

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**ITASCA COUNTY**  
**GRAND RAPIDS, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 2009

## **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, 2009**



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

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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GRAND RAPIDS, MINNESOTA**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2009

			Term Expires
<b>Elected</b>			
Commissioner	Lori Dowling	District 1	January 2011
Commissioner	Catherine McLynn	District 2	January 2013
Commissioner	Karen Burthwick*	District 3	January 2011
Commissioner	Russell Eichorn	District 4	January 2013
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
<b>Appointed</b>			
Assessor	Brian Connors		December 31, 2012
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
<b>Health and Human Services Board</b>			
Chair	Russell Eichorn		January 2013
Vice Chair	Catherine McLynn		January 2013
Member	Lori Dowling		January 2011
Member	Mark Mandich		January 2011
Member	Karen Burthwick		January 2011
Director	Lester Kachinske		Indefinite

\*Chair 2009

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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, 2009, including the Nursing Home Enterprise Fund as of and for the year ended September 30, 2009, 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 48 percent, 43 percent, and 80 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, 2009, including the Nursing Home Enterprise Fund at September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Itasca County's basic financial statements. The supplementary information 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 September 29, 2010, 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

September 29, 2010

*/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, 2009  
(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, 2009. 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 \$210,397,917, of which \$160,295,494 is invested in capital assets, net of related debt, and \$16,395,987 is restricted to specific purposes.
- Business-type activities have total net assets of \$12,426,463. Invested in capital assets, net of related debt, represents \$3,538,091 of the total.
- Itasca County's net assets increased by \$23,841,085 for the year ended December 31, 2009. Of the increase, \$23,690,175 was in the governmental activities' net assets, and \$150,910 represented the increase in business-type activities' net assets.
- The net cost of governmental activities was \$10,541,821 for the current fiscal year. The net cost was funded by general revenues and contributions totaling \$34,231,996.
- Governmental funds' fund balances decreased by \$9,686,311.

**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)**

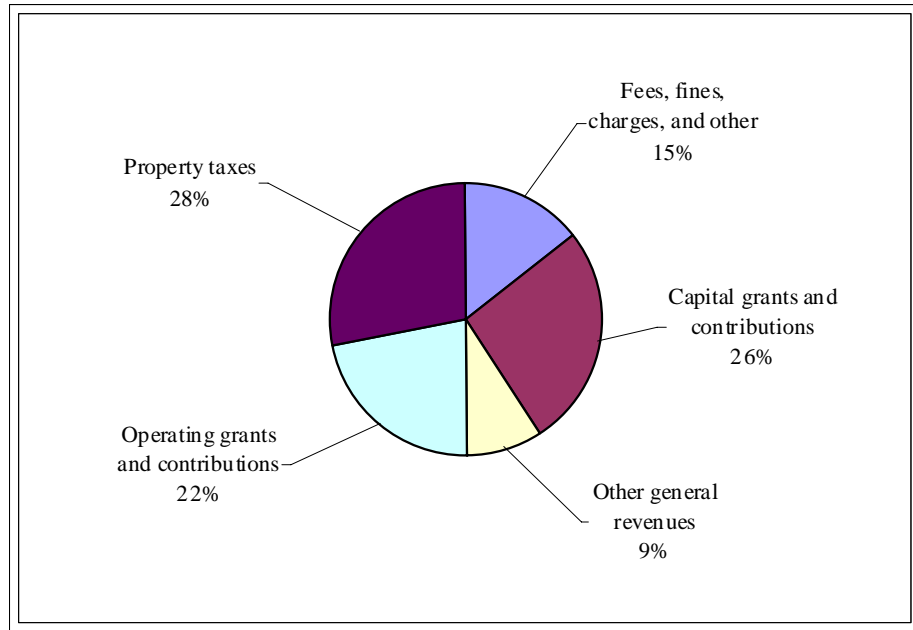
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 68.3	\$ 81.0	\$ 15.4	\$ 14.1	\$ 83.7	\$ 95.1
Capital assets	174.8	148.4	8.2	8.6	183.0	157.0
Total Assets	\$ 243.1	\$ 229.4	\$ 23.6	\$ 22.7	\$ 266.7	\$ 252.1
Long-term debt outstanding	\$ 24.7	\$ 30.3	\$ 4.4	\$ 4.7	\$ 29.1	\$ 35.0
Other liabilities	8.0	12.4	6.8	5.7	14.8	18.1
Total Liabilities	\$ 32.7	\$ 42.7	\$ 11.2	\$ 10.4	\$ 43.9	\$ 53.1
Net Assets						
Invested in capital assets, net of debt	\$ 160.3	\$ 127.1	\$ 3.5	\$ 3.7	\$ 163.8	\$ 130.8
Restricted	16.4	19.9	-	-	16.4	19.9
Unrestricted	33.7	39.7	8.9	8.6	42.6	48.3
Total Net Assets	\$ 210.4	\$ 186.7	\$ 12.4	\$ 12.3	\$ 222.8	\$ 199.0

**Table 2**  
**Changes in Net Assets**  
**(in Millions)**

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues						
Fees, fines, charges, and other	\$ 12.9	\$ 16.0	\$ 52.8	\$ 47.9	\$ 65.7	\$ 63.9
Operating grants and contributions	19.4	16.3	-	-	19.4	16.3
Capital grants and contributions	23.2	12.1	-	-	23.2	12.1
General revenues						
Property taxes	25.0	23.3	-	-	25.0	23.3
Other taxes	1.5	1.1	-	-	1.5	1.1
Other general revenues	7.7	10.4	-	0.2	7.7	10.6
Total Revenues	\$ 89.7	\$ 79.2	\$ 52.8	\$ 48.1	\$ 142.5	\$ 127.3

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Expenses						
General government	\$ 12.9	\$ 10.6	\$ -	\$ -	\$ 12.9	\$ 10.6
Public safety	11.9	10.8	-	-	11.9	10.8
Culture and recreation	1.3	1.1	-	-	1.3	1.1
Highways and streets	14.3	13.3	-	-	14.3	13.3
Human services	16.4	17.3	-	-	16.4	17.3
Health	1.6	1.5	-	-	1.6	1.5
Sanitation	1.8	2.1	-	-	1.8	2.1
Conservation of natural resources	2.9	3.7	-	-	2.9	3.7
Economic development	2.3	6.0	-	-	2.3	6.0
Interest	0.6	0.6	-	-	0.6	0.6
Nursing Home	-	-	9.8	9.5	9.8	9.5
Itasca Resource Center	-	-	0.7	0.6	0.7	0.6
Itasca Medical Care	-	-	42.2	37.5	42.2	37.5
<b>Total Expenses</b>	<b>\$ 66.0</b>	<b>\$ 67.0</b>	<b>\$ 52.7</b>	<b>\$ 47.6</b>	<b>\$ 118.7</b>	<b>\$ 114.6</b>
Income (Loss) Before Transfers	\$ 23.7	\$ 12.2	\$ 0.1	\$ 0.5	\$ 23.8	\$ 12.7
Transfers in (out)	-	0.3	-	(0.3)	-	-
Increase (Decrease) in Net Assets	\$ 23.7	\$ 12.5	\$ 0.1	\$ 0.2	\$ 23.8	\$ 12.7
Net Assets - January 1	186.7	174.2	12.3	12.1	199.0	186.3
Net Assets - December 31	<b>\$ 210.4</b>	<b>\$ 186.7</b>	<b>\$ 12.4</b>	<b>\$ 12.3</b>	<b>\$ 222.8</b>	<b>\$ 199.0</b>

**Total County Revenues by Source**



## Governmental Activities

The cost of all governmental activities this year was \$66.0 million. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$10.5 million because some of the cost was paid by those who directly benefited from the programs (\$12.9 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$42.6 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	
	2009	2008	2009	2008
Human services	\$ 16.4	\$ 17.3	\$ 7.9	\$ 8.0
Highways and streets	14.4	13.3	3.5	3.8
General government	12.9	10.6	10.6	8.5
Public safety	11.9	10.8	9.3	7.5
Economic development		6.0		0.4
Conservation of natural resources	2.9		(4.5)	
All others	7.5	9.0	(16.3)	(5.6)
Totals	<u>\$ 66.0</u>	<u>\$ 67.0</u>	<u>\$ 10.5</u>	<u>\$ 22.6</u>

## Business-Type Activities

Revenues of the County's business-type activities increased by 10.2 percent, and expenses increased by 10.6 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 \$50.7 million, which is below last year's total of \$60.3 million. Included in this year's total fund balance is a surplus of \$12.2 million in the County's General Fund. The governmental funds' fund balances decreased by 15.9 percent over last year.

## General Fund Budgetary Highlights

The actual charges to appropriations (expenditures) for the County's General Fund budget were \$0.5 million below the final budget amounts. The most significant positive variance (\$0.1 million) occurred in County assessor. The most significant negative variance was in the culture and recreation category (\$0.5 million).

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2009, the County had \$182.9 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 \$25.9 million, or 17.5 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 1.1	\$ 1.1	\$ 0.4	\$ 0.3	\$ 1.5	\$ 1.4
Construction in progress	23.7	10.4	-	-	23.7	10.4
Buildings and improvements	23.1	16.8	7.3	7.8	30.4	24.6
Machinery, furniture, and equipment	11.8	12.0	0.5	0.5	12.3	12.5
Infrastructure	115.0	108.1	-	-	115.0	108.1
Totals	<u>\$ 174.7</u>	<u>\$ 148.4</u>	<u>\$ 8.2</u>	<u>\$ 8.6</u>	<u>\$ 182.9</u>	<u>\$ 157.0</u>

### Debt

At year-end, the County had \$19.0 million in bonds and notes outstanding, versus \$27.4 million last year--a decrease of 30.3 percent--as shown in Table 5. This significant decrease is from the defeasement of \$7.7 million in bonds.

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

	Governmental Activities		Business-Type Activities		Totals	
	2009	2008	2009	2008	2009	2008
General obligation bonds and notes (backed by the County)	\$ 14.4	\$ 22.5	\$ 0.6	\$ 0.8	\$ 15.0	\$ 23.3
Revenue bonds	-	-	4.0	4.1	4.0	4.1
Totals	<u>\$ 14.4</u>	<u>\$ 22.5</u>	<u>\$ 4.6</u>	<u>\$ 4.9</u>	<u>\$ 19.0</u>	<u>\$ 27.4</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 \$150 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 2010 budget, tax rates, and fees that will be charged for the business-type activities.

- County expenditures for 2010 are budgeted to decrease 2.03 percent over 2009.
- Property taxes levied have increased 4.67 percent for 2010.

## **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, 2009**

	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 53,412,511	\$ 10,715,644	\$ 64,128,155
Receivable - net	13,080,038	4,054,006	17,134,044
Internal balances	(35,211)	35,211	-
Inventories	1,765,185	40,710	1,805,895
Prepaid items	-	82,142	82,142
Restricted assets			
Cash and pooled investments	-	327,233	327,233
Resident trust funds	-	15,795	15,795
Excess other postemployment benefits contributions	-	60,244	60,244
Deferred charges	69,185	103,388	172,573
Capital assets			
Nondepreciable capital assets	24,817,957	362,736	25,180,693
Depreciable capital assets - net of accumulated depreciation	149,947,671	7,839,936	157,787,607
<b>Total Assets</b>	<b>\$ 243,057,336</b>	<b>\$ 23,637,045</b>	<b>\$ 266,694,381</b>
<b><u>Liabilities</u></b>			
Accounts payable and other current liabilities	\$ 6,584,994	\$ 6,454,326	\$ 13,039,320
Accrued interest payable	230,280	44,814	275,094
Due to residents	-	15,795	15,795
Long-term liabilities			
Due within one year	1,177,863	280,000	1,457,863
Due in more than one year	24,666,282	4,415,647	29,081,929
<b>Total Liabilities</b>	<b>\$ 32,659,419</b>	<b>\$ 11,210,582</b>	<b>\$ 43,870,001</b>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	\$ 160,295,494	\$ 3,538,091	\$ 163,833,585
Restricted for			
General government	819,927	-	819,927
Public safety	822,766	-	822,766
Highways and streets	158,565	-	158,565
Debt service	574,875	-	574,875
Conservation of natural resources	3,724,030	-	3,724,030
Environmental uses - expendable	574,032	-	574,032
Environmental uses - nonexpendable	9,721,792	-	9,721,792
Unrestricted	33,706,436	8,888,372	42,594,808
<b>Total Net Assets</b>	<b>\$ 210,397,917</b>	<b>\$ 12,426,463</b>	<b>\$ 222,824,380</b>

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<u>Functions/Programs</u>	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 12,875,912	\$ 1,587,401
Public safety	11,889,300	764,522
Highways and streets	14,361,623	1,612,216
Sanitation	1,828,980	524,773
Human services	16,392,402	711,606
Health	1,618,138	749,863
Culture and recreation	1,270,844	69,083
Conservation of natural resources	2,885,388	6,833,865
Economic development	2,283,231	-
Interest	614,041	-
<b>Total governmental activities</b>	<b>\$ 66,019,859</b>	<b>\$ 12,853,329</b>
<b>Business-type activities</b>		
Nursing Home	\$ 9,798,167	\$ 10,124,637
Itasca Resource Center	672,440	434,622
Itasca Medical Care	42,211,097	42,211,097
<b>Total business-type activities</b>	<b>\$ 52,681,704</b>	<b>\$ 52,770,356</b>
<b>Total</b>	<b>\$ 118,701,563</b>	<b>\$ 65,623,685</b>

