

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MORRISON COUNTY RURAL  
DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

## **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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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**MORRISON COUNTY RURAL  
DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

**For the Year Ended December 31, 2011**



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

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**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

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**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

**ORGANIZATION  
DECEMBER 31, 2011**

<u>Name</u>	<u>Position</u>
Board Members	
Mark Gerbi	Member
Cathy Vanrisseghem	Member
Maureen Watercott	Member
Rob Ronning	Secretary/Treasurer
Don Klinker	Member
Jeff Schilling	Member
Duane Johnson	Chair

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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 Members  
Morrison County Rural Development Finance Authority

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Morrison County Rural Development Finance Authority (RDFA), a component unit of Morrison County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the RDFA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Morrison County RDFA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Morrison County Rural Development Finance Authority as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Morrison County RDFA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies governmental fund type definitions.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morrison County RDFA's basic financial statements as a whole. The supplementary information, which is the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012, on our consideration of Morrison County RDFA'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

/s/Greg Hierlinger

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 12, 2012

## **BASIC FINANCIAL STATEMENTS**

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**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

*EXHIBIT 1*

**GENERAL FUND BALANCE SHEET  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<u><b>Assets</b></u>			
<b>Current assets</b>			
Cash	\$ 188,050	\$ -	\$ 188,050
Due from other governments	503,795	-	503,795
Loans receivable	596,700	-	596,700
<b>Total Assets</b>	<b>\$ 1,288,545</b>	<b>\$ -</b>	<b>\$ 1,288,545</b>
 <u><b>Liabilities and Fund Balance/Net Assets</b></u>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 523,716	\$ -	\$ 523,716
Deferred revenue - unavailable	596,700	(596,700)	-
<b>Total Liabilities</b>	<b>\$ 1,120,416</b>	<b>\$ (596,700)</b>	<b>\$ 523,716</b>
<b>Fund Balance</b>			
Restricted for economic development	168,129	(168,129)	
<b>Net Assets</b>			
Restricted for economic development		764,829	764,829
<b>Total Liabilities and Fund Balance/Net Assets</b>	<b>\$ 1,288,545</b>	<b>\$ -</b>	<b>\$ 1,288,545</b>
 <b>Reconciliation of the General Fund Balance to Net Assets</b>			
Fund Balance - General Fund			\$ 168,129
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds			596,700
<b>Net Assets - Governmental Activities</b>			<b>\$ 764,829</b>

**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Taxes	\$ 65,238	\$ -	\$ 65,238
Intergovernmental			
State - shared revenues	7,573	-	7,573
Federal	500,000	-	500,000
Investment income	461	-	461
Miscellaneous	1,253	500,000	501,253
	<b>\$ 574,525</b>	<b>\$ 500,000</b>	<b>\$ 1,074,525</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Economic development	547,325	-	547,325
	<b>\$ 27,200</b>	<b>\$ 500,000</b>	<b>\$ 527,200</b>
<b>Net Change in Fund Balance/Net Assets</b>			
	<b>\$ 27,200</b>	<b>\$ 500,000</b>	<b>\$ 527,200</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>140,929</b>	<b>96,700</b>	<b>237,629</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 168,129</b>	<b>\$ 596,700</b>	<b>\$ 764,829</b>

**Reconciliation of the Statement of General Fund Revenues,  
Expenditures, and Changes in Fund Balance to the Statement  
of Activities**

Net Change in Fund Balance \$ 27,200

In the fund, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statement and the statement of activities is the increase or decrease in revenue deferred as unavailable.

500,000

**Change in Net Assets of Governmental Activities**

**\$ 527,200**

**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Summary of Significant Accounting Policies

The Morrison County Rural Development Finance Authority's (RDFA) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2011. 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 issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the RDFA are discussed below.

A. Financial Reporting Entity

The Morrison County RDFA was created in 1982 under 1982 Minn. Laws, ch. 437, as a public body corporate and politic and political subdivision of the State of Minnesota. The RDFA was established to promote economic development in rural areas in Morrison County. The RDFA's Board of Commissioners consists of seven members: two are Morrison County Commissioners, two are City of Little Falls Council members, two are appointed by the County Board of Commissioners, and one is appointed by the Little Falls City Council. The RDFA is reported as a component unit of Morrison County because the County can significantly influence the operations of the RDFA.

B. Basic Financial Statements

Basic financial statements include information on the RDFA's activities as a whole and information on the individual fund of the RDFA. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the RDFA as a whole.

The governmental activities columns are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The RDFA's net assets are reported as restricted. The statement of activities demonstrates the degree to which the expenses of the RDFA are offset by revenues.

**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

The balance sheet and statement of revenues, expenditures, and changes in fund balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

The government-wide 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The RDFA considers all revenues as available if collected within 60 days after the end of the current period. Property taxes, charges for services, and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Property Taxes

An ad valorem tax may be levied against all properties in the RDFA with levy limits prescribed by state statute. Property tax levies must be approved by the RDFA Board of Commissioners and certified to the Morrison County Auditor/Treasurer in October of each year for collection the following year. Taxes are payable to the County in two installments by May 15 and October 15.

**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Deferred Revenue

The General Fund and the governmental activities defer revenue for resources that have been received but not yet earned. The General Fund also reports deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

3. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the RDFA is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the RDFA’s Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - amounts in the assigned fund balance classification are for the amounts the RDFA intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. 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.

