, through the Job Training Partnership Act of 1982, authorized states to establish “service delivery areas” to provide programs to achieve full employment through the use of grants. The counties identified above are defined as such a service delivery area, and the Northeast Minnesota Office of Job Training is designated as the grant recipient and administrator for such service delivery area. Itasca County is not a funding mechanism for this organization.

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

A summary of the financial information of the Northeast Minnesota Office of Job Training’s government-wide statements for June 30, 2008, was:

| | | |
|----------------------|----|-----------|
| Total Assets | \$ | 2,697,187 |
| Total Liabilities | | 1,317,583 |
| Total Net Assets | | 1,379,604 |
| Total Revenues | | 5,034,686 |
| Total Expenses | | 5,160,410 |
| Change in Net Assets | | (125,724) |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northeast Minnesota Office of Job Training (Continued)

Separate financial information can be obtained from:

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

Minnesota Counties Information Systems (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 members. Cass County is the fiscal agent for MCIS.

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

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

Separate financial information can be obtained from:

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Mississippi Headwaters Board

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

The Mississippi Headwaters Board consists of eight members, one member appointed from each participating county. Cass County maintains the accounting records of the Board. Funding is obtained through federal, state, local, and private sources. Itasca County provided \$1,500 to this organization during 2008.

Separate financial information can be obtained from:

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

Itasca County Family Service Collaborative

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Itasca County Family Service Collaborative (Continued)

Control of the Collaborative is vested in a Board of Directors. The County has three members on the Board. Financing is provided by state and federal grants, appropriations from the Collaborative members, and miscellaneous revenues. Itasca County provided \$16,000 in funding to the Collaborative during 2008. Itasca County is the fiscal agent for the Collaborative, which is accounted for as an agency fund. Collaborative agency fund assets and liabilities were \$185,073 as of December 31, 2008.

No separate financial statements are available.

E. Jointly-Governed Organizations

Western Mesabi Mine Planning Board

The Western Mesabi Mine Planning Board is governed by an 18-member board, composed of one elected official and one resident appointed by each respective county board, city council, and township board that is a party to the agreement. During 2008, Itasca County paid \$200 for membership dues to the Western Mesabi Mine Planning Board.

KOOTASCA Community Action, Inc.

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

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnomon, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. Itasca County paid \$2,100 for membership dues in 2008.

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

South Central Itasca County Intergovernmental Planning Board

The County established a joint powers board under the authority of Minn. Stat. § 394.232, subd. 4, in order to implement the Community Based Planning Act, which relates to planning for growth in the area governed by the participating parties. The members of the joint planning district are Itasca County; the Cities of Cohasset, Grand Rapids, and La Prairie; the towns of Harris, Arbo, and Trout Lake; and Independent School District No. 318.

The Planning Board is governed by an eight-member board. Each entity appoints one representative to the Board. Financing is provided by grants and membership fees. Itasca County paid \$2,000 in membership dues to this Board in 2008.

F. Related Organization

Housing and Redevelopment Authority of Itasca County

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

G. Tax-Forfeited Land

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

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

8. Subsequent Events

A. Bond Issuance

On September 8, 2009, the Itasca County Board approved the issuance and sale of the following bond issues:

| | |
|------------|---|
| \$ 620,000 | General Obligation Nursing Home Revenue Refunding Bonds |
| 4,625,000 | Taxable General Obligation Nursing Home Revenue Bonds |
| 1,490,000 | Taxable General Obligation Nursing Home Revenue Bonds |

The refunding bonds were issued to refund \$610,000 of bonds from the Nursing Home's 1998 bond issue which are currently outstanding and callable. The taxable revenue bonds were issued to finance a major renovation of the nursing home. The debt will be repaid through nursing home revenues.

B. In Substance Defeasance of Debt

In December 2008, Itasca County sold the backbone of its radio system to the State of Minnesota for \$6,000,000. The funds were received from the state in January 2009. In April 2009, Itasca County used the proceeds from the sale of the radio system and other County funds to partially defease \$7,370,000 of the \$10,000,000 general obligation capital improvement bonds issued in 2007. The funds were placed in an escrow account which is invested in U. S. Treasury State and Local Government Series (SLGS) securities. The escrow account is to be used solely for making the scheduled payments of both principal and interest on the defeased debt.