**General Revenues**

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

**Total general revenues**

**Change in net assets**

**Net Assets - Beginning**

**Net Assets - Ending**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ 677,682	\$ -	\$ (10,610,829)	\$ -	\$ (10,610,829)
1,847,095	8,555	(9,269,128)	-	(9,269,128)
7,716,327	1,533,696	(3,499,384)	-	(3,499,384)
109,002	963,866	(231,339)	-	(231,339)
7,825,424	-	(7,855,372)	-	(7,855,372)
580,702	-	(287,573)	-	(287,573)
169,795	227,092	(804,874)	-	(804,874)
511,472	-	4,459,949	-	4,459,949
-	20,454,001	18,170,770	-	18,170,770
-	-	(614,041)	-	(614,041)
<b>\$ 19,437,499</b>	<b>\$ 23,187,210</b>	<b>\$ (10,541,821)</b>	<b>\$ -</b>	<b>\$ (10,541,821)</b>
\$ -	\$ -	\$ -	\$ 326,470	\$ 326,470
-	-	-	(237,818)	(237,818)
-	-	-	-	-
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 88,652</b>	<b>\$ 88,652</b>
<b>\$ 19,437,499</b>	<b>\$ 23,187,210</b>	<b>\$ (10,541,821)</b>	<b>\$ 88,652</b>	<b>\$ (10,453,169)</b>
		\$ 25,021,312	\$ -	\$ 25,021,312
		807,417	-	807,417
		741,287	-	741,287
		5,588,218	-	5,588,218
		-	11,792	11,792
		1,409,252	50,466	1,459,718
		766,889	-	766,889
		(102,379)	-	(102,379)
		<b>\$ 34,231,996</b>	<b>\$ 62,258</b>	<b>\$ 34,294,254</b>
		\$ 23,690,175	\$ 150,910	\$ 23,841,085
		<b>186,707,742</b>	<b>12,275,553</b>	<b>198,983,295</b>
		<b>\$ 210,397,917</b>	<b>\$ 12,426,463</b>	<b>\$ 222,824,380</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2009**

	<b>General</b>	<b>Road and Bridge</b>	<b>Health and Human Services</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 11,373,126	\$ 5,948,079	\$ 6,293,558
Petty cash and change funds	9,470	50	350
Undistributed cash in agency funds	483,257	344,346	485,790
Taxes receivable - prior	340,623	298,799	325,584
Special assessments receivable - prior	-	-	-
Accounts receivable	97,846	7,045	33,914
Accrued interest receivable	163,009	-	-
Due from other funds	655,952	501,566	8,333
Due from other governments	931,957	1,665,810	1,300,259
Loans receivable	188,721	-	-
Inventories	3,546	1,761,639	-
	<b>\$ 14,247,507</b>	<b>\$ 10,527,334</b>	<b>\$ 8,447,788</b>
<b>Total Assets</b>	<b>\$ 14,247,507</b>	<b>\$ 10,527,334</b>	<b>\$ 8,447,788</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 310,301	\$ 176,580	\$ 691,479
Salaries payable	707,610	354,949	423,575
Escheat property payable	9,142	-	-
Contracts payable	-	219,019	-
Due to other funds	9,554	-	174,043
Due to other governments	102,787	2,674	942,115
Deferred revenue - unavailable	926,602	1,218,958	676,827
	<b>\$ 2,065,996</b>	<b>\$ 1,972,180</b>	<b>\$ 2,908,039</b>
<b>Total Liabilities</b>	<b>\$ 2,065,996</b>	<b>\$ 1,972,180</b>	<b>\$ 2,908,039</b>
<b>Fund Balances</b>			
Reserved for			
Inventories	\$ 3,546	\$ 1,761,639	\$ -
Recorder's equipment purchases	-	-	-
Recorder's compliance fund	-	-	-
Enhanced 911	709,965	-	-
Permit to carry gun fees	112,801	-	-
Land replacement	-	-	-
Environmental improvements	-	-	-
Unreserved, undesignated	11,355,199	6,793,515	5,539,749
Unreserved, reported in nonmajor			
Special revenue funds	-	-	-
Debt service fund	-	-	-
	<b>\$ 12,181,511</b>	<b>\$ 8,555,154</b>	<b>\$ 5,539,749</b>
<b>Total Fund Balances</b>	<b>\$ 12,181,511</b>	<b>\$ 8,555,154</b>	<b>\$ 5,539,749</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 14,247,507</b>	<b>\$ 10,527,334</b>	<b>\$ 8,447,788</b>

**EXHIBIT 3**

<u>Forfeited Tax</u>	<u>Capital Projects</u>	<u>Environmental Permanent</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 6,643,272	\$ 1,557,265	\$ 10,296,393	\$ 6,552,523	\$ 48,664,216
-	-	-	325	10,195
-	-	-	114,953	1,428,346
-	-	-	85,144	1,050,150
-	-	-	142,795	142,795
5,055,633	8,391	-	104,324	5,307,153
-	-	-	-	163,009
-	-	-	1,770,964	2,936,815
-	2,161,295	-	69,872	6,129,193
-	77,000	-	-	265,721
-	-	-	-	1,765,185
<b><u>\$ 11,698,905</u></b>	<b><u>\$ 3,803,951</u></b>	<b><u>\$ 10,296,393</u></b>	<b><u>\$ 8,840,900</u></b>	<b><u>\$ 67,862,778</u></b>
\$ -	\$ 1,358,308	\$ 569	\$ 126,221	\$ 2,663,458
-	-	-	70,261	1,556,395
-	-	-	-	9,142
-	328,194	-	-	547,213
2,278,023	10,061	-	500,345	2,972,026
648,844	12,752	-	780	1,709,952
4,497,430	205,412	-	227,939	7,753,168
<b><u>\$ 7,424,297</u></b>	<b><u>\$ 1,914,727</u></b>	<b><u>\$ 569</u></b>	<b><u>\$ 925,546</u></b>	<b><u>\$ 17,211,354</u></b>
\$ -	\$ -	\$ -	\$ -	\$ 1,765,185
-	446,462	-	-	446,462
-	373,465	-	-	373,465
-	-	-	-	709,965
-	-	-	-	112,801
3,724,030	-	-	-	3,724,030
-	-	10,295,824	-	10,295,824
550,578	1,069,297	-	-	25,308,338
-	-	-	7,340,479	7,340,479
-	-	-	574,875	574,875
<b><u>\$ 4,274,608</u></b>	<b><u>\$ 1,889,224</u></b>	<b><u>\$ 10,295,824</u></b>	<b><u>\$ 7,915,354</u></b>	<b><u>\$ 50,651,424</u></b>
<b><u>\$ 11,698,905</u></b>	<b><u>\$ 3,803,951</u></b>	<b><u>\$ 10,296,393</u></b>	<b><u>\$ 8,840,900</u></b>	<b><u>\$ 67,862,778</u></b>

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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, 2009**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$ 50,651,424</b>
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.		174,765,628
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.		7,678,153
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		2,470,940
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	\$ (13,750,000)	
Bond discount	49,237	
Capital lease	(720,134)	
Compensated absences	(6,582,540)	
Net other postemployment benefits liability	(4,003,696)	
Accrued interest payable	(230,280)	
Deferred debt issuance charges	69,185	
	(25,168,228)	(25,168,228)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b>\$ 210,397,917</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Road and Bridge</u>	<u>Health and Human Services</u>
<b>Revenues</b>			
Taxes	\$ 8,905,494	\$ 7,122,544	\$ 7,951,669
Special assessments	-	-	-
Licenses and permits	97,481	-	-
Intergovernmental	6,125,964	11,436,432	9,836,044
Charges for services	1,061,221	1,071,750	1,008,192
Fines and forfeits	52,918	-	-
Gifts and contributions	14,469	-	-
Investment earnings	1,014,612	-	-
Miscellaneous	827,464	514,887	456,541
<b>Total Revenues</b>	<b>\$ 18,099,623</b>	<b>\$ 20,145,613</b>	<b>\$ 19,252,446</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 7,306,691	\$ -	\$ -
Public safety	9,063,682	-	-
Highways and streets	-	20,123,171	-
Sanitation	48,715	-	-
Human services	-	-	15,685,204
Health	-	-	1,643,916
Culture and recreation	555,349	-	-
Conservation of natural resources	223,117	-	-
Economic development	115,162	-	-
<b>Debt service</b>			
Principal	-	190,595	-
Interest	-	27,251	-
Administrative (fiscal) charges	-	-	-
Bond defeasance charges	-	-	-
<b>Total Expenditures</b>	<b>\$ 17,312,716</b>	<b>\$ 20,341,017</b>	<b>\$ 17,329,120</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 786,907</b>	<b>\$ (195,404)</b>	<b>\$ 1,923,326</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 607,059	\$ -	\$ 5,355
Transfers out	(1,554,189)	(50,000)	-
Capital lease/installment purchase	-	458,961	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (947,130)</b>	<b>\$ 408,961</b>	<b>\$ 5,355</b>
<b>Net Change in Fund Balance</b>	<b>\$ (160,223)</b>	<b>\$ 213,557</b>	<b>\$ 1,928,681</b>
<b>Fund Balance - January 1</b>	<b>12,343,965</b>	<b>8,015,663</b>	<b>3,611,068</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>(2,231)</b>	<b>325,934</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 12,181,511</b>	<b>\$ 8,555,154</b>	<b>\$ 5,539,749</b>

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



**EXHIBIT 5**

<u>Forfeited Tax</u>	<u>Capital Projects</u>	<u>Environmental Permanent</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 1,602,569	\$ 25,582,276
-	-	-	945,227	945,227
-	-	-	420	97,901
-	20,980,660	-	670,284	49,049,384
-	208,660	-	533,927	3,883,750
-	-	-	-	52,918
-	-	-	-	14,469
-	-	347,438	5,355	1,367,405
5,042,811	129,012	-	584,258	7,554,973
<b>\$ 5,042,811</b>	<b>\$ 21,318,332</b>	<b>\$ 347,438</b>	<b>\$ 4,342,040</b>	<b>\$ 88,548,303</b>
\$ 3,942,860	\$ 366,765	\$ -	\$ 643,339	\$ 12,259,655
-	432,237	-	637,073	10,132,992
-	1,361,977	-	1,676,633	23,161,781
-	100,676	-	1,559,905	1,709,296
-	-	-	-	15,685,204
-	-	-	-	1,643,916
-	-	-	658,314	1,213,663
1,337,038	-	327,127	853,271	2,740,553
-	20,445,601	-	-	20,560,763
-	7,370,000	-	995,000	8,555,595
-	-	-	695,321	722,572
-	-	-	1,288	1,288
-	630,000	-	-	630,000
<b>\$ 5,279,898</b>	<b>\$ 30,707,256</b>	<b>\$ 327,127</b>	<b>\$ 7,720,144</b>	<b>\$ 99,017,278</b>
<b>\$ (237,087)</b>	<b>\$ (9,388,924)</b>	<b>\$ 20,311</b>	<b>\$ (3,378,104)</b>	<b>\$ (10,468,975)</b>
\$ -	\$ -	\$ -	\$ 2,385,452	\$ 2,997,866
(1,162,082)	-	(161,425)	(70,170)	(2,997,866)
-	-	-	-	458,961
<b>\$ (1,162,082)</b>	<b>\$ -</b>	<b>\$ (161,425)</b>	<b>\$ 2,315,282</b>	<b>\$ 458,961</b>
\$ (1,399,169)	\$ (9,388,924)	\$ (141,114)	\$ (1,062,822)	\$ (10,010,014)
5,673,777	11,278,148	10,436,938	8,978,176	60,337,735
-	-	-	-	323,703
<b>\$ 4,274,608</b>	<b>\$ 1,889,224</b>	<b>\$ 10,295,824</b>	<b>\$ 7,915,354</b>	<b>\$ 50,651,424</b>

**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, 2009**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (10,010,014)**

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. 1,340,891

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	\$ 32,905,688	
Current year depreciation	<u>(5,237,175)</u>	27,668,513

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. (1,295,409)

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.

