

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

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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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Year Ended December 31, 2010



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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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MAHNOMEN, MINNESOTA**

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2010**

| Offices | Name | Term Expires |
|------------------------------|----------------------------------|---------------|
| Commissioners | | |
| 1st District | Wallace Eid | January 2013 |
| 2nd District | Jerry Dahl ¹ | January 2011 |
| 3rd District | Everett Kjelbertson ² | January 2013 |
| 4th District | Karen Ahmann | January 2011 |
| 5th District | Charles Pazdernik ³ | January 2011 |
| Officials | | |
| Elected | | |
| Attorney | Julie Bruggeman ⁴ | January 2011 |
| Auditor | Frank Thompson | January 2011 |
| County Recorder | Susan Bendickson | January 2011 |
| Registrar of Titles | Susan Bendickson | January 2011 |
| Sheriff | Douglas Krier | January 2011 |
| Treasurer | Brenda Lundon | January 2011 |
| Appointed | | |
| Assessor | Les Finseth | December 2012 |
| Court Administrator | Lori Wiebolt | Indefinite |
| Highway Engineer | Jonathan Large | May 2013 |
| Veterans Service Officer | John Rosenberger | December 2014 |
| Medical Examiner | Dr. Mary Ann Sens | Indefinite |
| Solid Waste Officer | Mark Diekman | Indefinite |
| Social Services Board | | |
| Chair | Everett Kjelbertson | January 2013 |
| Vice Chair | Karen Ahmann | January 2011 |
| Secretary | Theresa McCollum | July 2012 |
| Member | Jerry Dahl | January 2011 |
| Member | Charles Pazdernik ³ | January 2011 |
| Member | Wallace Eid | January 2013 |
| Member | Colleen Blattenbauer | July 2011 |
| Director | Cindy Marihart | Indefinite |

¹Chair

²Vice Chair

³David Geray was elected as the new Commissioner of the 5th District effective January 2, 2011.

⁴Darlene Rivera was elected as the new Attorney effective January 2, 2011.

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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
Mahnomen County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mahnomen 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 Mahnomen Health Center, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mahnomen Health Center, is based solely on the report of the other auditors.

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 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 respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County as of December 31, 2010, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mahnomens County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, listed in the table of contents 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 stated 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 June 21, 2011, on our consideration of Mahnomens County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(Unaudited)**

INTRODUCTION

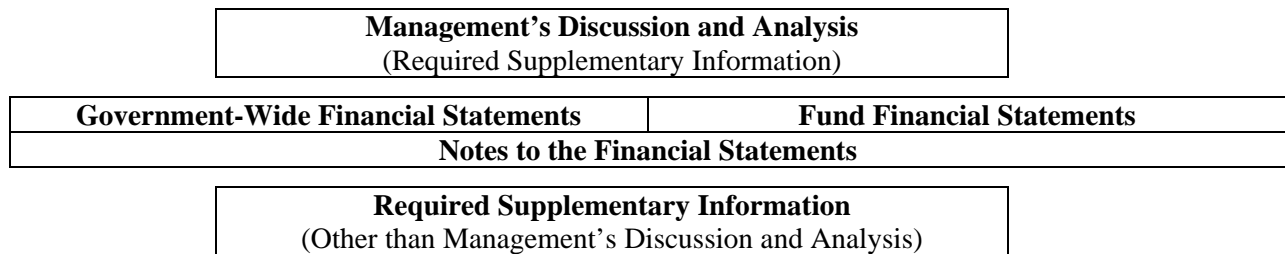
Mahnomen County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2010. Since this information is designed to focus on the current year and past year's activities, resulting changes, and known facts, it should be read in conjunction with Mahnomen County's financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$30,560,385, of which Mahnomen County has invested \$24,921,191 in capital assets, net of related debt, and \$1,878,119 is restricted to specific purposes/uses by the County.
- The net cost of Mahnomen County's governmental activities for the year ended December 31, 2010, was \$3,644,691. General property tax revenues and other revenue sources funded those costs.
- Mahnomen County's governmental funds' fund balances increased by \$904,677.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The 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), certain budgetary comparison schedules, and the Schedule of Funding Progress - Other Postemployment Benefits are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.



Mahnomen County presents two government-wide financial statements. They are the Statement of Net Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Mahnomen County's fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how the County financed services in the short-term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant/major funds. 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 Mahnomen 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 current 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.

These two statements consider all of Mahnomen County's current year revenues and expenses regardless of when the County receives the revenue or pays the expenditure. These two statements report Mahnomen County's net assets and changes in them. You can think of the County's net assets as the difference between assets and liabilities. This is 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 general economic conditions of the state and County, to assess the overall health of Mahnomen County.

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

- Governmental activities - Mahnomen County reports its basic services in the "Governmental Activities" column of these reports. The activities reported by the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Mahnomen County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.

- Component unit - The County includes a separate legal entity in its report. This entity is the Mahnomen Health Center. Although legally separate, this component unit is important because the County is financially accountable for it.