REQUIRED SUPPLEMENTARY INFORMATION

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|---------------------------------|-------------------------|----------------------|----------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 6,838,461 | \$ 6,838,461 | \$ 6,754,215 | \$ (84,246) |
| Licenses and permits | 53,700 | 53,700 | 85,539 | 31,839 |
| Intergovernmental | 4,715,805 | 4,715,805 | 5,366,725 | 650,920 |
| Charges for services | 915,485 | 915,485 | 1,152,154 | 236,669 |
| Fines and forfeits | 51,100 | 51,100 | 44,921 | (6,179) |
| Gifts and contributions | - | - | 10,044 | 10,044 |
| Investment earnings | 800,000 | 800,000 | 2,058,262 | 1,258,262 |
| Miscellaneous | 460,093 | 460,093 | 655,035 | 194,942 |
| Total Revenues | \$ 13,834,644 | \$ 13,834,644 | \$ 16,126,895 | \$ 2,292,251 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 349,028 | \$ 349,028 | \$ 460,369 | \$ (111,341) |
| Courts | 92,837 | 92,837 | 131,151 | (38,314) |
| Law library | 53,100 | 53,100 | 40,961 | 12,139 |
| County administration | 508,270 | 508,270 | 404,125 | 104,145 |
| County auditor/treasurer | 982,261 | 982,261 | 1,120,775 | (138,514) |
| County assessor | 899,009 | 899,009 | 905,067 | (6,058) |
| Elections | 147,000 | 147,000 | 153,586 | (6,586) |
| Accounting and auditing | 65,000 | 65,000 | 75,604 | (10,604) |
| Data processing | 650,625 | 650,625 | 613,024 | 37,601 |
| Attorney | 1,123,452 | 1,123,452 | 1,192,930 | (69,478) |
| Recorder | 452,409 | 452,409 | 471,005 | (18,596) |
| Surveyor | 479,232 | 479,232 | 477,679 | 1,553 |
| Planning and zoning | 417,140 | 417,140 | 384,957 | 32,183 |
| Buildings and plant | 865,210 | 865,210 | 895,646 | (30,436) |
| Veterans service officer | 154,613 | 154,613 | 155,065 | (452) |
| Other general government | - | - | 1,275 | (1,275) |
| Total general government | \$ 7,239,186 | \$ 7,239,186 | \$ 7,483,219 | \$ (244,033) |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|--------------------------------------|-------------------------|---------------------|---------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Public safety | | | | |
| Sheriff | \$ 3,758,472 | \$ 3,758,472 | \$ 3,884,120 | \$ (125,648) |
| Boat and water safety | 147,772 | 147,772 | 138,757 | 9,015 |
| Emergency services | 54,800 | 54,800 | 61,585 | (6,785) |
| Coroner | 30,000 | 30,000 | 72,393 | (42,393) |
| Federal arrest grant | - | - | 72,989 | (72,989) |
| E-911 system | 30,000 | 30,000 | 20,209 | 9,791 |
| County jail | 3,211,932 | 3,211,932 | 3,214,321 | (2,389) |
| Victim assistance | 69,486 | 69,486 | 72,673 | (3,187) |
| Probation and parole | 996,675 | 996,675 | 988,490 | 8,185 |
| Civil defense | 147,580 | 147,580 | 114,664 | 32,916 |
| Safehavens grant | 50,000 | 50,000 | 167,894 | (117,894) |
| Transitional housing grant | 105,000 | 105,000 | 85,187 | 19,813 |
| Snowmobile safety | 19,531 | 19,531 | 24,898 | (5,367) |
| Violence against women grant | - | - | 100,194 | (100,194) |
| Other | 5,400 | 5,400 | 42,926 | (37,526) |
| Total public safety | \$ 8,626,648 | \$ 8,626,648 | \$ 9,061,300 | \$ (434,652) |
| Sanitation | | | | |
| Septic loans | \$ - | \$ - | \$ 82,277 | \$ (82,277) |
| Health | | | | |
| Itasca County Health Network | \$ - | \$ - | \$ 42,837 | \$ (42,837) |
| Culture and recreation | | | | |
| Historical society | \$ 28,000 | \$ 28,000 | \$ 28,000 | \$ - |
| Fairgrounds | 55,000 | 55,000 | - | 55,000 |
| Humane society | 20,000 | 20,000 | 4,761 | 15,239 |
| Snowmobile and ski trail maintenance | - | - | 423,548 | (423,548) |
| Other | 7,000 | 7,000 | 7,634 | (634) |
| Total culture and recreation | \$ 110,000 | \$ 110,000 | \$ 463,943 | \$ (353,943) |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|--|-------------------------|-----------------------|-----------------------|-----------------------|
| | Original | Final | Amounts | Final Budget |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Conservation of natural resources | | | | |
| County extension | \$ 131,057 | \$ 131,057 | \$ 141,584 | \$ (10,527) |
| Soil and water conservation | 150,000 | 150,000 | - | 150,000 |
| Title III federal forest funds | - | - | 19,490 | (19,490) |
| Shoreland management | 13,000 | 13,000 | 51,607 | (38,607) |
| Other | 2,000 | 2,000 | 21,565 | (19,565) |
| Total conservation of natural resources | \$ 296,057 | \$ 296,057 | \$ 234,246 | \$ 61,811 |
| Economic development | | | | |
| Airports | \$ 142,000 | \$ 142,000 | \$ 142,000 | \$ - |
| Debt service | | | | |
| Principal | \$ - | \$ - | \$ 93,073 | \$ (93,073) |
| Interest | - | - | 15,850 | (15,850) |
| Total debt service | \$ - | \$ - | \$ 108,923 | \$ (108,923) |
| Total Expenditures | \$ 16,413,891 | \$ 16,413,891 | \$ 17,618,745 | \$ (1,204,854) |
| Excess of Revenues Over (Under) Expenditures | \$ (2,579,247) | \$ (2,579,247) | \$ (1,491,850) | \$ 1,087,397 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 1,356,412 | \$ 1,356,412 | \$ 1,527,981 | \$ 171,569 |
| Transfers out | (1,456,481) | (1,456,481) | (1,524,015) | (67,534) |
| Total Other Financing Sources (Uses) | \$ (100,069) | \$ (100,069) | \$ 3,966 | \$ 104,035 |
| Change in Fund Balance | \$ (2,679,316) | \$ (2,679,316) | \$ (1,487,884) | \$ 1,191,432 |
| Fund Balance - January 1 | 13,830,960 | 13,830,960 | 13,830,960 | - |
| Increase (decrease) in reserved for inventories | - | - | 889 | 889 |
| Fund Balance - December 31 | \$ 11,151,644 | \$ 11,151,644 | \$ 12,343,965 | \$ 1,192,321 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|--|-------------------------|----------------------|-----------------------|-----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 7,077,300 | \$ 7,077,300 | \$ 7,188,348 | \$ 111,048 |
| Intergovernmental | 7,501,789 | 7,501,789 | 11,190,886 | 3,689,097 |
| Charges for services | 1,068,000 | 1,068,000 | 1,062,261 | (5,739) |
| Miscellaneous | 56,600 | 56,600 | 870,724 | 814,124 |
| Total Revenues | \$ 15,703,689 | \$ 15,703,689 | \$ 20,312,219 | \$ 4,608,530 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 509,771 | \$ 509,771 | \$ 527,921 | \$ (18,150) |
| Maintenance | 7,402,634 | 7,402,634 | 7,009,975 | 392,659 |
| Construction | 4,037,023 | 4,037,023 | 9,193,845 | (5,156,822) |
| Equipment maintenance and shop | 3,934,261 | 3,934,261 | 4,599,855 | (665,594) |
| Total Expenditures | \$ 15,883,689 | \$ 15,883,689 | \$ 21,331,596 | \$ (5,447,907) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (180,000) | \$ (180,000) | \$ (1,019,377) | \$ (839,377) |
| Other Financing Sources (Uses) | | | | |
| Capital lease purchase | \$ - | \$ - | \$ 544,841 | \$ 544,841 |
| Transfers out | (50,000) | (50,000) | (158,923) | (108,923) |
| Total Other Financing Sources (Uses) | \$ (50,000) | \$ (50,000) | \$ 385,918 | \$ 435,918 |
| Change in Fund Balance | \$ (230,000) | \$ (230,000) | \$ (633,459) | \$ (403,459) |
| Fund Balance - January 1 | 8,747,407 | 8,747,407 | 8,747,407 | - |
| Increase (decrease) in reserved for inventories | - | - | (98,285) | (98,285) |
| Fund Balance - December 31 | \$ 8,517,407 | \$ 8,517,407 | \$ 8,015,663 | \$ (501,744) |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|---|-------------------------|----------------------|----------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 8,567,378 | \$ 8,567,378 | \$ 7,167,515 | \$ (1,399,863) |
| Intergovernmental | 8,526,021 | 8,526,021 | 10,841,454 | 2,315,433 |
| Charges for services | 696,587 | 696,587 | 1,043,376 | 346,789 |
| Miscellaneous | 153,000 | 153,000 | 355,348 | 202,348 |
| Total Revenues | \$ 17,942,986 | \$ 17,942,986 | \$ 19,407,693 | \$ 1,464,707 |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 4,561,665 | \$ 4,561,665 | \$ 4,092,041 | \$ 469,624 |
| Social services | 11,906,279 | 11,906,279 | 12,495,662 | (589,383) |
| Total human services | \$ 16,467,944 | \$ 16,467,944 | \$ 16,587,703 | \$ (119,759) |
| Health | | | | |
| Nursing service | \$ 1,693,573 | \$ 1,693,573 | \$ 1,698,317 | \$ (4,744) |
| Environmental health | 6,469 | 6,469 | 7,043 | (574) |
| Total health | \$ 1,700,042 | \$ 1,700,042 | \$ 1,705,360 | \$ (5,318) |
| Total Expenditures | \$ 18,167,986 | \$ 18,167,986 | \$ 18,293,063 | \$ (125,077) |
| Excess of Revenues Over (Under) Expenditures | \$ (225,000) | \$ (225,000) | \$ 1,114,630 | \$ 1,339,630 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 263,596 | 263,596 |
| Change in Fund Balance | \$ (225,000) | \$ (225,000) | \$ 1,378,226 | \$ 1,603,226 |
| Fund Balance - January 1 | 2,232,842 | 2,232,842 | 2,232,842 | - |
| Fund Balance - December 31 | \$ 2,007,842 | \$ 2,007,842 | \$ 3,611,068 | \$ 1,603,226 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 4