Capital lease		(458,961)
Principal repayment		
General obligation bonds	\$ 8,365,000	
Capital lease	<u>190,595</u>	8,555,595

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	\$ 118,875	
Amortization of deferred issuance costs	(5,288)	
Amortization of bond discount	(3,768)	
Change in compensated absences	(470,102)	
Change in net other postemployment benefits liability	(1,979,025)	
Change in inventories	<u>323,703</u>	(2,015,605)

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>(94,835)</u>
---	--	-----------------

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 23,690,175**

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, 2009**

	<b>Business-Type Activities - Enterprise Funds</b>				<b>Governmental Activities Internal Service Fund</b>
	<b>Nursing Home</b>	<b>Itasca Medical Care</b>	<b>Itasca Resource Center (Nonmajor)</b>	<b>Totals</b>	
<b>Assets</b>					
<b>Current assets</b>					
Cash and pooled investments	\$ 1,351,950	\$ 8,480,287	\$ 881,847	\$ 10,714,084	\$ 3,309,754
Petty cash and change funds	1,560	-	-	1,560	-
Accounts receivable - net	1,243,502	2,810,406	98	4,054,006	19,832
Accrued interest receivable	-	-	-	-	2,185
Due from other funds	-	-	35,211	35,211	-
Inventories	40,710	-	-	40,710	-
Prepaid items	82,142	-	-	82,142	-
<b>Total current assets</b>	<b>\$ 2,719,864</b>	<b>\$ 11,290,693</b>	<b>\$ 917,156</b>	<b>\$ 14,927,713</b>	<b>\$ 3,331,771</b>
<b>Restricted assets</b>					
Cash and pooled investments	\$ 327,233	\$ -	\$ -	\$ 327,233	\$ -
Resident trust funds	15,795	-	-	15,795	-
<b>Total restricted assets</b>	<b>\$ 343,028</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 343,028</b>	<b>\$ -</b>
<b>Noncurrent assets</b>					
Excess other postemployment benefits contributions	\$ 60,244	\$ -	\$ -	\$ 60,244	\$ -
Deferred debt issuance costs	103,388	-	-	103,388	-
Capital assets					
Nondepreciable	105,936	-	256,800	362,736	-
Depreciable - net	7,132,481	-	707,455	7,839,936	-
<b>Total noncurrent assets</b>	<b>\$ 7,402,049</b>	<b>\$ -</b>	<b>\$ 964,255</b>	<b>\$ 8,366,304</b>	<b>\$ -</b>
<b>Total Assets</b>	<b>\$ 10,464,941</b>	<b>\$ 11,290,693</b>	<b>\$ 1,881,411</b>	<b>\$ 23,637,045</b>	<b>\$ 3,331,771</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 7  
(Continued)**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2009**

	<b>Business-Type Activities - Enterprise Funds</b>				<b>Governmental Activities Internal Service Fund</b>
	<b>Nursing Home</b>	<b>Itasca Medical Care</b>	<b>Itasca Resource Center (Nonmajor)</b>	<b>Totals</b>	
<b>Liabilities</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 204,994	\$ 628,861	\$ 905	\$ 834,760	\$ 55
Salaries payable	145,639	226,320	-	371,959	5,148
Compensated absences payable - current	162,254	-	-	162,254	-
Claims and judgments payable - current	-	5,085,353	-	5,085,353	-
Due to other governments	-	-	-	-	18,616
Accrued interest payable	44,814	-	-	44,814	-
General obligation bonds payable - current	195,000	-	-	195,000	-
Revenue bonds payable - current	85,000	-	-	85,000	-
<b>Total current liabilities</b>	<b>\$ 837,701</b>	<b>\$ 5,940,534</b>	<b>\$ 905</b>	<b>\$ 6,779,140</b>	<b>\$ 23,819</b>
<b>Current liabilities payable from restricted assets</b>					
Due to residents	\$ 15,795	\$ -	\$ -	\$ 15,795	\$ -
<b>Noncurrent liabilities</b>					
Claims and judgments payable	\$ -	\$ -	\$ -	\$ -	\$ 837,012
General obligation bonds payable	414,581	-	-	414,581	-
Provider settlements	-	31,066	-	31,066	-
Revenue bonds payable	3,970,000	-	-	3,970,000	-
<b>Total noncurrent liabilities</b>	<b>\$ 4,384,581</b>	<b>\$ 31,066</b>	<b>\$ -</b>	<b>\$ 4,415,647</b>	<b>\$ 837,012</b>
<b>Total Liabilities</b>	<b>\$ 5,238,077</b>	<b>\$ 5,971,600</b>	<b>\$ 905</b>	<b>\$ 11,210,582</b>	<b>\$ 860,831</b>
<b>Net Assets</b>					
Invested in capital assets - net of related debt	\$ 2,573,836	\$ -	\$ 964,255	\$ 3,538,091	\$ -
Unrestricted	2,653,028	5,319,093	916,251	8,888,372	2,470,940
<b>Total Net Assets</b>	<b>\$ 5,226,864</b>	<b>\$ 5,319,093</b>	<b>\$ 1,880,506</b>	<b>\$ 12,426,463</b>	<b>\$ 2,470,940</b>

**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, 2009**

	<b>Business-Type Activities - Enterprise Funds</b>				<b>Governmental Activities</b>
	<b>Nursing Home</b>	<b>Itasca Medical Care</b>	<b>Itasca Resource Center (Nonmajor)</b>	<b>Totals</b>	<b>Internal Service Fund</b>
<b>Operating Revenues</b>					
Charges for services	\$ -	\$ -	\$ 434,622	\$ 434,622	\$ -
Patient services	8,243,144	-	-	8,243,144	-
Insurance dividends	-	-	-	-	184,817
Miscellaneous	1,881,493	525,107	-	2,406,600	483,630
Capitation revenue	-	41,685,990	-	41,685,990	-
<b>Total Operating Revenues</b>	<b>\$ 10,124,637</b>	<b>\$ 42,211,097</b>	<b>\$ 434,622</b>	<b>\$ 52,770,356</b>	<b>\$ 668,447</b>
<b>Operating Expenses</b>					
Capitation expense	\$ -	\$ 633,796	\$ -	\$ 633,796	\$ -
Provider settlements	-	1,292,308	-	1,292,308	-
Pharmacy claims	-	5,566,926	-	5,566,926	-
Medical claims	-	31,155,780	-	31,155,780	-
Employee benefits and payroll taxes	1,172,742	-	51,169	1,223,911	-
Other postemployment benefits	56,880	-	-	56,880	-
Professional services	-	-	80,801	80,801	37,529
Nursing services	3,392,647	-	-	3,392,647	-
Plant operations	981,611	-	-	981,611	-
Claims paid	-	-	-	-	622,197
Administration and fiscal services	1,075,540	3,562,287	-	4,637,827	-
Other care-related	286,630	-	-	286,630	-
Other services and charges	860,842	-	-	860,842	109
Supplies	-	-	34,972	34,972	476
Payroll	-	-	116,231	116,231	63,372
Employee benefits	-	-	-	-	23,798
Travel	-	-	-	-	823
Telephone	-	-	11,031	11,031	681
Utilities	-	-	73,316	73,316	-
Fuel	-	-	19,637	19,637	-
Insurance	-	-	-	-	51,692
Staff training	-	-	-	-	2,796
Licenses and dues	-	-	-	-	805
Postage	-	-	-	-	39
Vehicle expense	-	-	-	-	812
Other property and related costs	80,058	-	-	80,058	-
Laundry	115,304	-	-	115,304	-
Dietary	849,743	-	-	849,743	-
Housekeeping	230,468	-	-	230,468	-
Amortization	7,486	-	-	7,486	-
Depreciation	411,672	-	259,899	671,571	-
Repairs	-	-	25,384	25,384	-
<b>Total Operating Expenses</b>	<b>\$ 9,521,623</b>	<b>\$ 42,211,097</b>	<b>\$ 672,440</b>	<b>\$ 52,405,160</b>	<b>\$ 805,129</b>

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, 2009**

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental Activities</u>
	<u>Nursing Home</u>	<u>Itasca Medical Care</u>	<u>Itasca Resource Center (Nonmajor)</u>	<u>Totals</u>	<u>Internal Service Fund</u>
<b>Operating Income (Loss)</b>	<b>\$ 603,014</b>	<b>\$ -</b>	<b>\$ (237,818)</b>	<b>\$ 365,196</b>	<b>\$ (136,682)</b>
<b>Nonoperating Revenues (Expenses)</b>					
Interest income	\$ 9,307	\$ 41,159	\$ -	\$ 50,466	\$ 41,847
Contributions and donations	11,792	-	-	11,792	-
Interest expense	(276,544)	-	-	(276,544)	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ (255,445)</b>	<b>\$ 41,159</b>	<b>\$ -</b>	<b>\$ (214,286)</b>	<b>\$ 41,847</b>
<b>Change in Net Assets</b>	<b>\$ 347,569</b>	<b>\$ 41,159</b>	<b>\$ (237,818)</b>	<b>\$ 150,910</b>	<b>\$ (94,835)</b>
<b>Net Assets - Beginning</b>	<b>4,879,295</b>	<b>5,277,934</b>	<b>2,118,324</b>	<b>12,275,553</b>	<b>2,565,775</b>
<b>Net Assets - Ending</b>	<b>\$ 5,226,864</b>	<b>\$ 5,319,093</b>	<b>\$ 1,880,506</b>	<b>\$ 12,426,463</b>	<b>\$ 2,470,940</b>



**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Business-Type Activities - Enterprise Funds</b>				<b>Governmental Activities Internal Service Fund</b>
	<b>Nursing Home</b>	<b>Itasca Medical Care</b>	<b>Itasca Resource Center (Nonmajor)</b>	<b>Totals</b>	
<b>Cash Flows from Operating Activities</b>					
Receipts from customers and users	\$ 9,946,577	\$ -	\$ 415,249	\$ 10,361,826	\$ -
Receipts from internal services provided	-	-	-	-	505,344
Receipts from capitation and other	-	41,831,516	-	41,831,516	-
Receipts from other operating revenue	-	-	-	-	184,817
Payments to suppliers	(5,048,078)	-	(235,181)	(5,283,259)	(711,993)
Payments to employees	(4,175,244)	-	(167,400)	(4,342,644)	(85,891)
Payments to providers, suppliers, and employees	-	(39,890,207)	-	(39,890,207)	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 723,255</b>	<b>\$ 1,941,309</b>	<b>\$ 12,668</b>	<b>\$ 2,677,232</b>	<b>\$ (107,723)</b>
<b>Cash Flows from Noncapital Financing Activities</b>					
Contributions and donations	\$ 11,792	\$ -	\$ -	\$ 11,792	\$ -
<b>Cash Flows from Capital and Related Financing Activities</b>					
Acquisition of capital assets	\$ (223,022)	\$ -	\$ (17,299)	\$ (240,321)	\$ -
Principal and interest paid on general obligation revenue bonds	(218,533)	-	-	(218,533)	-
Principal and interest paid on revenue bonds	(321,400)	-	-	(321,400)	-
Bond administration fees	(3,479)	-	-	(3,479)	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>\$ (766,434)</b>	<b>\$ -</b>	<b>\$ (17,299)</b>	<b>\$ (783,733)</b>	<b>\$ -</b>
<b>Cash Flows from Investing Activities</b>					
Interest received	\$ 9,307	\$ 41,159	\$ -	\$ 50,466	\$ 48,917
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (22,080)</b>	<b>\$ 1,982,468</b>	<b>\$ (4,631)</b>	<b>\$ 1,955,757</b>	<b>\$ (58,806)</b>
<b>Cash and Cash Equivalents</b>					
<b>Beginning</b>	<b>1,702,823</b>	<b>6,497,819</b>	<b>886,478</b>	<b>9,087,120</b>	<b>3,368,560</b>
<b>Ending</b>	<b>\$ 1,680,743</b>	<b>\$ 8,480,287</b>	<b>\$ 881,847</b>	<b>\$ 11,042,877</b>	<b>\$ 3,309,754</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT 9  
(Continued)**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009  
Increase (Decrease) in Cash and Cash Equivalents**

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental</u>
	<u>Nursing Home</u>	<u>Itasca Medical Care</u>	<u>Itasca Resource Center (Nonmajor)</u>	<u>Totals</u>	<u>Activities Internal Service Fund</u>
<b>Cash and Cash Equivalents - Exhibit 7</b>					
Cash and pooled investments	\$ 1,351,950	\$ 8,480,287	\$ 881,847	\$ 10,714,084	\$ 3,309,754
Petty cash and change funds	1,560	-	-	1,560	-
Restricted cash and pooled investments	327,233	-	-	327,233	-
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 1,680,743</u></b>	<b><u>\$ 8,480,287</u></b>	<b><u>\$ 881,847</u></b>	<b><u>\$ 11,042,877</u></b>	<b><u>\$ 3,309,754</u></b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>					
<b>Operating Income (Loss)</b>	<b><u>\$ 603,014</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (237,818)</u></b>	<b><u>\$ 365,196</u></b>	<b><u>\$ (136,682)</u></b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>					
Depreciation expense	\$ 411,672	\$ -	\$ 259,899	\$ 671,571	\$ -
Amortization expense	7,486	-	-	7,486	-
(Increase) decrease in					
Accounts receivable	(178,060)	(379,581)	1,582	(556,059)	21,714
Provider settlement receivable	-	1,214,152	-	1,214,152	-
Due from other funds	-	-	(20,955)	(20,955)	-
Inventories	12,093	-	-	12,093	-
Prepaid items	(51,428)	-	11,031	(40,397)	-
Excess other postemployment benefits contributions	(33,603)	-	-	(33,603)	-
Increase (decrease) in					
Accounts payable	(44,159)	72,964	189	28,994	(16,481)
Salaries payable	30,367	-	-	30,367	1,279
Accrued vacation payable	(34,127)	-	-	(34,127)	-
Due to other governments	-	-	(1,260)	(1,260)	(3,472)
Claims payable	-	987,866	-	987,866	25,919
Other current liabilities	-	45,908	-	45,908	-
<b>Total adjustments</b>	<b><u>\$ 120,241</u></b>	<b><u>\$ 1,941,309</u></b>	<b><u>\$ 250,486</u></b>	<b><u>\$ 2,312,036</u></b>	<b><u>\$ 28,959</u></b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b><u>\$ 723,255</u></b>	<b><u>\$ 1,941,309</u></b>	<b><u>\$ 12,668</u></b>	<b><u>\$ 2,677,232</u></b>	<b><u>\$ (107,723)</u></b>

**FIDUCIARY FUNDS**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*EXHIBIT 10*

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2009**

	<u>Cemetery Investment Trust</u>	<u>Agency Funds</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 3,890	\$ 2,224,066
Investments	194,310	-
Receivables		
Interest	930	-
Due from other governments	-	130,821
	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<b><u>\$ 199,130</u></b>	<b><u>\$ 2,354,887</u></b>
<b><u>Liabilities</u></b>		
Taxes collected in advance	\$ -	\$ 34,053
Due to other governments	4,526	2,320,834
	<u>          </u>	<u>          </u>
<b>Total Liabilities</b>	<b><u>\$ 4,526</u></b>	<b><u>\$ 2,354,887</u></b>
<b><u>Net Assets</u></b>		
Net assets held in trust for participants	<b><u>\$ 194,604</u></b>	

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*EXHIBIT 11*

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Cemetery Investment Trust</u>
<b><u>Additions</u></b>	
Investment earnings	\$ 5,398
Contributions from participants	<u>110</u>
<b>Total Additions</b>	<b>\$ 5,508</b>
<b><u>Deductions</u></b>	
Distributions to participants	<u>4,526</u>
<b>Change in Net Assets</b>	<b>\$ 982</b>
<b>Net Assets - Beginning of the Year</b>	<u>193,622</u>
<b>Net Assets - End of the Year</b>	<b><u><u>\$ 194,604</u></u></b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009. 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**

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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**

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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**

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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. These funds may only be spent 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**

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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**

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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, 2009, 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 2009 were \$1,070,433.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

The County Auditor/Treasurer invests the funds of the Risk Management Internal Service Fund, Cemetery Trust Fund, and Environmental Trust Fund separately from pooled investments. Investment earnings on these funds for 2009 were \$394,683.