5. Budgetary Information

The RDFA does not adopt formal budgets for the activity in the General Fund.

2. Detailed Notes

A. Deposits

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

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

**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

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2. Detailed Notes

A. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the RDFA's deposits may not be returned to it. The RDFA does not have a deposit policy for custodial credit risk. As of December 31, 2011, the bank balance of the RDFA's deposits totaled \$188,050, and was not exposed to custodial credit risk.

B. Receivables

At December 31, 2011, the RDFA had \$503,795 due from other governments. This represents the amount due from Morrison County for market value credits and the pass through of a federal grant the County received from the Minnesota Department of Employment and Economic Development.

The RDFA has loans receivable from Community Development of Morrison County, which administers loan programs to businesses within the County. At December 31, 2011, the balance of loans receivable from Community Development of Morrison County totaled \$96,700. The RDFA's loans receivable represents the local match of loans made by Community Development of Morrison County to businesses within the County. The principal and interest collected on these loans by Community Development of Morrison County are used to help fund new loans. It has not been determined when these loans will be repaid to the RDFA.

In addition, the RDFA has a loan receivable of \$500,000 due from Triumph Boats, LLC. Funding for this loan was made available by the Minnesota Department of Employment and Economic Development through a federal program from the U.S. Department of Housing and Urban Development. This loan will be repaid over ten years beginning February 1, 2012, with an interest rate of four percent.

C. Deferred Revenue

Deferred revenue consists of long-term loans receivable.

**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

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2. Detailed Notes (Continued)

D. Risk Management

The RDFA 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 all risks, the RDFA relies upon the insurance coverage of the participants in the joint venture. There have been no significant reductions in insurance from the previous year. The amount of settlements did not exceed insurance coverage for each of the past three years.

E. Contingencies

The expenditures under the federal grant are subject to audit by federal and state agencies. To the extent that these agencies may disallow expenditures claimed, a liability to the RDFA could result.

**SUPPLEMENTARY INFORMATION**

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**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

***EXHIBIT A-1***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor</b>	<b>Federal</b>	
<b>Pass-Through Agency</b>	<b>CFDA</b>	
<b>Grant Program Title</b>	<b>Number</b>	<b>Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>		
Passed Through Morrison County, Minnesota		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	<u><u>\$ 500,000</u></u>

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**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Morrison County Rural Development Finance Authority (RDFA). The RDFA'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 the RDFA under programs of the federal government for the year ended December 31, 2011. 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 the RDFA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the RDFA.

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 grant numbers were not assigned by the pass-through agencies.

4. Subrecipients

During 2011, the RDFA did not pass any federal money to subrecipients.

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**MORRISON COUNTY RURAL DEVELOPMENT FINANCE AUTHORITY  
LITTLE FALLS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program is:

Community Development Block Grants/State's Program  
and Non-Entitlement Grants in Hawaii

CFDA #14.228

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

The Morrison County Rural Development Finance Authority qualified as a low-risk auditee? **No**

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

### INTERNAL CONTROL

#### ITEM ARISING THIS YEAR

##### 11-1 Segregation of Duties

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** The accounting functions over cash handling and receipting of the Morrison County Rural Development Finance Authority (RDFA) lack proper segregation of duties. The RDFA has one staff person who is responsible for receipting, recording, and depositing receipts as well as reconciling bank accounts.

**Context:** Due to the limited number of staff within the RDFA, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the RDFA; however, the RDFA's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in one individual is not desirable from an accounting point of view.

**Effect:** Inadequate segregation of duties could adversely affect the RDFA's ability to detect misstatements in amounts that would be material in relation to the financial statements.

**Cause:** The RDFA does not have the economic resources needed to hire additional qualified accounting staff in order to adequately segregate duties.

**Recommendation:** We recommend that the RDFA's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

#### Client's Response:

*Morrison County RDFA is fully aware of the limited number of office personnel and will do what is necessary to ensure that the assets of Morrison County RDFA are protected.*

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

None.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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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 Commissioners  
Morrison County Rural Development Finance Authority

We have audited the financial statements of the governmental activities and the General Fund of the Morrison County Rural Development Finance Authority (RDFA), a component unit of Morrison County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the RDFA's basic financial statements, and have issued our report thereon dated September 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

Management of the Morrison County RDFA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the RDFA'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 RDFA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the RDFA's internal control over financial reporting.

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 RDFA's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 11-1, that we consider to be a significant deficiency in internal control over financial reporting. 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morrison County RDFA'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 Political Subdivisions*, 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 Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding since the RDFA did not enter into any contracts. In addition, we did not test for compliance in public indebtedness because the RDFA has no long-term debt.

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

The Morrison County RDFA's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the RDFA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, others within the RDFA, 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 12, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
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## **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Morrison County Rural Development Finance Authority

### Compliance

We have audited the Morrison County Rural Development Finance Authority's (RDFA) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The Morrison County RDFA's major federal program is 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 its major federal program is the responsibility of the RDFA's management. Our responsibility is to express an opinion on the RDFA'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 the Morrison County RDFA'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 RDFA's compliance with those requirements.

In our opinion, the Morrison County RDFA complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Morrison County RDFA 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 RDFA's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the 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 RDFA'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.

This report is intended solely for the information and use of the Board of Commissioners, management and others within the RDFA, 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 12, 2012