**SCHEDULES OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFIT PLAN
DECEMBER 31, 2008**

Itasca County

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|-----------------------------|--|--|--|--------------------------|------------------------|---|
| December 31, 2007 | \$ - | \$ 60,330,182 | \$ 60,330,182 | 0.00% | \$ 21,138,584 | 285.4% |

Itasca County Nursing Home

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|-----------------------------|--|--|--|--------------------------|------------------------|---|
| September 30, 2008 | \$ - | \$ 1,138,640 | \$ 1,138,640 | 0.00% | \$ 3,868,671 | 29.43% |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008**

1. Budgetary Information

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

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2008, expenditures exceeded appropriations in the following funds:

| | | |
|---------------------------|--------------|--|
| General Fund | \$ 1,204,854 | Expenditures for ski and snowmobile trails, several large federal grants in public safety, and Title III project expenditures are not budgeted. These expenditures are offset by intergovernmental revenues. |
| Special Revenue Funds | | |
| Road and Bridge | 5,447,907 | Higher than anticipated construction expenditures offset by higher intergovernmental revenues. |
| Health and Human Services | 125,077 | Higher than anticipated social services expenditures. |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

3. Notes to the Schedule of Funding Progress

Itasca County and the Itasca Nursing Home currently have no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Itasca County implemented Governmental Accounting Standards Board Statement 45 in the fiscal year ended December 31, 2008, and Itasca Nursing Home implemented it in the fiscal year ended September 30, 2008. Information for prior years is not available.

SUPPLEMENTARY INFORMATION

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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

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

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

| | Special Revenue (Statement 3) | Debt Service | Total Nonmajor Governmental Funds |
|---|--|----------------------------|--|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 5,179,319 | \$ 2,139,896 | \$ 7,319,215 |
| Petty cash and change funds | 325 | - | 325 |
| Undistributed cash in agency funds | 100,560 | 96,848 | 197,408 |
| Taxes receivable | | | |
| Prior | 44,158 | 50,248 | 94,406 |
| Special assessments receivable | | | |
| Prior | 124,156 | - | 124,156 |
| Accounts receivable | 113,780 | - | 113,780 |
| Due from other funds | 2,269,767 | - | 2,269,767 |
| Due from other governments | 296 | - | 296 |
| | <hr/> | <hr/> | <hr/> |
| Total Assets | <u>\$ 7,832,361</u> | <u>\$ 2,286,992</u> | <u>\$ 10,119,353</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 375,994 | \$ - | \$ 375,994 |
| Salaries payable | 70,239 | - | 70,239 |
| Due to other funds | 475,747 | - | 475,747 |
| Due to other governments | 635 | - | 635 |
| Deferred revenue - unavailable | 168,314 | 50,248 | 218,562 |
| | <hr/> | <hr/> | <hr/> |
| Total Liabilities | <u>\$ 1,090,929</u> | <u>\$ 50,248</u> | <u>\$ 1,141,177</u> |
| Fund Balances | | | |
| Unreserved | | | |
| Designated for debt service | \$ - | \$ 2,236,744 | \$ 2,236,744 |
| Designated for severance | 101,948 | - | 101,948 |
| Undesignated | 6,639,484 | - | 6,639,484 |
| | <hr/> | <hr/> | <hr/> |
| Total Fund Balances | <u>\$ 6,741,432</u> | <u>\$ 2,236,744</u> | <u>\$ 8,978,176</u> |
| | <hr/> | <hr/> | <hr/> |
| Total Liabilities and Fund Balances | <u>\$ 7,832,361</u> | <u>\$ 2,286,992</u> | <u>\$ 10,119,353</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Special Revenue (Statement 4) | Debt Service | Total Nonmajor Governmental Funds |
|---|--|-------------------------|--|
| Revenues | | | |
| Taxes | \$ 1,392,718 | \$ 1,780,833 | \$ 3,173,551 |
| Special assessments | 940,033 | - | 940,033 |
| Licenses and permits | 443 | - | 443 |
| Intergovernmental | 668,546 | 341,600 | 1,010,146 |
| Charges for services | 505,742 | - | 505,742 |
| Investment earnings | 16,850 | - | 16,850 |
| Miscellaneous | 493,293 | - | 493,293 |
| Total Revenues | \$ 4,017,625 | \$ 2,122,433 | \$ 6,140,058 |
| Expenditures | | | |
| Current | | | |
| General government | \$ 572,276 | \$ - | \$ 572,276 |
| Public safety | 606,976 | - | 606,976 |
| Highways and streets | 1,503,534 | - | 1,503,534 |
| Sanitation | 1,865,945 | - | 1,865,945 |
| Culture and recreation | 618,485 | - | 618,485 |
| Conservation of natural resources | 728,070 | - | 728,070 |
| Debt service | | | |
| Principal | - | 525,000 | 525,000 |
| Interest | - | 638,267 | 638,267 |
| Administrative (fiscal) charges | - | 1,366 | 1,366 |
| Total Expenditures | \$ 5,895,286 | \$ 1,164,633 | \$ 7,059,919 |
| Excess of Revenues Over (Under) | | | |
| Expenditures | \$ (1,877,661) | \$ 957,800 | \$ (919,861) |
| Other Financing Sources (Uses) | | | |
| Transfers in | \$ 2,570,721 | \$ - | \$ 2,570,721 |
| Transfers out | (96,015) | - | (96,015) |
| Total Other Financing Sources (Uses) | \$ 2,474,706 | \$ - | \$ 2,474,706 |
| Net Change in Fund Balance | \$ 597,045 | \$ 957,800 | \$ 1,554,845 |
| Fund Balance - January 1 | 6,144,387 | 1,278,944 | 7,423,331 |
| Fund Balance - December 31 | \$ 6,741,432 | \$ 2,236,744 | \$ 8,978,176 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2008**