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.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Inventories and Prepaid Items (Continued)

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.

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**

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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:

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

7. Compensated Absences

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

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

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

8. Deferred Revenue

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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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**

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2. Reconciliations

A. Governmental Funds Balance Sheet and Statement of Net Assets

Exhibit 4 provides a 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 \$7,678,153 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	\$ 7,753,168	
Due to other governments	(75,015)	
Adjustment to Increase Fund Balances to Arrive at Net Assets--Governmental Activities		\$ 7,678,153

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 \$1,340,891 adjustment are:

Deferred revenue at December 31, 2009	\$ 7,753,168	
Deferred revenue at December 31, 2008	(8,281,466)	
Decrease in deferred revenue	\$ (528,298)	
Add: Decrease in deferred revenue attributable to forfeited tax sales, reported as due to other governments		1,869,189
Adjustment to Change in Fund Balances to Arrive at Change in Net Assets--Governmental Activities		\$ 1,340,891

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Stewardship, Compliance, and Accountability

The following funds had expenditures in excess of budget for the year ended December 31, 2009:

	Budget	Expenditures	Excess
General Fund	\$ 16,781,503	\$ 17,312,716	\$ 531,213
Special Revenue Funds			
Road and Bridge	15,849,376	20,341,017	4,491,641
Debt Service Fund	1,681,875	1,691,609	9,734

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	\$	64,128,155
Restricted assets		
Cash and pooled investments		327,233
Fiduciary funds		
Cash and pooled investments		
Investment trust funds		3,890
Agency funds		2,224,066
Investments		
Investment trust funds		194,310
Total Cash and Investments	\$	66,877,654

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with 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.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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.

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, 2009, the primary government’s bank balances of \$53,255,836 were not exposed to custodial credit risk.

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (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;

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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, 2009, the County had investments of \$448,886 in the Franklin Fund Mutual Fund and \$699,330 in the MM Federated US Treasury Cash Reserve Fund, which were both rated AAA by Standard and Poor's.

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, 2009, Itasca County had \$9,640,139 of governmental securities which were both acquired and held by the counterparty's same trust department and \$3,404,425 of certificates of deposit which were uninsured, unregistered, and were held by the counterparty. These investments were subject to custodial credit risk.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

The following table presents the County's deposit and investment balances at December 31, 2009, 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		04/28/2010	\$ 1,008,905
Federal National Mortgage Association		02/17/2012	501,405
Federal National Mortgage Association		10/09/2012	502,030
Federal National Mortgage Association		09/24/2013	502,500
Federal National Mortgage Association		06/02/2014	496,720
Total Federal National Mortgage Association	20%		\$ 3,011,560
Federal Home Loan Bank Bonds			
Federal Home Loan Bank Bonds		02/17/2011	\$ 500,780
Federal Home Loan Bank Bonds		05/20/2011	512,030
Federal Home Loan Bank Bonds		06/10/2011	513,750
Federal Home Loan Bank Bonds		04/13/2012	509,065
Federal Home Loan Bank Bonds		09/12/2014	507,815
Federal Home Loan Bank Bonds		12/12/2014	498,280
Total Federal Home Loan Bank Bonds	20%		\$ 3,041,720
Federal Home Loan Mortgage Corporation			
Federal Home Loan Mortgage Corporation		02/17/2012	\$ 501,040
Federal Home Loan Mortgage Corporation		02/18/2014	501,885
Total Federal Home Loan Mortgage Corporation	7%		\$ 1,002,925
U.S. Treasury Inflation Protected Securities			
U.S. Treasury Inflation Protected Securities		04/15/2011	\$ 561,987
U.S. Treasury Inflation Protected Securities		04/15/2012	557,280
U.S. Treasury Inflation Protected Securities		07/15/2012	323,441
U.S. Treasury Inflation Protected Securities		04/15/2013	520,553
U.S. Treasury Inflation Protected Securities		07/15/2013	620,673
Total U.S. Treasury Inflation Protected Securities	17%		\$ 2,583,934

**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
Investment pools/mutual funds			
Franklin Fund Mutual Fund	<5%	N/A	\$ 448,886
MM Federated US Treasury Cash Reserve	<5%	N/A	699,330
Total investment pools/mutual funds			\$ 1,148,216
Negotiable certificates of deposit			
Bank of Holland	<5%	02/01/2010	97,308
Meridian Bank	<5%	06/28/2010	95,762
Macatawa Bank	<5%	07/29/2010	40,718
Business Bank of St. Louis	<5%	08/03/2010	100,099
Discover Bank	<5%	08/20/2010	96,373
Premier Bank	<5%	08/23/2010	100,552
United Community Bank	<5%	08/27/2010	101,273
New Market Bank Minnesota CTF	<5%	08/27/2010	100,585
Paragon Commercial Bank	<5%	09/20/2010	99,770
Flagstar Bank	<5%	09/21/2010	97,414
Citizens National Bank	<5%	09/27/2010	100,420
Bank of Whitman	<5%	10/21/2010	100,841
Amcore Bank	<5%	12/06/2010	100,323
Capmark Bank	<5%	01/14/2011	50,574
Summit Community Bank	<5%	03/17/2011	101,894
Commerce Bank Geneva Minnesota	<5%	03/28/2011	97,550
Lubbock National Bank	<5%	03/31/2011	100,513
Capital One Bank	<5%	04/04/2011	100,327
Quad City Bank & Trust	<5%	04/20/2011	50,490
State Bank of India	<5%	04/25/2011	99,507
Medallion Bank	<5%	05/31/2011	99,866
Broadway Bank	<5%	07/28/2011	99,881
Wachovia Mortgage	<5%	09/12/2011	100,000
Summit State Bank	<5%	10/24/2011	99,917
Discover Bank	<5%	11/04/2011	97,822
GE Money Bank	<5%	11/14/2011	100,589
Advanta Bank Corporation	<5%	11/21/2011	100,492
American Express Centurion Bank	<5%	11/28/2011	93,740
Republic Bank Incorporated	<5%	01/13/2012	100,417
BMW Bank of North America	<5%	02/27/2012	98,625
Lone Star National Bank	<5%	03/30/2012	98,172
Bank of Northern Michigan	<5%	04/16/2012	97,515
First Bank Highland Park	<5%	04/23/2012	97,606
Sallie Mae Bank	<5%	05/29/2012	100,669
GE Money Bank	<5%	07/09/2012	98,572
Town Bank	<5%	08/27/2012	97,999
American Express Centurion Bank	<5%	10/01/2012	97,869
Capital Bank	<5%	10/22/2012	99,322
FNB of Chester County	<5%	12/10/2012	194,332
Medallion Bank	<5%	12/17/2012	98,011
Gulfstream Business Bank	<5%	01/13/2013	98,456

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Concentration Risk <u>Over 5 Percent of Portfolio</u>	Interest Rate Risk <u>Maturity Date</u>	Carrying (Fair) Value
GE Capital	<5%	09/11/2013	100,395
Total negotiable certificates of deposit			<u>\$ 4,102,560</u>
Total investments			\$ 14,890,915
Deposits			51,974,984
Petty cash and change funds			<u>11,755</u>
Total Investments and Deposits			<u>\$ 66,877,654</u>

N/A - Not Applicable

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

2. Receivables

Receivables as of December 31, 2009, 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	\$ 1,050,150	\$ -
Special assessments	142,795	-
Due from other governments	6,129,193	-
Accounts	5,326,985	-
Interest	165,194	-
Loans	<u>265,721</u>	<u>67,000</u>
Total Governmental Activities	<u>\$ 13,080,038</u>	<u>\$ 67,000</u>
Business-Type Activities		
Accounts	<u>\$ 4,054,006</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, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Reclassification	Ending Balance
Capital assets not depreciated					
Land	\$ 1,120,596	\$ -	\$ -	\$ -	\$ 1,120,596
Construction in progress	10,407,329	18,277,532	-	(4,987,500)	23,697,361
Total capital assets not depreciated	\$ 11,527,925	\$ 18,277,532	\$ -	\$ (4,987,500)	\$ 24,817,957
Capital assets depreciated					
Buildings	\$ 26,135,159	\$ 2,159,255	\$ -	\$ 4,987,500	\$ 33,281,914
Machinery, furniture, and equipment	23,714,474	1,605,684	1,371,219	-	23,948,939
Infrastructure	139,420,753	10,863,217	1,118,597	-	149,165,373
Total capital assets depreciated	\$ 189,270,386	\$ 14,628,156	\$ 2,489,816	\$ 4,987,500	\$ 206,396,226
Less: accumulated depreciation for					
Buildings	\$ 9,375,011	\$ 791,186	\$ -	\$ -	\$ 10,166,197
Machinery, furniture, and equipment	11,699,019	1,587,788	1,150,212	-	12,136,595
Infrastructure	31,331,757	2,858,201	44,195	-	34,145,763
Total accumulated depreciation	\$ 52,405,787	\$ 5,237,175	\$ 1,194,407	\$ -	\$ 56,448,555
Total capital assets depreciated, net	\$ 136,864,599	\$ 9,390,981	\$ 1,295,409	\$ 4,987,500	\$ 149,947,671
Governmental Activities Capital Assets, Net	\$ 148,392,524	\$ 27,668,513	\$ 1,295,409	\$ -	\$ 174,765,628

Business-Type Activities

Business-type capital asset activity for the Itasca County Nursing Home at September 30, 2009, and the Itasca Resource Center at December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Reclassification	Ending Balance
Capital assets not depreciated					
Land	\$ 279,296	\$ -	\$ -	\$ -	\$ 279,296
Construction in progress	41,199	83,440	-	(41,199)	83,440
Total capital assets not depreciated	\$ 320,495	\$ 83,440	\$ -	\$ (41,199)	\$ 362,736

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Business-Type Activities (Continued)

	Beginning Balance	Increase	Decrease	Reclassification	Ending Balance
Capital assets depreciated					
Buildings	\$ 14,077,281	\$ 34,039	\$ -	\$ -	\$ 14,111,320
Improvements other than buildings	200,054	82,049	-	-	282,103
Machinery, furniture, and equipment	1,601,545	40,793	-	41,199	1,683,537
Total capital assets depreciated	\$ 15,878,880	\$ 156,881	\$ -	\$ 41,199	\$ 16,076,960
Less: accumulated depreciation for					
Buildings	\$ 6,384,115	\$ 535,696	\$ -	\$ -	\$ 6,919,811
Improvements other than buildings	129,597	9,402	-	-	138,999
Machinery, furniture, and equipment	1,051,741	126,473	-	-	1,178,214
Total accumulated depreciation	\$ 7,565,453	\$ 671,571	\$ -	\$ -	\$ 8,237,024
Total capital assets depreciated, net	\$ 8,313,427	\$ (514,690)	\$ -	\$ 41,199	\$ 7,839,936
Business-Type Activities					
Capital Assets, Net	\$ 8,633,922	\$ (431,250)	\$ -	\$ -	\$ 8,202,672

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

Governmental Activities	
General government	\$ 151,133
Public safety	859,756
Highways and streets, including depreciation of infrastructure assets	3,982,261
Human services	56,245
Sanitation	105,388
Culture and recreation	39,715
Conservation of natural resources	42,677
Total Depreciation Expense - Governmental Activities	\$ 5,237,175
Business-Type Activities	
Nursing Home	\$ 411,672
Itasca Resource Center	259,899
Total Depreciation Expense - Business-Type Activities	\$ 671,571

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Detailed Notes on All Funds

A. Assets (Continued)

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>	
2010	\$ 329,487
2011	329,487
2012	<u>36,734</u>
Total	<u>\$ 695,708</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, 2009, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Health and Human Services	\$ 138,832	Reimbursement for services Apportionment of net proceeds Septic loan funds received in wrong fund
	Forfeited Tax	507,059	
	Capital Projects	<u>10,061</u>	
Total due to General Fund		<u>\$ 655,952</u>	
Road and Bridge	General	\$ 1,221	Reimbursement for services Road maintenance charges
	Other governmental funds	<u>500,345</u>	
Total due to Road and Bridge Fund		<u>\$ 501,566</u>	
Health and Human Services	General	<u>\$ 8,333</u>	Reimbursement for services
Other governmental funds	Forfeited Tax	<u>\$ 1,770,964</u>	Apportionment of net proceeds
Itasca Resource Center Enterprise Fund	Health and Human Services	<u>\$ 35,211</u>	Reimbursement for services
Total Due To/From Other Funds		<u><u>\$ 2,972,026</u></u>	

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of the following:

Transfers to General Fund from			
Forfeited Tax Fund	\$ 507,059	Distribute net proceeds	
Environmental Permanent Fund	<u>100,000</u>	Funding for septic loan program	
Transfers to General Fund	<u>\$ 607,059</u>		
Transfers to Health and Human Services Fund from			
Other governmental funds	<u>\$ 5,355</u>	Provide funding and transfer interest	

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

2. Interfund Transfers (Continued)

Transfers to other governmental funds from

General Fund	\$ 1,554,189	Provide funding for severance pay and weed control
Road and Bridge Fund	50,000	Provide funding for severance pay
Forfeited Tax Fund	655,023	Distribute net proceeds
		Transfer firewise grant, solid waste recycle budget, and account reimbursement
Environmental Trust Permanent Fund	61,425	
Other nonmajor governmental funds	<u>64,815</u>	Provide funding for severance pay
Total transfers to other governmental funds	<u>\$ 2,385,452</u>	
Total Interfund Transfers	<u>\$ 2,997,866</u>	

C. Liabilities

1. Payables

Payables at December 31, 2009, were as follows:

	Governmental Activities	Business-Type Activities
Accounts	\$ 2,663,513	\$ 834,760
Salaries	1,561,543	371,959
Accrued vacation payable	-	162,254
Escheat property	9,142	-
Contracts	547,213	-
Due to other governments	1,803,583	-
Claims and judgments	<u>-</u>	<u>5,085,353</u>
Total Payables	<u>\$ 6,584,994</u>	<u>\$ 6,454,326</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, 2009
General obligation bonds					
2002 G.O. Capital Improvement Bonds	2017	\$220,000 - \$835,000	2.50 - 4.80	\$ 8,300,000	\$ 5,565,000
2007 G.O. Capital Improvement Bonds	2023	\$345,000 - \$890,000	4.00	10,000,000	2,285,000
2008 G.O. Capital Improvement Bonds	2023	\$100,000 - \$535,000	3.00 - 4.15	<u>6,000,000</u>	<u>5,900,000</u>
Total general obligation bonds				\$ 24,300,000	\$ 13,750,000
Less: unamortized discount					<u>(49,237)</u>
Total general obligation bonds, net					\$ 13,700,763
Capital leases					
2008 equipment lease	2013	\$49,208	3.17	<u>1,003,802</u>	<u>720,134</u>
Totals				<u>\$ 25,303,802</u>	<u>\$ 14,420,897</u>

Business-Type Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance September 30, 2009
General obligation bonds					
1998 G.O. Crossover Refunding Bonds	2012	\$135,000 - \$210,000	4.10 - 4.85	\$ 1,880,000	\$ 610,000
2003 Gross Revenue Nursing Home Bonds	2033	\$70,000 - \$305,000	2.50 - 6.25	<u>4,435,000</u>	<u>4,055,000</u>
Total General Obligation Bonds				<u>\$ 6,315,000</u>	\$ 4,665,000
Less: unamortized discount					<u>(419)</u>
Total General Obligation Bonds, Net					<u>\$ 4,664,581</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, 2009, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2010	\$ 910,000	\$ 536,146	\$ 196,685	\$ 21,161
2011	950,000	502,044	202,969	14,877
2012	990,000	465,806	209,455	8,392
2013	1,035,000	427,145	111,025	1,699
2014	1,085,000	385,050	-	-
2015 - 2019	4,475,000	1,245,737	-	-
2020 - 2023	4,305,000	412,568	-	-
Total	<u>\$ 13,750,000</u>	<u>\$ 3,974,496</u>	<u>\$ 720,134</u>	<u>\$ 46,129</u>

Business-Type Activities

Year Ending September 30	General Obligation Crossover Refunding Bonds		Gross Revenue Nursing Home Bonds	
	Principal	Interest	Principal	Interest
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	-	-	100,000	219,783
2015 - 2019	-	-	605,000	1,008,528
2020 - 2024	-	-	800,000	805,381
2025 - 2029	-	-	1,070,000	521,288
2030 - 2033	-	-	1,115,000	144,531
Total	<u>\$ 610,000</u>	<u>\$ 44,700</u>	<u>\$ 4,055,000</u>	<u>\$ 3,625,174</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, 2009, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 22,115,000	\$ -	\$ 8,365,000	\$ 13,750,000	\$ 910,000
Less: unamortized discounts	(53,005)	-	(3,768)	(49,237)	-
Capital leases	451,768	458,961	190,595	720,134	196,685
Compensated absences	6,112,438	470,102	-	6,582,540	71,178
Claims and judgments	811,093	286,022	260,103	837,012	-
Net other postemployment benefits	2,024,671	1,979,025	-	4,003,696	-
Governmental Activities Long-Term Liabilities	<u>\$ 31,461,965</u>	<u>\$ 3,194,110</u>	<u>\$ 8,811,930</u>	<u>\$ 25,844,145</u>	<u>\$ 1,177,863</u>

Long-term liabilities for internal service funds are included as part of the above totals. For the Internal Service Fund, \$837,012 of claims and judgments payable are included in the amounts for the governmental activities at year-end.

In 2009, Itasca County partially defeased \$7,370,000 of its \$10,000,000 General Obligation Improvement Bonds, Series 2007. The bonds which were defeased were the February 1, 2010, through February 1, 2020, maturities and a portion of the February 1, 2021, maturity. Proceeds from the sale of radio equipment were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the old bonds until they are callable on February 1, 2015. The defeasance met the requirements of an in-substance debt defeasance and, accordingly, the trust account assets and the liability for defeased bonds are not reported in Itasca County's government-wide financial statements.



**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

4. Detailed Notes on All Funds

C. Liabilities

4. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 795,000	\$ -	\$ 185,000	\$ 610,000	\$ 195,000
Gross revenue bonds	4,135,000	-	80,000	4,055,000	85,000
Less: deferred amounts for issuance discounts	(567)	-	(148)	(419)	-
Total bonds payable	\$ 4,929,433	\$ -	\$ 264,852	\$ 4,664,581	\$ 280,000
Provider settlements	-	31,066	-	31,066	-
Business-Type Activities Long-Term Liabilities	\$ 4,929,433	\$ 31,066	\$ 264,852	\$ 4,695,647	\$ 280,000

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 \$7,285,000 is outstanding at December 31, 2009.

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, 2009, was \$1,065,869.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Detailed Notes on All Funds

C. Liabilities

5. Conduit Debt (Continued)

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, 2009, was \$1,085,365.

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 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:

	2009	2008
Balance - Beginning of Year	\$ 4,128,553	\$ 4,658,458
Amount incurred, related to		
Prior years	(793,625)	(564,479)
Current year	39,442,435	34,785,193
Amount paid, related to		
Prior years	(3,337,624)	(4,088,625)
Current year	(34,354,386)	(30,661,994)
Balance - End of Year	\$ 5,085,353	\$ 4,128,553

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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4. Detailed Notes on All Funds

C. Liabilities

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

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.

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

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 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.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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](http://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. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 9.40 percent. 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 2009:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.75
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public Employees Retirement Fund	\$ 1,358,161	\$ 1,320,573	\$ 1,204,924
Public Employees Police and Fire Fund	469,354	440,194	409,121
Public Employees Correctional Fund	54,715	45,948	39,137

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. 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.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies the plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 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.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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5. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2009, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 11,260	\$ 11,260
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

6. Postemployment Benefits

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.

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  
GRAND RAPIDS, MINNESOTA**

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6. Postemployment Benefits

A. Plan Description and Funding Policy (Continued)

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.

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, 2009, there were 217 retirees receiving health benefits from the County's health plan and 416 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



**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

6. Postemployment Benefits

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

excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2009, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

	<u>Itasca County December 31, 2009</u>	<u>Itasca Nursing Home September 30, 2009</u>
ARC	\$ 4,047,653	\$ 57,055
Interest on net OPEB obligation	101,234	(1,332)
Adjustment to ARC	<u>(87,972)</u>	<u>1,157</u>
Annual OPEB cost	\$ 4,060,915	\$ 56,880
Contributions during the year	<u>(2,081,890)</u>	<u>(90,483)</u>
Increase (decrease) in net OPEB obligation/excess OPEB contributions	\$ 1,979,025	\$ (33,603)
Net OPEB Liability/Excess Contributions - Beginning of Year	<u>2,024,671</u>	<u>(26,641)</u>
Net OPEB Liability/Excess Contributions - End of Year	<u>\$ 4,003,696</u>	<u>\$ (60,244)</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation/excess contributions for 2009 and 2008 were as follows:

	<u>Itasca County December 31, 2009</u>	<u>Itasca Nursing Home September 30, 2009</u>
Percentage of annual OPEB cost contributed	51.0%	159.0%
Annual OPEB cost	\$ 4,060,915	\$ 56,880
Contributions during the year	<u>(2,081,890)</u>	<u>(90,483)</u>
Net OPEB Liability/Excess Contributions	<u>\$ 1,979,025</u>	<u>\$ (33,603)</u>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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6. Postemployment Benefits

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

	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. Funded Status and Funding Progress

The actuarial accrued liability for benefits for Itasca County at December 31, 2007, the most recent actuarial valuation date, 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, the most recent actuarial valuation date, 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 health care 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 - Other Postemployment Benefits, 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**

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6. Postemployment Benefits

C. Funded 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 health care 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, open period, 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 Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. 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**

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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 \$837,012, which does not include incurred but not reported claims, at December 31, 2009. 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 \$430,000 toward any claim arising from a single occurrence. The Association covers claims over \$430,000.

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

	Year Ended December 31	
	2009	2008
Unpaid Claims, Beginning of Fiscal Year	\$ 811,093	\$ 865,026
Incurred claims	286,022	223,621
Claims payments	(260,103)	(277,554)
Unpaid Claims, End of Fiscal Year	\$ 837,012	\$ 811,093

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**

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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**

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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, 2009, was:

Total Assets	\$	6,772,211
Total Liabilities		261,479
Total Net Assets		6,510,732
Total Revenues		719,789
Total Expenses		641,918
Change in Net Assets		77,871

Itasca County contributed \$106,850 during 2009 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**

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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 \$15,965 as of December 31, 2009.

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, 2009, was:

Total Assets	\$	3,038,740
Total Liabilities		1,650,067
Total Net Assets		1,388,673
Total Revenues		5,598,127
Total Expenses		5,589,058
Change in Net Assets		9,069

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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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, P.O. Box 1028  
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, 2008 (the most recent available), was:

Total Assets	\$	1,007,784
Total Liabilities		256,583
Total Net Assets		751,201
Total Revenues		2,534,122
Total Expenses		2,365,437
Change in Net Assets		168,685

Separate financial information can be obtained from:

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



**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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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 2009.

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.

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 \$11,000 in funding to the Collaborative during 2009. Itasca County is the fiscal agent for the Collaborative, which is accounted for as an agency fund. Collaborative agency fund assets and liabilities were \$207,535 as of December 31, 2009.

No separate financial statements are available.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Northeast Minnesota Regional Radio Board

The Northeast Minnesota Regional Radio Board was established through a joint powers agreement, pursuant to Minn. Stat. § 471.59 and 403.39, to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communicating System (ARMER) and to enhance and improve interoperable public safety communications.

The joint powers are the Counties of Aitkin, Carlton, Cass, Cook, Crow Wing, Itasca, Kanabec, Koochiching, Lake, Pine, and St. Louis and the Cities of Duluth, Hibbing, International Falls, and Virginia. Control of the Northeast Regional Radio Board is vested in a Board of Directors composed of one county commissioner from each of the member counties and one city councilor from each of the member cities. In addition there is one member from the Northeast Minnesota Regional Advisory Committee, one member from the Northeast Minnesota Regional Radio System User Committee, and one member from the Northeast Minnesota Owners and Operators Committee who are also voting members of the board.

Itasca County is the fiscal agent for the Northeast Minnesota Regional Radio Board. Funding is provided by grants and contributions from participating members. Itasca County contributed \$790 in funding in 2009.

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 2009, 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.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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7. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and is comprised of 25 member counties, including Itasca County. 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 2009.

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 \$2,514 in membership dues to this Board in 2009.

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.