| | <u>Forest Resources</u> | <u>Solid Waste Management</u> | <u>Unorganized Towns Road and Bridge</u> | <u>Health Education</u> | <u>Severance Pay</u> | <u>Total</u> |
|---|-----------------------------|-----------------------------------|--|-----------------------------|--------------------------|----------------------------|
| <u>Assets</u> | | | | | | |
| Cash and pooled investments | \$ 1,927,956 | \$ 241,740 | \$ 2,097,153 | \$ 912,470 | \$ - | \$ 5,179,319 |
| Petty cash and change funds | 25 | 300 | - | - | - | 325 |
| Undistributed cash in agency funds | - | 27,854 | 72,706 | - | - | 100,560 |
| Taxes receivable | | | | | | |
| Prior | - | - | 44,158 | - | - | 44,158 |
| Special assessments receivable | | | | | | |
| Prior | - | 124,156 | - | - | - | 124,156 |
| Accounts receivable | - | 11,832 | - | - | 101,948 | 113,780 |
| Due from other funds | 2,144,143 | - | 125,624 | - | - | 2,269,767 |
| Due from other governments | - | 296 | - | - | - | 296 |
| Total Assets | <u>\$ 4,072,124</u> | <u>\$ 406,178</u> | <u>\$ 2,339,641</u> | <u>\$ 912,470</u> | <u>\$ 101,948</u> | <u>\$ 7,832,361</u> |
| <u>Liabilities and Fund Balances</u> | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 75,406 | \$ 300,588 | \$ - | \$ - | \$ - | \$ 375,994 |
| Salaries payable | 61,270 | 8,969 | - | - | - | 70,239 |
| Due to other funds | - | - | 475,747 | - | - | 475,747 |
| Due to other governments | 635 | - | - | - | - | 635 |
| Deferred revenue - unavailable | - | 124,156 | 44,158 | - | - | 168,314 |
| Total Liabilities | <u>\$ 137,311</u> | <u>\$ 433,713</u> | <u>\$ 519,905</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,090,929</u> |
| Fund Balances | | | | | | |
| Unreserved | | | | | | |
| Designated for severance | \$ - | \$ - | \$ - | \$ - | \$ 101,948 | \$ 101,948 |
| Undesignated | 3,934,813 | (27,535) | 1,819,736 | 912,470 | - | 6,639,484 |
| Total Fund Balances | <u>\$ 3,934,813</u> | <u>\$ (27,535)</u> | <u>\$ 1,819,736</u> | <u>\$ 912,470</u> | <u>\$ 101,948</u> | <u>\$ 6,741,432</u> |
| Total Liabilities and Fund Balances | <u>\$ 4,072,124</u> | <u>\$ 406,178</u> | <u>\$ 2,339,641</u> | <u>\$ 912,470</u> | <u>\$ 101,948</u> | <u>\$ 7,832,361</u> |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 4

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Forest Resources | Solid Waste Management | Unorganized Towns Road and Bridge | Health Education | Severance Pay | Total |
|---|-----------------------------|-----------------------------------|--|-----------------------------|--------------------------|-----------------------|
| Revenues | | | | | | |
| Taxes | \$ - | \$ 99,587 | \$ 1,293,131 | \$ - | \$ - | \$ 1,392,718 |
| Special assessments | - | 940,033 | - | - | - | 940,033 |
| Licenses and permits | - | 443 | - | - | - | 443 |
| Intergovernmental | 316,402 | 108,734 | 243,410 | - | - | 668,546 |
| Charges for services | 15,011 | 490,731 | - | - | - | 505,742 |
| Investment earnings | - | - | - | 16,850 | - | 16,850 |
| Miscellaneous | 58,496 | 8,594 | - | - | 426,203 | 493,293 |
| Total Revenues | \$ 389,909 | \$ 1,648,122 | \$ 1,536,541 | \$ 16,850 | \$ 426,203 | \$ 4,017,625 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General government | \$ - | \$ - | \$ - | \$ - | \$ 572,276 | \$ 572,276 |
| Public safety | - | - | - | - | 606,976 | 606,976 |
| Highways and streets | - | - | 857,679 | - | 645,855 | 1,503,534 |
| Sanitation | - | 1,847,577 | - | - | 18,368 | 1,865,945 |
| Culture and recreation | 618,485 | - | - | - | - | 618,485 |
| Conservation of natural resources | 602,208 | - | - | - | 125,862 | 728,070 |
| Total Expenditures | \$ 1,220,693 | \$ 1,847,577 | \$ 857,679 | \$ - | \$ 1,969,337 | \$ 5,895,286 |
| Excess of Revenues Over (Under) Expenditures | \$ (830,784) | \$ (199,455) | \$ 678,862 | \$ 16,850 | \$ (1,543,134) | \$ (1,877,661) |
| Other Financing Sources (Uses) | | | | | | |
| Transfers in | \$ 849,663 | \$ - | \$ 125,624 | \$ - | \$ 1,595,434 | \$ 2,570,721 |
| Transfers out | (57,419) | - | - | (38,596) | - | (96,015) |
| Total Other Financing Sources (Uses) | \$ 792,244 | \$ - | \$ 125,624 | \$ (38,596) | \$ 1,595,434 | \$ 2,474,706 |
| Net Change in Fund Balance | \$ (38,540) | \$ (199,455) | \$ 804,486 | \$ (21,746) | \$ 52,300 | \$ 597,045 |
| Fund Balance - January 1 | 3,973,353 | 171,920 | 1,015,250 | 934,216 | 49,648 | 6,144,387 |
| Fund Balance - December 31 | \$ 3,934,813 | \$ (27,535) | \$ 1,819,736 | \$ 912,470 | \$ 101,948 | \$ 6,741,432 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
FOREST RESOURCES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|---|-------------------------|-----------------------|---------------------|-----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Intergovernmental | \$ 183,926 | \$ 183,926 | \$ 316,402 | \$ 132,476 |
| Charges for services | 18,598 | 18,598 | 15,011 | (3,587) |
| Miscellaneous | 9,504 | 9,504 | 58,496 | 48,992 |
| Total Revenues | \$ 212,028 | \$ 212,028 | \$ 389,909 | \$ 177,881 |
| Expenditures | | | | |
| Current | | | | |
| Culture and recreation | | | | |
| Promotion | \$ 150,000 | \$ 150,000 | \$ 231,050 | \$ (81,050) |
| Parks | 363,515 | 363,515 | 387,435 | (23,920) |
| Total culture and recreation | \$ 513,515 | \$ 513,515 | \$ 618,485 | \$ (104,970) |
| Conservation of natural resources | | | | |
| Timber development | \$ 75,500 | \$ 75,500 | \$ 11,734 | \$ 63,766 |
| Other | 1,781,695 | 1,781,695 | 590,474 | 1,191,221 |
| Total conservation of natural resources | \$ 1,857,195 | \$ 1,857,195 | \$ 602,208 | \$ 1,254,987 |
| Total Expenditures | \$ 2,370,710 | \$ 2,370,710 | \$ 1,220,693 | \$ 1,150,017 |
| Excess of Revenues Over (Under) Expenditures | \$ (2,158,682) | \$ (2,158,682) | \$ (830,784) | \$ 1,327,898 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 2,158,682 | \$ 2,158,682 | \$ 849,663 | \$ (1,309,019) |
| Transfers out | - | - | (57,419) | (57,419) |
| Total Other Financing Sources (Uses) | \$ 2,158,682 | \$ 2,158,682 | \$ 792,244 | \$ (1,366,438) |
| Change in Fund Balance | \$ - | \$ - | \$ (38,540) | \$ (38,540) |
| Fund Balance - January 1 | 3,973,353 | 3,973,353 | 3,973,353 | - |
| Fund Balance - December 31 | \$ 3,973,353 | \$ 3,973,353 | \$ 3,934,813 | \$ (38,540) |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE MANAGEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|--|-------------------------|---------------------|---------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 99,571 | \$ 99,571 | \$ 99,587 | \$ 16 |
| Special assessments | 901,187 | 901,187 | 940,033 | 38,846 |
| Licenses and permits | 400 | 400 | 443 | 43 |
| Intergovernmental | 103,000 | 103,000 | 108,734 | 5,734 |
| Charges for services | 530,000 | 530,000 | 490,731 | (39,269) |
| Miscellaneous | 8,693 | 8,693 | 8,594 | (99) |
| Total Revenues | \$ 1,642,851 | \$ 1,642,851 | \$ 1,648,122 | \$ 5,271 |
| Expenditures | | | | |
| Current | | | | |
| Sanitation | | | | |
| Solid waste | 1,642,851 | 1,642,851 | 1,847,577 | (204,726) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ - | \$ - | \$ (199,455) | \$ (199,455) |
| Fund Balance - January 1 | 171,920 | 171,920 | 171,920 | - |
| Fund Balance - December 31 | \$ 171,920 | \$ 171,920 | \$ (27,535) | \$ (199,455) |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Budgeted Amounts | | Actual | Variance with |
|--|-------------------------|---------------------|---------------------|----------------------|
| | Original | Final | Amounts | Final Budget |
| Revenues | | | | |
| Taxes | \$ 2,142,133 | \$ 2,142,133 | \$ 1,780,833 | \$ (361,300) |
| Intergovernmental | - | - | 341,600 | 341,600 |
| Total Revenues | \$ 2,142,133 | \$ 2,142,133 | \$ 2,122,433 | \$ (19,700) |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 525,000 | \$ 525,000 | \$ 525,000 | \$ - |
| Interest | 1,617,133 | 1,617,133 | 638,267 | 978,866 |
| Administrative - fiscal charges | - | - | 1,366 | (1,366) |
| Total Expenditures | \$ 2,142,133 | \$ 2,142,133 | \$ 1,164,633 | \$ 977,500 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ - | \$ - | \$ 957,800 | \$ 957,800 |
| Fund Balance - January 1 | 1,278,944 | 1,278,944 | 1,278,944 | - |
| Fund Balance - December 31 | \$ 1,278,944 | \$ 1,278,944 | \$ 2,236,744 | \$ 957,800 |

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FIDUCIARY FUNDS

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

AGENCY FUNDS

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

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 5

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|------------------------------------|------------------------------|----------------------|----------------------|--------------------------------|
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 1,738,185 | \$ 62,018,596 | \$ 62,672,748 | \$ 1,084,033 |
| Due from other governments | 1,682 | - | 1,682 | - |
| Total Assets | \$ 1,739,867 | \$ 62,018,596 | \$ 62,674,430 | \$ 1,084,033 |
| <u>Liabilities</u> | | | | |
| Taxes collected in advance | \$ 20,938 | \$ 11,509 | \$ 20,938 | \$ 11,509 |
| Due to other governments | 1,718,929 | 62,007,087 | 62,653,492 | 1,072,524 |
| Total Liabilities | \$ 1,739,867 | \$ 62,018,596 | \$ 62,674,430 | \$ 1,084,033 |
| <u>STATE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 189,008 | \$ 7,842,210 | \$ 7,708,254 | \$ 322,964 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 189,008 | \$ 7,842,210 | \$ 7,708,254 | \$ 322,964 |
| <u>CITIES AND TOWNS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 15,994,706 | \$ 15,965,155 | \$ 29,551 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 15,994,706 | \$ 15,965,155 | \$ 29,551 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Statement 5
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | <u>Balance January 1</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance December 31</u> |
|---|------------------------------|------------------|-------------------|--------------------------------|
| <u>SCHOOL DISTRICTS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 14,721,659 | \$ 14,715,245 | \$ 6,414 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 14,721,659 | \$ 14,715,245 | \$ 6,414 |
| <u>SPECIAL DISTRICTS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 16,636 | \$ 1,553,847 | \$ 1,550,486 | \$ 19,997 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 16,636 | \$ 1,553,847 | \$ 1,550,486 | \$ 19,997 |
| <u>ITASCA COUNTY FAMILY SERVICES COLLABORATIVE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 162,552 | \$ 22,521 | \$ - | \$ 185,073 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 162,552 | \$ 22,521 | \$ - | \$ 185,073 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**Statement 5
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|------------------------------|-----------------------|-----------------------|--------------------------------|
| <u>COMMUNITY HEALTH SERVICES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 210,898 | \$ 1,238,296 | \$ 1,438,773 | \$ 10,421 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 210,898 | \$ 1,238,296 | \$ 1,438,773 | \$ 10,421 |
| <u>SOUTH CENTRAL ITASCA COUNTY PLANNING BOARD</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 17,600 | \$ 12,990 | \$ 11,500 | \$ 19,090 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 17,600 | \$ 12,990 | \$ 11,500 | \$ 19,090 |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 2,334,879 | \$ 103,404,825 | \$ 104,062,161 | \$ 1,677,543 |
| Due from other governments | 1,682 | - | 1,682 | - |
| Total Assets | \$ 2,336,561 | \$ 103,404,825 | \$ 104,063,843 | \$ 1,677,543 |
| <u>Liabilities</u> | | | | |
| Taxes collected in advance | \$ 20,938 | \$ 11,509 | \$ 20,938 | \$ 11,509 |
| Due to other governments | 2,315,623 | 103,393,316 | 104,042,905 | 1,666,034 |
| Total Liabilities | \$ 2,336,561 | \$ 103,404,825 | \$ 104,063,843 | \$ 1,677,543 |