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**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, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 11,109,033	\$ 11,109,033	\$ 8,905,494	\$ (2,203,539)
Licenses and permits	51,300	51,300	97,481	46,181
Intergovernmental	4,673,931	4,675,786	6,125,964	1,450,178
Charges for services	875,732	884,142	1,061,221	177,079
Fines and forfeits	54,100	54,100	52,918	(1,182)
Gifts and contributions	-	42,188	14,469	(27,719)
Investment earnings	1,200,000	1,200,000	1,014,612	(185,388)
Miscellaneous	428,743	428,743	827,464	398,721
<b>Total Revenues</b>	<b>\$ 18,392,839</b>	<b>\$ 18,445,292</b>	<b>\$ 18,099,623</b>	<b>\$ (345,669)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 368,828	\$ 367,142	\$ 363,661	\$ 3,481
Courts	155,855	155,855	185,811	(29,956)
Law library	59,025	59,025	51,396	7,629
County administration	589,472	586,807	499,956	86,851
County auditor/treasurer	1,111,965	1,106,386	1,023,294	83,092
County assessor	953,732	948,841	813,676	135,165
Elections	15,700	15,619	20,950	(5,331)
Accounting and auditing	75,000	75,000	83,436	(8,436)
Data processing	678,699	675,219	632,637	42,582
Attorney	1,203,546	1,203,546	1,173,496	30,050
Recorder	537,777	535,050	517,189	17,861
Surveyor	540,310	537,539	514,984	22,555
Planning and zoning	415,187	413,058	393,393	19,665
Buildings and plant	985,686	981,154	886,852	94,302
Veterans service officer	151,754	150,976	144,685	6,291
Other general government	-	-	1,275	(1,275)
<b>Total general government</b>	<b>\$ 7,842,536</b>	<b>\$ 7,811,217</b>	<b>\$ 7,306,691</b>	<b>\$ 504,526</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 3,859,898	\$ 3,829,898	\$ 3,860,488	\$ (30,590)
Boat and water safety	127,091	127,091	125,193	1,898
Emergency services	54,800	54,800	199,027	(144,227)
Coroner	50,000	50,000	62,236	(12,236)
Federal arrest grant	-	-	103,698	(103,698)
E-911 system	30,000	30,000	28,543	1,457
County jail	3,162,450	3,152,450	3,223,671	(71,221)
Victim assistance	76,913	76,913	83,268	(6,355)
Probation and parole	1,047,413	1,047,413	946,288	101,125
Civil defense	136,499	136,499	129,436	7,063
Safehavens grant	50,000	50,000	127,579	(77,579)
Transitional housing grant	105,000	105,000	86,269	18,731
Snowmobile safety	13,797	13,797	16,386	(2,589)
Other	-	-	71,600	(71,600)
<b>Total public safety</b>	<b>\$ 8,713,861</b>	<b>\$ 8,673,861</b>	<b>\$ 9,063,682</b>	<b>\$ (389,821)</b>
<b>Sanitation</b>				
Septic loans	\$ -	\$ -	\$ 48,715	\$ (48,715)
<b>Culture and recreation</b>				
Historical society	\$ 18,000	\$ 18,000	\$ 18,000	\$ -
Humane society	-	-	14,588	(14,588)
Snowmobile and ski trail maintenance	-	-	522,761	(522,761)
<b>Total culture and recreation</b>	<b>\$ 18,000</b>	<b>\$ 18,000</b>	<b>\$ 555,349</b>	<b>\$ (537,349)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 136,991	\$ 135,861	\$ 131,137	\$ 4,724
Title III federal forest funds	-	-	23,062	(23,062)
Shoreland management	21,514	21,514	55,096	(33,582)
Other	2,000	2,000	13,822	(11,822)
<b>Total conservation of natural resources</b>	<b>\$ 160,505</b>	<b>\$ 159,375</b>	<b>\$ 223,117</b>	<b>\$ (63,742)</b>
<b>Economic development</b>				
Airports	\$ 119,050	\$ 119,050	\$ 115,162	\$ 3,888
<b>Total Expenditures</b>	<b>\$ 16,853,952</b>	<b>\$ 16,781,503</b>	<b>\$ 17,312,716</b>	<b>\$ (531,213)</b>



**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 1*  
*(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,538,887</b>	<b>\$ 1,663,789</b>	<b>\$ 786,907</b>	<b>\$ (876,882)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 642,000	\$ 642,000	\$ 607,059	\$ (34,941)
Transfers out	(1,940,202)	(1,940,202)	(1,554,189)	386,013
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (1,298,202)</b>	<b>\$ (1,298,202)</b>	<b>\$ (947,130)</b>	<b>\$ 351,072</b>
<b>Net Change in Fund Balance</b>	<b>\$ 240,685</b>	<b>\$ 365,587</b>	<b>\$ (160,223)</b>	<b>\$ (525,810)</b>
<b>Fund Balance - January 1</b>	<b>12,343,965</b>	<b>12,343,965</b>	<b>12,343,965</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(2,231)</b>	<b>(2,231)</b>
<b>Fund Balance - December 31</b>	<b>\$ 12,584,650</b>	<b>\$ 12,709,552</b>	<b>\$ 12,181,511</b>	<b>\$ (528,041)</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 6,923,700	\$ 6,923,700	\$ 7,122,544	\$ 198,844
Intergovernmental	7,721,930	7,721,930	11,436,432	3,714,502
Charges for services	1,069,000	1,108,893	1,071,750	(37,143)
Miscellaneous	226,600	226,600	514,887	288,287
<b>Total Revenues</b>	<b>\$ 15,941,230</b>	<b>\$ 15,981,123</b>	<b>\$ 20,145,613</b>	<b>\$ 4,164,490</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 588,674	\$ 585,281	\$ 562,761	\$ 22,520
Maintenance	6,954,373	6,925,665	6,418,412	507,253
Construction	4,065,902	4,060,066	8,377,365	(4,317,299)
Equipment maintenance and shop	4,282,281	4,278,364	4,764,633	(486,269)
<b>Total highways and streets</b>	<b>\$ 15,891,230</b>	<b>\$ 15,849,376</b>	<b>\$ 20,123,171</b>	<b>\$ (4,273,795)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 190,595	\$ (190,595)
Interest	-	-	27,251	(27,251)
<b>Total debt service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 217,846</b>	<b>\$ (217,846)</b>
<b>Total Expenditures</b>	<b>\$ 15,891,230</b>	<b>\$ 15,849,376</b>	<b>\$ 20,341,017</b>	<b>\$ (4,491,641)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 50,000</b>	<b>\$ 131,747</b>	<b>\$ (195,404)</b>	<b>\$ (327,151)</b>
<b>Other Financing Sources (Uses)</b>				
Capital lease purchase	\$ -	\$ -	\$ 458,961	\$ 458,961
Transfers out	(50,000)	(50,000)	(50,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (50,000)</b>	<b>\$ (50,000)</b>	<b>\$ 408,961</b>	<b>\$ 458,961</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ 81,747</b>	<b>\$ 213,557</b>	<b>\$ 131,810</b>
<b>Fund Balance - January 1</b>	<b>8,015,663</b>	<b>8,015,663</b>	<b>8,015,663</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>325,934</b>	<b>325,934</b>
<b>Fund Balance - December 31</b>	<b>\$ 8,015,663</b>	<b>\$ 8,097,410</b>	<b>\$ 8,555,154</b>	<b>\$ 457,744</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
HEALTH AND HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 9,383,891	\$ 9,383,891	\$ 7,951,669	\$ (1,432,222)
Intergovernmental	8,056,393	8,078,420	9,836,044	1,757,624
Charges for services	831,427	873,427	1,008,192	134,765
Miscellaneous	177,200	177,200	456,541	279,341
<b>Total Revenues</b>	<b>\$ 18,448,911</b>	<b>\$ 18,512,938</b>	<b>\$ 19,252,446</b>	<b>\$ 739,508</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 4,551,104	\$ 4,529,537	\$ 4,301,582	\$ 227,955
Social services	12,142,518	12,127,018	11,383,622	743,396
<b>Total human services</b>	<b>\$ 16,693,622</b>	<b>\$ 16,656,555</b>	<b>\$ 15,685,204</b>	<b>\$ 971,351</b>
<b>Health</b>				
Nursing service	\$ 1,753,465	\$ 1,753,465	\$ 1,636,928	\$ 116,537
Environmental health	6,624	6,624	6,988	(364)
<b>Total health</b>	<b>\$ 1,760,089</b>	<b>\$ 1,760,089</b>	<b>\$ 1,643,916</b>	<b>\$ 116,173</b>
<b>Total Expenditures</b>	<b>\$ 18,453,711</b>	<b>\$ 18,416,644</b>	<b>\$ 17,329,120</b>	<b>\$ 1,087,524</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (4,800)</b>	<b>\$ 96,294</b>	<b>\$ 1,923,326</b>	<b>\$ 1,827,032</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	4,800	4,800	5,355	555
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ 101,094</b>	<b>\$ 1,928,681</b>	<b>\$ 1,827,587</b>
<b>Fund Balance - January 1</b>	<b>3,611,068</b>	<b>3,611,068</b>	<b>3,611,068</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,611,068</b>	<b>\$ 3,712,162</b>	<b>\$ 5,539,749</b>	<b>\$ 1,827,587</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**Schedule 4**

**SCHEDULES OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2009**

**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	285.40%

**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, 2009**

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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, 2009, expenditures exceeded appropriations in the following funds:

General Fund	\$ 531,213	Expenditures for ski and snowmobile trails and several large federal grants in public safety are not budgeted. These expenditures are offset by intergovernmental revenues.
Special Revenue Funds Road and Bridge	4,491,641	Higher than anticipated construction expenditures offset by higher intergovernmental revenues.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

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3. Notes to the Schedule of Funding Progress - Other Postemployment Benefits

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, 2009**

	<b>Special Revenue (Statement 3)</b>	<b>Debt Service</b>	<b>Total Nonmajor Governmental Funds</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 5,978,670	\$ 573,853	\$ 6,552,523
Petty cash and change funds	325	-	325
Undistributed cash in agency funds	113,931	1,022	114,953
Taxes receivable			
Prior	57,738	27,406	85,144
Special assessments receivable			
Prior	142,795	-	142,795
Accounts receivable	104,324	-	104,324
Due from other funds	1,770,964	-	1,770,964
Due from other governments	69,872	-	69,872
	<b>\$ 8,238,619</b>	<b>\$ 602,281</b>	<b>\$ 8,840,900</b>
<b>Total Assets</b>	<b>\$ 8,238,619</b>	<b>\$ 602,281</b>	<b>\$ 8,840,900</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 126,221	\$ -	\$ 126,221
Salaries payable	70,261	-	70,261
Due to other funds	500,345	-	500,345
Due to other governments	780	-	780
Deferred revenue - unavailable	200,533	27,406	227,939
	<b>\$ 898,140</b>	<b>\$ 27,406</b>	<b>\$ 925,546</b>
<b>Total Liabilities</b>	<b>\$ 898,140</b>	<b>\$ 27,406</b>	<b>\$ 925,546</b>
<b>Fund Balances</b>			
Unreserved			
Designated for debt service	\$ -	\$ 574,875	\$ 574,875
Designated for severance	84,601	-	84,601
Undesignated	7,255,878	-	7,255,878
	<b>\$ 7,340,479</b>	<b>\$ 574,875</b>	<b>\$ 7,915,354</b>
<b>Total Fund Balances</b>	<b>\$ 7,340,479</b>	<b>\$ 574,875</b>	<b>\$ 7,915,354</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,238,619</b>	<b>\$ 602,281</b>	<b>\$ 8,840,900</b>

**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, 2009**

	<b>Special Revenue (Statement 4)</b>	<b>Debt Service</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues</b>			
Taxes	\$ 1,580,143	\$ 22,426	\$ 1,602,569
Special assessments	945,227	-	945,227
Licenses and permits	420	-	420
Intergovernmental	669,377	907	670,284
Charges for services	533,927	-	533,927
Investment earnings	5,355	-	5,355
Miscellaneous	577,851	6,407	584,258
	<b>\$ 4,312,300</b>	<b>\$ 29,740</b>	<b>\$ 4,342,040</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 643,339	\$ -	\$ 643,339
Public safety	637,073	-	637,073
Highways and streets	1,676,633	-	1,676,633
Sanitation	1,559,905	-	1,559,905
Culture and recreation	658,314	-	658,314
Conservation of natural resources	853,271	-	853,271
<b>Debt service</b>			
Principal	-	995,000	995,000
Interest	-	695,321	695,321
Administrative (fiscal) charges	-	1,288	1,288
	<b>\$ 6,028,535</b>	<b>\$ 1,691,609</b>	<b>\$ 7,720,144</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (1,716,235)</b>	<b>\$ (1,661,869)</b>	<b>\$ (3,378,104)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ 2,385,452	\$ -	\$ 2,385,452
Transfers out	(70,170)	-	(70,170)
	<b>\$ 2,315,282</b>	<b>\$ -</b>	<b>\$ 2,315,282</b>
<b>Net Change in Fund Balance</b>	<b>\$ 599,047</b>	<b>\$ (1,661,869)</b>	<b>\$ (1,062,822)</b>
<b>Fund Balance - January 1</b>	<b>6,741,432</b>	<b>2,236,744</b>	<b>8,978,176</b>
<b>Fund Balance - December 31</b>	<b>\$ 7,340,479</b>	<b>\$ 574,875</b>	<b>\$ 7,915,354</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