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OTHER SCHEDULE

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 8

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Governmental Funds | Enterprise Fund | Total |
|---|-------------------------------|----------------------------|----------------------|
| Shared Revenue | | | |
| State | | | |
| Highway users tax | \$ 9,031,714 | \$ - | \$ 9,031,714 |
| County program aid | 1,241,775 | - | 1,241,775 |
| PERA rate reimbursement | 82,818 | - | 82,818 |
| Disparity reduction aid | 161,198 | - | 161,198 |
| Police aid | 433,232 | - | 433,232 |
| Taconite credit | 646,814 | - | 646,814 |
| Mobile home taconite credit | 1,724 | - | 1,724 |
| E-911 | 129,414 | - | 129,414 |
| Market value credit aid | 1,846,454 | - | 1,846,454 |
| Supplemental aid | 1,687,730 | - | 1,687,730 |
| Total Shared Revenue | \$ 15,262,873 | \$ - | \$ 15,262,873 |
| Reimbursement for Services | | | |
| Minnesota Department of Human Services | \$ 899,439 | \$ - | \$ 899,439 |
| Minnesota Department of Health | 56,174 | - | 56,174 |
| Total Reimbursement for Services | \$ 955,613 | \$ - | \$ 955,613 |
| Payments | | | |
| Local | | | |
| Other contributions | \$ 666,032 | \$ - | \$ 666,032 |
| Local contributions | 88,607 | - | 88,607 |
| Payments in lieu of taxes | 707,238 | - | 707,238 |
| Total Payments | \$ 1,461,877 | \$ - | \$ 1,461,877 |
| Grants | | | |
| State | | | |
| Minnesota Department of Corrections | \$ 354,830 | \$ - | \$ 354,830 |
| Public Safety | 39,102 | - | 39,102 |
| Water and Soil Resources | 122,028 | - | 122,028 |
| Health | 232,830 | - | 232,830 |
| Natural Resources | 397,745 | - | 397,745 |
| Human Services | 4,251,724 | 18,169 | 4,269,893 |
| Employment and Economic Development | 6,668,598 | - | 6,668,598 |
| Veterans Affairs | 20,000 | - | 20,000 |
| Office of Environmental Assistance | 108,734 | - | 108,734 |
| Total State | \$ 12,195,591 | \$ 18,169 | \$ 12,213,760 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

**Schedule 8
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | Governmental Funds | Enterprise Fund | Total |
|--|-------------------------------|----------------------------|----------------------|
| Grants (Continued) | | | |
| Federal | | | |
| Department of | | | |
| Agriculture | \$ 928,716 | \$ - | \$ 928,716 |
| Interior | 361,037 | - | 361,037 |
| Justice | 478,720 | - | 478,720 |
| Transportation | 547,467 | - | 547,467 |
| Health and Human Services | 3,444,685 | - | 3,444,685 |
| Homeland Security | 157,262 | - | 157,262 |
| Total Federal | \$ 5,917,887 | \$ - | \$ 5,917,887 |
| Total State and Federal Grants | \$ 18,113,478 | \$ 18,169 | \$ 18,131,647 |
| Total Intergovernmental Revenue | \$ 35,793,841 | \$ 18,169 | \$ 35,812,010 |

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 9

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Itasca County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Itasca County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Itasca County were disclosed during the audit.
- D. Significant deficiencies relating to the audit of the major federal award programs are 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." None were material weaknesses.
- E. The Auditor's Report on Compliance for the major federal award programs for Itasca County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported by Section 510(a) of Office of Management and Budget (OMB) Circular A-133.
- G. The major programs are:

| | |
|--|--------------|
| State Administrative Matching Grants for the | |
| Supplement Nutrition Assistance Program | CFDA #10.561 |
| Payments in Lieu of Taxes | CFDA #15.226 |
| Community Oriented Policing Services | |
| Technology Grant | CFDA #16.710 |
| Child Support Enforcement Title IV-D | CFDA #93.563 |
| Social Services Block Grant Title XX | CFDA #93.667 |
| Medical Assistance Program | CFDA #93.778 |

H. The threshold for distinguishing between Types A and B programs was \$300,000.

I. Itasca County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Segregation of Duties

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

- Individuals who collect and receipt cash should not also:
 - post cash receipts to the general ledger system,
 - process cash disbursements,
 - maintain the general ledger,
 - make bank deposits,
 - reconcile the bank accounts,
 - make wire transfers,
 - make general journal entries, or
 - prepare billings.

At Itasca County, the same individuals who collect and receipt cash also make the bank deposits, and some individuals who can write receipts also have the capability to make journal entries, post to the general ledger, or reconcile the bank accounts. At the department level, there is a lack of segregation of duties between cash collection and billing functions.

We recommend the County segregate these functions as much as possible. If it is not possible to segregate these duties, Itasca County management should be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being performed by staff.

Client's Response:

I am aware of the problems relating to segregation of the cash receipt function in departments and have addressed these to the extent possible at this time.

06-2 Internal Control Over Budgeting

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

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

Itasca County's budget policy does not indicate which funds are required to be budgeted, the budgetary basis, or the legal level of control. During our current audit, we noted that the General Fund budgeted revenues which were approved by the County Board in the budget document as \$9,436,395 did not agree with the revenue budget reported in the Integrated Financial System (IFS) revenue guideline report as \$8,236,395. The \$1,200,000 difference was due to state aids which were reported twice in the budget document.

We recommend the County Board amend its budget policy to include the elements recommended above to provide better internal control over the budget process. We also recommend the County Auditor/Treasurer reconcile the budget document approved by the County Board to the budget entered into the IFS revenue guideline report. Any discrepancies should be resolved, and the budget should be amended, if necessary.

Client's Response:

Our budget policy will be reviewed and amendments proposed to the Board of Commissioners. The chief accountant will run reconciling reports after the budget has been entered in to IFS. The County Auditor will sign off on these reports.

06-3 Preparation of Financial Statements

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

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP.

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

Client's Response:

We have implemented step one of this process in 2009 which was to convert our IFS files to the State Auditor's trial balance format. We will work to provide a fully adjusted trial balance and financial statement to the 2010 year end.

06-4 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis.

Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

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

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

Client's Response:

I will address these issues in conjunction with the preparation of financial statements mentioned in my response to the previous issue. Further training will be contemplated for chief accountant in 2010.

06-5 Accounting Policies and Procedures Manual

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

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

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

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

Client's Response:

All Auditor/Treasurer staff members have completed an employee handbook which outlines their respective duties. The information contained in these handbooks will help us develop an accounting policies and procedures manual which should be available next year.

ITEM ARISING THIS YEAR

08-1 Physical Inventory of Capital Assets

A physical inventory of capital assets has not been done since the capital asset records were initially established in 2003.

A physical inventory will reveal assets that have been sold or disposed of, but not removed from the capital asset records, and assets that have been acquired, but not recorded in the capital asset records.

We recommend a physical inventory of capital assets be performed at least once every five years. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year. Some critical capital assets may need to be inventoried more frequently.

Client's Response:

A physical inventory will be taken in 2010.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

A. INTERNAL CONTROL

ITEMS ARISING THIS YEAR

08-2 CFDA #16.710 - Community Oriented Policing Services Technology Grant

Itasca County has acquired some radio equipment with federal Department of Justice Community Oriented Policing (COPS) Technology funds. The equipment is accounted for in the capital asset management system; however, the capital asset management system does not track whether a capital asset was purchased with federal funds. Also, as we noted in our previous audit, the contract entered into for the purchase of this radio equipment from Motorola for \$5,292,963 was entered into without bidding as required by Minn. Stat. § 471.345, subd. 3.

Section 32 of the Common Rule requires that property records must be maintained that include a description of the property; a serial number or other identification number; the source of property; who holds title; the acquisition date and cost of the property; percentage of federal participation in the property; and the location, use, and condition of the property and ultimate disposition data.