Statement 3

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
DECEMBER 31, 2009**

	<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>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 1,905,637	\$ 149,032	\$ 2,975,422	\$ 912,470	\$ 36,109	\$ 5,978,670
Petty cash and change funds	25	300	-	-	-	325
Undistributed cash in agency funds	-	28,846	85,085	-	-	113,931
Taxes receivable						
Prior	-	1,812	55,926	-	-	57,738
Special assessments receivable						
Prior	-	142,795	-	-	-	142,795
Accounts receivable	3,097	52,735	-	-	48,492	104,324
Due from other funds	1,659,220	-	111,744	-	-	1,770,964
Due from other governments	69,872	-	-	-	-	69,872
<b>Total Assets</b>	<b><u>\$ 3,637,851</u></b>	<b><u>\$ 375,520</u></b>	<b><u>\$ 3,228,177</u></b>	<b><u>\$ 912,470</u></b>	<b><u>\$ 84,601</u></b>	<b><u>\$ 8,238,619</u></b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 29,327	\$ 96,894	\$ -	\$ -	\$ -	\$ 126,221
Salaries payable	60,304	9,957	-	-	-	70,261
Due to other funds	-	-	500,345	-	-	500,345
Due to other governments	-	780	-	-	-	780
Deferred revenue - unavailable	-	144,607	55,926	-	-	200,533
<b>Total Liabilities</b>	<b><u>\$ 89,631</u></b>	<b><u>\$ 252,238</u></b>	<b><u>\$ 556,271</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 898,140</u></b>
<b>Fund Balances</b>						
Unreserved						
Designated for severance	\$ -	\$ -	\$ -	\$ -	\$ 84,601	\$ 84,601
Undesignated	3,548,220	123,282	2,671,906	912,470	-	7,255,878
<b>Total Fund Balances</b>	<b><u>\$ 3,548,220</u></b>	<b><u>\$ 123,282</u></b>	<b><u>\$ 2,671,906</u></b>	<b><u>\$ 912,470</u></b>	<b><u>\$ 84,601</u></b>	<b><u>\$ 7,340,479</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 3,637,851</u></b>	<b><u>\$ 375,520</u></b>	<b><u>\$ 3,228,177</u></b>	<b><u>\$ 912,470</u></b>	<b><u>\$ 84,601</u></b>	<b><u>\$ 8,238,619</u></b>

**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, 2009**

	<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>
<b>Revenues</b>						
Taxes	\$ -	\$ 74,549	\$ 1,505,594	\$ -	\$ -	\$ 1,580,143
Special assessments	-	945,227	-	-	-	945,227
Licenses and permits	-	420	-	-	-	420
Intergovernmental	321,567	121,941	225,869	-	-	669,377
Charges for services	17,794	516,133	-	-	-	533,927
Investment earnings	-	-	-	5,355	-	5,355
Miscellaneous	139,393	8,220	-	-	430,238	577,851
<b>Total Revenues</b>	<b>\$ 478,754</b>	<b>\$ 1,666,490</b>	<b>\$ 1,731,463</b>	<b>\$ 5,355</b>	<b>\$ 430,238</b>	<b>\$ 4,312,300</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ -	\$ -	\$ -	\$ -	\$ 643,339	\$ 643,339
Public safety	-	-	-	-	637,073	637,073
Highways and streets	-	-	991,037	-	685,596	1,676,633
Sanitation	-	1,540,673	-	-	19,232	1,559,905
Culture and recreation	658,314	-	-	-	-	658,314
Conservation of natural resources	732,922	-	-	-	120,349	853,271
<b>Total Expenditures</b>	<b>\$ 1,391,236</b>	<b>\$ 1,540,673</b>	<b>\$ 991,037</b>	<b>\$ -</b>	<b>\$ 2,105,589</b>	<b>\$ 6,028,535</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (912,482)</b>	<b>\$ 125,817</b>	<b>\$ 740,426</b>	<b>\$ 5,355</b>	<b>\$ (1,675,351)</b>	<b>\$ (1,716,235)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	\$ 590,704	\$ 25,000	\$ 111,744	\$ -	\$ 1,658,004	\$ 2,385,452
Transfers out	(64,815)	-	-	(5,355)	-	(70,170)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 525,889</b>	<b>\$ 25,000</b>	<b>\$ 111,744</b>	<b>\$ (5,355)</b>	<b>\$ 1,658,004</b>	<b>\$ 2,315,282</b>
<b>Net Change in Fund Balance</b>	<b>\$ (386,593)</b>	<b>\$ 150,817</b>	<b>\$ 852,170</b>	<b>\$ -</b>	<b>\$ (17,347)</b>	<b>\$ 599,047</b>
<b>Fund Balance - January 1</b>	<b>3,934,813</b>	<b>(27,535)</b>	<b>1,819,736</b>	<b>912,470</b>	<b>101,948</b>	<b>6,741,432</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,548,220</b>	<b>\$ 123,282</b>	<b>\$ 2,671,906</b>	<b>\$ 912,470</b>	<b>\$ 84,601</b>	<b>\$ 7,340,479</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 5*

**BUDGETARY COMPARISON SCHEDULE  
FOREST RESOURCES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 186,926	\$ 186,926	\$ 321,567	\$ 134,641
Charges for services	18,598	18,598	17,794	(804)
Miscellaneous	9,504	9,504	139,393	129,889
<b>Total Revenues</b>	<b>\$ 215,028</b>	<b>\$ 215,028</b>	<b>\$ 478,754</b>	<b>\$ 263,726</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Culture and recreation</b>				
Promotion	\$ 150,000	\$ 150,000	\$ 177,705	\$ (27,705)
Parks	557,705	544,464	480,609	63,855
<b>Total culture and recreation</b>	<b>\$ 707,705</b>	<b>\$ 694,464</b>	<b>\$ 658,314</b>	<b>\$ 36,150</b>
<b>Conservation of natural resources</b>				
Timber development	\$ 65,500	\$ 65,500	\$ 57,466	\$ 8,034
Other	1,808,794	1,808,794	675,456	1,133,338
<b>Total conservation of natural resources</b>	<b>\$ 1,874,294</b>	<b>\$ 1,874,294</b>	<b>\$ 732,922</b>	<b>\$ 1,141,372</b>
<b>Total Expenditures</b>	<b>\$ 2,581,999</b>	<b>\$ 2,568,758</b>	<b>\$ 1,391,236</b>	<b>\$ 1,177,522</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (2,366,971)</b>	<b>\$ (2,353,730)</b>	<b>\$ (912,482)</b>	<b>\$ 1,441,248</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 2,366,971	\$ 2,366,971	\$ 590,704	\$ (1,776,267)
Transfers out	-	-	(64,815)	(64,815)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 2,366,971</b>	<b>\$ 2,366,971</b>	<b>\$ 525,889</b>	<b>\$ (1,841,082)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ 13,241</b>	<b>\$ (386,593)</b>	<b>\$ (399,834)</b>
<b>Fund Balance - January 1</b>	<b>3,934,813</b>	<b>3,934,813</b>	<b>3,934,813</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,934,813</b>	<b>\$ 3,948,054</b>	<b>\$ 3,548,220</b>	<b>\$ (399,834)</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE MANAGEMENT SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 76,731	\$ 76,731	\$ 74,549	\$ (2,182)
Special assessments	922,091	922,091	945,227	23,136
Licenses and permits	400	400	420	20
Intergovernmental	115,276	115,276	121,941	6,665
Charges for services	503,393	503,393	516,133	12,740
Miscellaneous	8,693	8,693	8,220	(473)
<b>Total Revenues</b>	<b>\$ 1,626,584</b>	<b>\$ 1,626,584</b>	<b>\$ 1,666,490</b>	<b>\$ 39,906</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	1,668,384	1,659,828	1,540,673	119,155
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (41,800)</b>	<b>\$ (33,244)</b>	<b>\$ 125,817</b>	<b>\$ 159,061</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	41,800	41,800	25,000	(16,800)
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ 8,556</b>	<b>\$ 150,817</b>	<b>\$ 142,261</b>
<b>Fund Balance - January 1</b>	<b>(27,535)</b>	<b>(27,535)</b>	<b>(27,535)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (27,535)</b>	<b>\$ (18,979)</b>	<b>\$ 123,282</b>	<b>\$ 142,261</b>



**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,681,875	\$ 1,681,875	\$ 22,426	\$ (1,659,449)
Intergovernmental	-	-	907	907
Miscellaneous	-	-	6,407	6,407
<b>Total Revenues</b>	<b>\$ 1,681,875</b>	<b>\$ 1,681,875</b>	<b>\$ 29,740</b>	<b>\$ (1,652,135)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 995,000	\$ 995,000	\$ 995,000	\$ -
Interest	686,875	686,875	695,321	(8,446)
Administrative - fiscal charges	-	-	1,288	(1,288)
<b>Total Expenditures</b>	<b>\$ 1,681,875</b>	<b>\$ 1,681,875</b>	<b>\$ 1,691,609</b>	<b>\$ (9,734)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,661,869)</b>	<b>\$ (1,661,869)</b>
<b>Fund Balance - January 1</b>	<b>2,236,744</b>	<b>2,236,744</b>	<b>2,236,744</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,236,744</b>	<b>\$ 2,236,744</b>	<b>\$ 574,875</b>	<b>\$ (1,661,869)</b>

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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, 2009**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,084,033	\$ 68,549,938	\$ 67,836,725	\$ 1,797,246
<b><u>Liabilities</u></b>				
Taxes collected in advance	\$ 11,509	\$ 34,053	\$ 11,509	\$ 34,053
Due to other governments	1,072,524	68,515,885	67,825,216	1,763,193
<b>Total Liabilities</b>	<b>\$ 1,084,033</b>	<b>\$ 68,549,938</b>	<b>\$ 67,836,725</b>	<b>\$ 1,797,246</b>
<b><u>STATE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 322,964	\$ 8,729,744	\$ 8,751,085	\$ 301,623
<b><u>Liabilities</u></b>				
Due to other governments	\$ 322,964	\$ 8,729,744	\$ 8,751,085	\$ 301,623
<b><u>CITIES AND TOWNS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 29,551	\$ 16,552,429	\$ 16,581,980	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ 29,551	\$ 16,552,429	\$ 16,581,980	\$ -

**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, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>6,414</u>	\$ <u>13,028,200</u>	\$ <u>13,034,614</u>	\$ <u>-</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>6,414</u>	\$ <u>13,028,200</u>	\$ <u>13,034,614</u>	\$ <u>-</u>
 <b><u>SPECIAL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>19,997</u>	\$ <u>1,706,672</u>	\$ <u>1,712,231</u>	\$ <u>14,438</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>19,997</u>	\$ <u>1,706,672</u>	\$ <u>1,712,231</u>	\$ <u>14,438</u>
 <b><u>ITASCA COUNTY FAMILY SERVICES COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>185,073</u>	\$ <u>22,462</u>	\$ <u>-</u>	\$ <u>207,535</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>185,073</u>	\$ <u>22,462</u>	\$ <u>-</u>	\$ <u>207,535</u>



**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, 2009**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>COMMUNITY HEALTH SERVICES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 10,421	\$ 1,195,342	\$ 1,189,798	\$ 15,965
<b><u>Liabilities</u></b>				
Due to other governments	\$ 10,421	\$ 1,195,342	\$ 1,189,798	\$ 15,965
 <b><u>SOUTH CENTRAL ITASCA COUNTY PLANNING BOARD</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 19,090	\$ 8,529	\$ 9,539	\$ 18,080
<b><u>Liabilities</u></b>				
Due to other governments	\$ 19,090	\$ 8,529	\$ 9,539	\$ 18,080
 <b><u>NORTHEAST MINNESOTA REGIONAL RADIO BOARD</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 44,077	\$ 174,898	\$ (130,821)
Due from other governments	-	130,821	-	130,821
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 174,898</b>	<b>\$ 174,898</b>	<b>\$ -</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 174,898	\$ 174,898	\$ -

**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, 2009**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,677,543	\$ 109,837,393	\$ 109,290,870	\$ 2,224,066
Due from other governments	-	130,821	-	130,821
	<b>\$ 1,677,543</b>	<b>\$ 109,968,214</b>	<b>\$ 109,290,870</b>	<b>\$ 2,354,887</b>
<b><u>Liabilities</u></b>				
Taxes collected in advance	\$ 11,509	\$ 34,053	\$ 11,509	\$ 34,053
Due to other governments	1,666,034	109,934,161	109,279,361	2,320,834
	<b>\$ 1,677,543</b>	<b>\$ 109,968,214</b>	<b>\$ 109,290,870</b>	<b>\$ 2,354,887</b>

**OTHER SCHEDULE**

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 8*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Shared Revenue**

**State**

Highway users tax	\$	8,475,569
County program aid		1,396,040
PERA rate reimbursement		82,819
Disparity reduction aid		161,201
Police aid		464,597
Taconite credit		603,743
Mobile home taconite credit		1,792
E-911		129,415
Market value credit aid		1,679,059
Supplemental aid		1,652,244
Casino revenue aid		99,080

**Total shared revenue** **\$ 14,745,559**

**Reimbursement for Services**

Minnesota Department of Human Services	\$	1,057,280
Minnesota Department of Health		51,480

**Total reimbursement for services** **\$ 1,108,760**

**Payments**

**State**

Payments in lieu of taxes	\$	741,287
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**Local**

Other contributions		8,555
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**Total payments** **\$ 749,842**

**Grants**

**State**

Minnesota Department/Board of		
Corrections	\$	332,917
Public Safety		59,172
Water and Soil Resources		11,514
Health		116,500
Natural Resources		445,488
Human Services		3,007,189
Employment and Economic Development		20,597,985
Veterans Affairs		1,365
Office of Environmental Assistance		109,002

**Total state** **\$ 24,681,132**

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**Schedule 8**  
***(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 831,737
Interior	381,964
Justice	961,713
Transportation	1,725,589
Health and Human Services	3,753,822
Homeland Security	106,266
Environmental Protection Agency	3,000
	<hr/>
<b>Total federal</b>	<b>\$ 7,764,091</b>
	<hr/>
<b>Total state and federal grants</b>	<b>\$ 32,445,223</b>
	<hr/>
<b>Total Intergovernmental Revenue</b>	<b>\$ 49,049,384</b>
	<hr/> <hr/>



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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

*Schedule 9*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Itasca County.
- B. 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. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Itasca County expresses 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 of the Supplemental Nutrition Assistance Program (SNAP) Cluster	
State Administrative Matching Grants for SNAP	CFDA #10.561
State Administrative Matching Grants for SNAP - ARRA	CFDA #10.561
Public Safety Interoperable Communications Grant	CFDA #11.555
Highway Planning and Construction Cluster	
Highway Planning and Construction	CFDA #20.205
Recreational Trails Program	CFDA #20.219

Child Support Enforcement Cluster	
Child Support Enforcement	CFDA #93.563
Child Support Enforcement - ARRA	CFDA #93.563
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 concerns relating to segregation of the cash receipt function in departments and have addressed these to the extent possible at this time. The treasurer's department has taken steps to segregate the cash collection function and the posting function with the use of a scanning machine and electronic postings.*

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 prior audit, we noted a budget error that was due to state aids which were reported twice in the budget document. In our current audit, we noted a budget error in the Debt Service Fund. On the budget worksheet, there was \$2,163,090 entered into the projected revenues column for the Debt Service Fund, which is for revenues other than taxes. The Debt Service Fund does not receive a significant amount of nontax revenues; therefore, this was an error. These revenues exceeded the expenditures budgeted for the fund, resulting in a negative levy of \$481,215, when there should have been taxes levied to meet debt service payments due in the following year.

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 and that both the County Auditor/Treasurer and the Chief Accountant review the budget before it is finalized for any budget line items that are unusual or inconsistent with the prior year. Any discrepancies should be resolved, and the budget should be amended, if necessary.

Client's Response:

*None of the budget errors resulted in a shortage of tax revenues to the county. The revenue projections for the Debt Service Fund were never intended to be levied and were anticipated to come from reserves. Our budget policy will be reviewed and amendments proposed to the Board of Commissioners.*

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:

*The auditor's department has been trying to provide a working trial balance to the State Auditor for two years. Format problems exist with the State Auditor system, and we have not been successful in achieving our goal. Providing a working trial balance to the auditors would fulfill our obligation to prepare the financial statements.*

06-4 Audit Adjustments

A deficiency in internal control over financial reporting 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 and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

During our audit, we proposed 21 adjustments that were material 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, adjust fund balance reserves and designations, adjust state-aid highway allotments, allocate unallocated expenditures, record the forfeited tax apportionment, eliminate receivables incorrectly recorded, adjust for prior year book entries not made, correct client error in recording a drawdown, 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. In future years, I would ask the State Auditor to bring these issues to me before ending their field work. Actually, these issues should be worked out prior to the beginning of their field work next year. I will become more involved in our audit process next year and will insist on more direct communication with the state auditor's office.*

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:

*My office has very detailed accounting procedures in place at every work station. Every job has a "job duties" manual which outlines the duties and procedures related to that particular position. There have been many changes to job duties with this department over the past few years, which has prevented the actual preparation of a formal accounting policy to be codified and brought forward.*

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. During our current audit, we noted that approximately \$267,000 of radio equipment was sold to Great River Energy which was not deleted from 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. We also recommend that capital assets which are sold or otherwise disposed of, be removed from the capital asset records.

Client's Response:

*Many of these inventories have been taken; however, in 2011, we will begin a systematic physical inventory of capital assets.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS RESOLVED

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

Itasca County 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, the contract entered into for the purchase of this radio equipment was entered into without bidding as required by Minn. Stat. § 471.345, subd. 3.

**Resolution**

The Chief Accountant developed a spreadsheet to keep track of the required information for capital assets purchased with federal funds. We noted no instances in the current audit where federal capital assets were purchased without going through the bidding process.

**State Administrative Matching Grants for the Supplemental  
Nutrition Assistance Program (CFDA #10.561), Title IV-D Child  
Support Enforcement (CFDA #93.563), and Medical Assistance  
Program (CFDA #93.778) (08-3)**

During our audit, 11 of the 40 vouchers we tested under the cost allocation plan did not have the authorizing signature of a supervisor on them.

**Resolution**

During our current audit, all of the vouchers we tested under the cost allocation plan testing were properly approved by a supervisor.



**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-7 Broker Certifications

The County is required by Minn. Stat. § 118A.04, subd. 9, 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 2009, 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:

*On September 21, 2010, a revised Investment Policy was brought to the Board for approval. If approved by the Board on September 28, 2010, the broker/dealers we work with will sign broker certifications annually. Our old investment policy prohibited them from signing certificates.*

07-3 Safekeeping of Investments

During 2009, Minn. Stat. § 118A.06 required 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, 2009, negotiable certificates of deposit totaling \$198,135 purchased through United Planners, a brokerage firm headquartered in Arizona. The County had \$3,904,425 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, we do not believe these investments were held in safekeeping in accordance with Minn. Stat. § 118A.06, as it was in effect at December 31, 2009.

The 2010 Legislature changed the requirements so that as of August 1, 2010, brokers can hold public investments to the extent they have insurance to protect their clients through the Securities Investors Protection Corporation (SIPC) coverage or excess SIPC coverage. We recommend that all County securities be held only by entities that meet the criteria of Minn. Stat. § 118A.06. For brokers such as United Planners and Edward Jones, the County must verify that the broker has SIPC coverage and excess SIPC coverage sufficient to protect all County securities in its possession in order to be in compliance with Minn. Stat. § 118A.06 after August 1, 2010.

Client’s Response:

*Our safekeeping risk has been mitigated by the excess liability policy carried by Edward Jones in an aggregate amount of \$900,000,000. This policy, along with the \$500,000 SIPC coverage, provides an adequate protection from any loss with regard to safekeeping. Itasca County will provide proof of excess coverage from our broker/dealers in future years or we will terminate our relationship with these parties.*

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. Minn. Stat. § 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 advisable to ensure 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 that will be in compliance with the statutory language.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Ratings on Pledged Collateral (07-1)**

In our prior audit, we noted the County Auditor/Treasurer had accepted collateral from two banks which did not meet the rating requirements of Minn. Stat. § 118A.03, subd. 2.

**Resolution**

In the current audit, all collateral we reviewed at year-end met the rating requirements of Minn. Stat. § 118A.03, subd. 2.

**Cash Held by Brokers (08-5)**

Itasca County held \$100,000 in a cash account with Edward Jones at December 31, 2009. Minn. Stat. § 118A.01, subd. 3, defines what an acceptable depository is under Minnesota statutes. Broker/dealers are not authorized depositories under this statute.

**Resolution**

This was converted to a certificate of deposit in 2009.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the County for the year ending December 31, 2011.

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 29, 2010. The financial statements include the Nursing Home Enterprise Fund as of and for the year ended September 30, 2009. 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 and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses

and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs, as item 06-4 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-5, 06-2, 06-3, 06-5, and 08-1 to be significant deficiencies.

### 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 seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because that provision was not applicable.



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, 07-3, and 08-4.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to the County, and it is reported for that purpose.

Itasca County's written responses to the internal control 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

September 29, 2010

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REBECCA OTTO  
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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, 2009. 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, 2009.

#### Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Itasca County as of and for the year ended December 31, 2009, and have issued our report thereon dated September 29, 2010. 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 County's financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

September 29, 2010

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>			
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		\$ 163,674
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster	10.561		299,336
State Administrative Matching Grants for SNAP	10.561		13,181
State Administrative Matching Grants for SNAP - ARRA			
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance	10.664		65,984
Passed Through Minnesota Department of Finance Schools and Roads - Grants to States	10.665		294,353
<b>Total U.S. Department of Agriculture</b>			<b>\$ 836,528</b>
<b>U.S. Department of Commerce</b>			
Passed Through the Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555		<b>\$ 340,144</b>
<b>U.S. Department of the Interior</b>			
Direct Payments in Lieu of Taxes	15.226		<b>\$ 381,964</b>
<b>U.S. Department of Justice</b>			
Direct Supervised Visitation, Safe Havens for Children	16.527		\$ 127,579
The Community-Defined Solutions to Violence Against Women Grant Program	16.590		213,291
Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	16.736		56,198
Passed Through the Minnesota Department of Public Safety Edward Bryne Memorial Justice Assistance Grant Program/Grants to States and Territories - ARRA	16.803		14,367
<b>Total U.S. Department of Justice</b>			<b>\$ 411,435</b>

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**Schedule 10  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenditures</b>
<b>U.S. Department of Transportation</b>			
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	031-661-007 031-635-010	\$ 1,263,313
Recreational Trails Program	20.219	031-090-005 031-090-006	228,589
Passed Through Minnesota Department of Natural Resources Recreational Trails Program	20.219	0010-09-a 0022-07-2a 0028-08-2a	<u>156,784</u>
<b>Total U.S. Department of Transportation</b>			<b><u>\$ 1,648,686</u></b>
<b>Environmental Protection Agency</b>			
Passed Through the Minnesota Department of Health State Indoor Radon Grants	66.032		<b><u>\$ 3,000</u></b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Aitkin-Itasca-Koochiching Community Health Services Board Public Health Emergency Preparedness	93.069		\$ 52,219
Immunization Grants	93.268		750
Disease Control and Prevention Investigation	93.283		33,500
Maternal and Child Health Services Block Grant	93.994		56,392
Passed Through Minnesota Department of Human Services Projects for Assistance in Transition from Homelessness (PATH)	93.150		13,368
Promoting Safe and Stable Families	93.556		14,088
Temporary Assistance for Needy Families (TANF)	93.558		663,824
Child Support Enforcement Cluster Child Support Enforcement	93.563		942,556
Child Support Enforcement - ARRA	93.563		113,384
Refugee and Entrant Assistance	93.566		775
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		26,679
Child Welfare Services - State Grants	93.645		4,570
Foster Care Title IV-E Cluster Foster Care Title IV-E	93.658		56,565
Foster Care Title IV-E - ARRA	93.658		2,476



**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**Schedule 10  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services</b>			
Passed Through Minnesota Department of Human Services (Continued)			
Social Services Block Grant Title XX	93.667		323,112
Chafee Foster Care Independence Program	93.674		14,098
Medical Assistance Program	93.778		1,299,801
Community Mental Health Services Block Grant	93.958		30,464
Passed Through Minnesota Department of Health Temporary Assistance for Needy Families (TANF)	93.558		<u>72,723</u>
<b>Total U.S. Department of Health and Human Services</b>			<b><u>\$ 3,721,344</u></b>
<b>U.S. Department of Homeland Security</b>			
Passed Through Minnesota Department of Natural Resources			
Boating Safety Financial Assistance	97.012		\$ 78,429
Passed Through Minnesota Department of Public Safety			
Special Projects	97.001		1,237
Emergency Management Performance Grant	97.042		<u>26,600</u>
<b>Total U.S. Department of Homeland Security</b>			<b><u>\$ 106,266</u></b>
<b>Total Federal Awards</b>			<b><u>\$ 7,449,367</u></b>

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**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Itasca County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Itasca County under programs of the federal government for the year ended December 31, 2009. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Itasca County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Itasca County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**ITASCA COUNTY  
GRAND RAPIDS, MINNESOTA**

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 7,764,091
Grants received more than 60 days after year-end, deferred in 2009	
Special Supplemental Nutrition Program for Women, Infants, and Children	19,221
Public Safety Interoperable Communications Grant Program	202,720
Recreational Trails Program	29,189
Temporary Assistance for Needy Families (TANF)	27,060
Child Support Enforcement	32,400
Deferred in 2008, recognized as revenue in 2009	
Special Supplemental Nutrition Program for Women, Infants, and Children	(14,430)
Supervised Visitation, Safe Havens for Children	(38,734)
Community Oriented Policing Services Technology Grant	(374,120)
Highway Planning and Construction	(78,400)
Recreational Trails Program	(27,691)
Foster Care Title IV-E	(12,922)
Medical Assistance Program	(79,017)
	\$ 7,449,367
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 7,449,367

5. Subrecipients

Of the expenditures presented in the schedule, Itasca County provided federal awards to Subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
16.527	Supervised Visitation, Safe Havens for Children	\$ 127,579
16.590	The Community-Defined Solutions to Violence Against Women Grant Program	97,605
16.736	Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	56,198
		\$ 281,382
Total		\$ 281,382

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.