Section 36 of the Common Rule requires grantees and subgrantees to use their own procurement procedures which reflect applicable state and local laws and regulations for procurements utilizing federal funds. Minn. Stat. § 471.345, subd. 3, requires all contracts expected to exceed \$50,000 (prior to August 1, 2008) to be solicited by public notice and let on sealed bids.

Itasca County's capital asset records do not contain the information which tracks the source of funding for equipment acquired with federal funds. Itasca County purchased the radio equipment, which was partially funded by this federal grant, without bidding as required by Minn. Stat. § 471.345, subd. 3.

We recommend the Chief Accountant maintain a record of capital assets purchased with federal funds and the percentage of participation and the ultimate disposition of those assets. We also recommend the County follow the requirements of Minn. Stat. § 471.345, subd. 3, when procuring assets funded with federal funds.

Corrective Action Plan:

Contact Person:

Jeffrey T. Walker, Auditor/Treasurer

Corrective Action Planned:

The Chief Accountant will prepare a separate spreadsheet disclosing any asset purchased with the use of Federal monies. This spreadsheet will detail the asset, date of purchase, source of funds, and use of asset.

Anticipated Completion Date:

2010 purchases

08-3

CFDA #10.561 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, #93.563 - Title IV-D Child Support Enforcement, and #93.778 - Medical Assistance Program

During our audit, we tested the County's cost allocation plan which is used as the basis for the administrative aid received under these programs. We tested 40 disbursements charged under the cost allocation plan; 11 of the 40 vouchers we tested did not have the authorizing signature of a supervisor on them.

Approval of disbursements by a supervisor is an important internal control which is designed to prevent unauthorized disbursements.

We recommend all vouchers for payment show approval by the authorizing signature of an appropriate supervisor.

Corrective Action Plan:

Contact Person:

Eric Villeneuve

Corrective Action Planned:

An e-mail was sent on November 23, 2009, to all ICHHS Supervisors and Accounting staff that all vendor invoices need a proper signature from an authorizing supervisor. Accounting staff have been directed to obtain an authorizing signature on all invoices before payment is made on any invoices. Also attached in the e-mail was a link to the OSA website on good internal control for paying vendors.

Anticipated Completion Date:

Immediately - November 23, 2009

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-7 Broker Certifications

Minnesota Statutes § 118A.04, subd. 9, requires the County to annually obtain a certification from each broker with which the County invests in which the broker acknowledges it has received the County's investment restrictions and agrees to handle the County's account in accordance with the restrictions.

For 2008, Itasca County did not obtain broker certifications from any of its brokers.

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

Client's Response:

It may be necessary to refrain from using brokers as an investment option. I will make that determination this year.

07-1 Ratings on Pledged Collateral

Allowable forms of collateral under Minn. Stat. § 118A.03, subd. 2, include “general obligation securities of any state or local government with taxing powers that is rated “A” or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers that is rated “AA” or better by a national bond rating service.”

In our prior audit, we noted the County Auditor/Treasurer had accepted collateral which did not meet the rating requirements of Minn. Stat. § 118A.03, subd. 2. In the current audit, this continued to be the case. The First National Bank of Coleraine pledged \$125,000 of general obligation bonds from Eveleth, Minnesota, as collateral to Itasca County. These bonds were not rated and, therefore, did not meet the requirements of Minn. Stat. § 118A.03, subd. 2, as permissible collateral. Also, American Bank pledged \$535,000 of Itasca County revenue bonds (Blandin), which were rated A3, and First National Bank pledged \$50,000 of these same Itasca County revenue bonds. Revenue bonds must be rated AA or better, and the A3 rating is lower than AA; therefore, this collateral was also not permissible under the statutes.

We recommend the County Auditor/Treasurer accept only collateral that meets the requirements of Minn. Stat. § 118A.03, subd. 2.

Client's Response:

We will send a reminder letter to all institutions on our depository list as a reminder of our policy and state statutes.

07-3 Safekeeping of Investments

Minnesota Statutes § 118A.06 requires that all investments be held in safekeeping with:

- a federal reserve bank;
- any bank authorized under the laws of the United States or any state to exercise corporate trust powers, including, but not limited to, the bank from which the investment is purchased;
- a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- a securities broker-dealer having its principal executive office in Minnesota licensed under chapter 80A, or an affiliate of it, and regulated by the Securities and Exchange Commission.

Itasca County had on hand at December 31, 2008, negotiable certificates of deposit totaling \$195,061 purchased through United Planners, a brokerage firm headquartered in Arizona. The County had \$3,790,864 in negotiable certificates of deposit from Edward Jones, a brokerage firm headquartered in Missouri. Neither of these firms are primary reporting dealers nor do they have their principal executive offices in Minnesota. The certificates of deposit were purchased in book entry form and are tracked by the Depository Trust Corporation. However, for purposes of safekeeping custody, the securities are “held” by the party who controls their movement which, in this case, is the brokerage firm. Therefore, these investments are not being safekept in accordance with Minn. Stat. § 118A.06.

We recommend the County Auditor/Treasurer comply with the requirements of Minn. Stat. § 118A.06. Investments can be held only by brokerage firms that are primary reporting dealers or have their principal executive offices in Minnesota. If investments are purchased through these dealers, they must be held at a bank rather than at the brokerage firm.

Client’s Response:

We intend to review our policy on the use of brokerage firms.

ITEMS ARISING THIS YEAR

08-4 Collateral Assignments

Itasca County has deposits with Grand Rapids State Bank, Wells Fargo, and the First National Bank of Coleraine. These banks have pledged collateral to Itasca County to secure these deposits. Minnesota Statutes § 118A.03, subd. 4, requires the collateral assignments to be in writing.

The collateral pledge agreements which Itasca County has with these banks are not current. The most current pledge agreements on file are dated Grand Rapids State Bank (1998), First National Bank of Coleraine (2001), and Wells Fargo (2003). The Wells Fargo pledge agreement does not contain the language required by Minn. Stat. § 118A.03, subd. 4, that “upon default, the depository shall release the collateral pledged to the government entity on demand.”

Current collateral assignments are necessary to determine that the proper statutory language is included in the collateral assignments so that the County’s interests are properly protected. The collateral assignments should also be approved by the bank’s Board of Directors or loan committee in order to perfect the collateral.

We recommend that the Chief Accountant obtain new collateral assignments from each of these banks. The new assignments should be reviewed to make sure they include the statutory language required by Minn. Stat. § 118A.03, subd. 4, and are approved by the Bank’s Board of Directors or loan committee.

Client’s Response:

Itasca County will secure new collateral assignment agreements with all depositories.

08-5 Cash Held by Brokers

Itasca County held \$100,000 in a cash account with Edward Jones at December 31, 2008.

Minn. Stat. § 118A.01, subd. 3, defines what an acceptable depository is under Minnesota statutes. Broker-dealers are not authorized depositories under this statute.

We recommend that Itasca County does not hold cash with brokers, as they are not legal depositories of public funds under Minn. Stat. § 118A.01, subd. 3.

Client's Response:

We will continue to monitor these brokerage accounts more closely.

PREVIOUSLY REPORTED ITEMS RESOLVED

Collateral to Secure Deposits (05-3)

In 2007, the County had deposits at the First National Bank of Coleraine that were not adequately covered by collateral.

Resolution

In 2008, all deposits we tested were properly covered by insurance or collateral at year-end.

Money Market Mutual Fund (07-2)

Minn. Stat. § 118A.05, subd. 4, allows governments to invest in money market mutual funds rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization. Itasca County had \$6,024 invested in the Federated Capital Reserves Money Market Fund at December 31, 2007. This fund had not been rated; therefore, it is not a permissible investment for local governments under Minnesota statutes.

Resolution

The County has instructed the broker who uses this fund to disburse all interest and dividends monthly to the County. Therefore, the amount of funds now being held in this unrated fund is a small amount which is only held for a short period of time.

Bidding (07-4)

In 2007, Itasca County entered into a contract which exceeded \$50,000 without bidding as required by Minn. Stat. § 471.345, subd. 3. This statute required all contracts expected to exceed \$50,000 to be solicited by public notice and let on sealed bids.

Resolution

During our current audit, we noted no contracts which should have been bid out, but were not.

Publication of Summary Budget (07-5)

Itasca County did not publish a summary budget for 2007 as required by Minn. Stat. § 375.169. This statute requires a summary budget to be published annually, upon adoption, in a form prescribed by the State Auditor, in the County's official newspaper.

Resolution

The 2008 and 2009 summary budgets were published together in April 2009.



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

Board of County Commissioners
Itasca County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of and for the year ended December 31, 2008, and have issued our report thereon dated December 4, 2009. The financial statements include the Nursing Home Enterprise Fund as of and for the year ended September 30, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Itasca Medical Care Enterprise Fund, as described in our report on Itasca County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-5, 06-2 through 06-5, and 08-1 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Itasca County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 06-7, 07-1, 07-3, 08-4, and 08-5.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 4, 2009

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

Board of County Commissioners
Itasca County

Compliance

We have audited the compliance of Itasca County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Itasca County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Itasca County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

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

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

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-2 and 08-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Itasca County's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 4, 2009. We did not audit the financial statements of the Itasca Medical Care Enterprise Fund, which were audited by other auditors. Our audit was performed for the purpose of forming opinions on the 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.

Itasca County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 4, 2009

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**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Pass-Through Grant Number | Expenditures | Passed Through to Subrecipients |
|---|------------------------------------|--|---------------------|--|
| U.S. Department of Agriculture | | | | |
| Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | | \$ 232,125 | \$ - |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | | 290,346 | - |
| Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance | 10.664 | | 99,660 | - |
| Passed Through Minnesota Department of Finance National Forest Lands Roads/Schools - 25% Payments to States | 10.665 | | 321,015 | - |
| | | | \$ 943,146 | \$ - |
| Total U.S. Department of Agriculture | | | | |
| U.S. Department of the Interior | | | | |
| Direct | | | | |
| Payments in Lieu of Taxes | 15.226 | | \$ 361,037 | \$ - |
| U.S. Department of Justice | | | | |
| Passed Through Minnesota Department of Public Safety Violence Against Women Formula Grant | 16.588 | | \$ 100,194 | \$ 100,194 |
| Direct | | | | |
| Supervised Visitation, Safe Havens for Children | 16.527 | | 167,894 | 167,894 |
| Grants to Encourage Arrest Policies | 16.590 | | 194,073 | 70,847 |
| Community Oriented Policing Services Technology Grant | 16.710 | | 374,120 | - |
| Transitional Housing Assistance | 16.736 | | 55,293 | 55,293 |
| | | | \$ 891,574 | \$ 394,228 |
| Total U.S. Department of Justice | | | | |
| U.S. Department of Transportation | | | | |
| Passed Through Minnesota Department of Transportation | | | | |
| Highway Planning and Construction | 20.205 | 031-661-007 | \$ 357,738 | \$ - |
| Recreational Trails Program | 20.219 | 031-090-005 | 218,942 | - |
| Passed Through Minnesota Department of Natural Resources Recreational Trails Program | 20.219 | 0005-07-2a 0004-07-2s | 76,878 | - |
| | | | \$ 653,558 | \$ - |
| Total U.S. Department of Transportation | | | | |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 10
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Pass-Through Grant Number | Expenditures | Passed Through to Subrecipients |
|--|------------------------------------|--|---------------------|--|
| U.S. Department of Health and Human Services | | | | |
| Passed Through Aitkin-Itasca-Koochiching Community Health Services Board | | | | |
| Immunization Grants | 93.268 | | \$ 1,000 | \$ - |
| Disease Control and Prevention Investigation | 93.283 | | 77,734 | - |
| Maternal and Child Health Services Block Grant | 93.994 | | 64,824 | - |
| Passed Through Minnesota Department of Human Services | | | | |
| Promoting Safe and Stable Families | 93.556 | | 30,569 | - |
| Temporary Assistance for Needy Families (TANF) | 93.558 | | 551,173 | - |
| Child Support Enforcement Title IV-D | 93.563 | | 933,533 | - |
| Refugee and Entrant Assistance | 93.566 | | 762 | - |
| Child Care Cluster | | | | |
| Child Care Development Block Grant | 93.575 | | 24,248 | - |
| Child Care Mandatory and Matching Funds | 93.596 | | 5,921 | - |
| Children's Justice Grants to States | 93.643 | | 128,826 | - |
| Foster Care Title IV-E | 93.658 | | 68,356 | - |
| Social Services Block Grant Title XX | 93.667 | | 323,399 | - |
| Chafee Foster Care Independence Program | 93.674 | | 10,185 | - |
| State Children's Insurance Program | 93.767 | | 1,145 | - |
| Medical Assistance Program | 93.778 | | 1,193,491 | - |
| Community Mental Health Services Block Grant | 93.958 | | 53,743 | - |
| Passed Through Minnesota Department of Health | | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | | 67,715 | - |
| Total U.S. Department of Health and Human Services | | | \$ 3,536,624 | \$ - |
| U.S. Department of Homeland Security | | | | |
| Passed Through Minnesota Department of Natural Resources | | | | |
| Boating Safety Financial Assistance | 97.012 | | \$ 78,556 | \$ - |
| Passed Through Minnesota Department of Public Safety | | | | |
| Emergency Management Performance Grant | 97.042 | | 28,706 | - |
| Homeland Security Grant Program | 97.067 | | 50,000 | - |
| Total U.S. Department of Homeland Security | | | \$ 157,262 | \$ - |
| Total Federal Awards | | | \$ 6,543,201 | \$ 394,228 |

**ITASCA COUNTY
GRAND RAPIDS, MINNESOTA**

Schedule 10
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Itasca County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule do not equal federal revenues reported in the financial statements. In 2008, \$625,314 of current year federal expenditures were not received within the period of availability and were therefore not recognized in federal revenues in 2008.
3. Pass-through grant numbers are presented for grants for which they have been assigned.