Fund Financial Statements

Mahnomen County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Funds may be established by the County to meet requirements of a specific state law; to help control and manage money for a particular purpose/project; or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose.

Governmental Funds

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. Mahnomen County reports these funds in its financial statements using an accounting method called modified accrual accounting. This accounting method measures cash and other financial assets that the County can readily convert to cash. The County's 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 determine whether financial resources are available that the County can spend in the near future to finance various programs within the County. Mahnomen County has described 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.

Reporting the County's Fiduciary Responsibilities

Mahnomen County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries, based on the trust arrangement. The County reports all of its fiduciary activities in a separate Statement 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 COUNTY AS A WHOLE

Mahnomen County's combined net assets for the year ended December 31, 2010, were \$30,560,385. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets

| | Governmental Activities | |
|---|-------------------------|----------------------|
| | 2010 | 2009 |
| Assets | | |
| Current and other assets | \$ 8,344,815 | \$ 8,241,553 |
| Capital assets | 24,812,562 | 23,649,052 |
| Total Assets | \$ 33,157,377 | \$ 31,890,605 |
| Liabilities | | |
| Long-term debt outstanding | \$ 2,145,723 | \$ 2,095,890 |
| Other liabilities | 451,269 | 907,496 |
| Total Liabilities | \$ 2,596,992 | \$ 3,003,386 |
| Net Assets | | |
| Invested in capital assets, net of related debt | \$ 24,921,191 | \$ 23,629,404 |
| Restricted | 1,878,119 | 1,843,668 |
| Unrestricted | 3,761,075 | 3,414,147 |
| Total Net Assets | \$ 30,560,385 | \$ 28,887,219 |

Unrestricted net assets totaling \$3,761,075 are available to Mahnomen County to finance day-to-day operations.

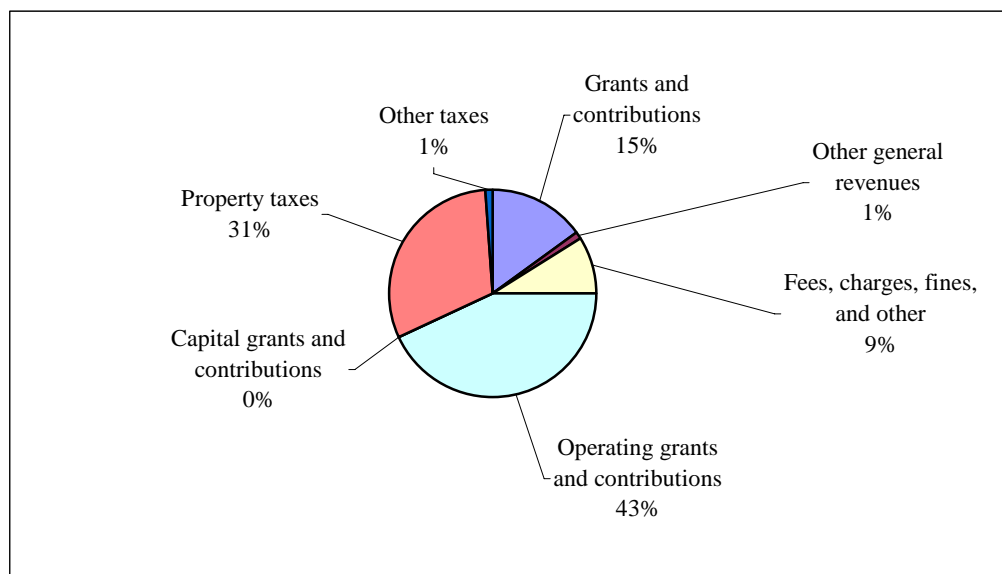
Table 2
Change in Net Assets

| | Governmental Activities | |
|------------------------------------|-------------------------|----------------------|
| | 2010 | 2009 |
| Revenues | | |
| Program revenues | | |
| Fees, charges, fines, and other | \$ 1,019,901 | \$ 768,351 |
| Operating grants and contributions | 4,829,271 | 6,776,388 |
| Capital grants and contributions | 21,267 | 18,223 |
| General revenues | | |
| Property taxes | 3,503,858 | 3,110,476 |
| Other taxes | 70,371 | 74,128 |
| Grants and contributions | 1,665,345 | 1,804,142 |
| Other general revenues | 78,283 | 93,268 |
| Total Revenues | \$ 11,188,296 | \$ 12,644,976 |

| | Governmental Activities | |
|-----------------------------------|-------------------------|----------------------|
| | 2010 | 2009 |
| Expenditures | | |
| Program expenses | | |
| General government | \$ 1,717,401 | \$ 1,830,119 |
| Public safety | 2,428,215 | 2,574,361 |
| Highways and streets | 2,239,719 | 2,096,535 |
| Sanitation | 257,614 | 263,821 |
| Human services | 2,415,025 | 2,561,828 |
| Health | 62,982 | 62,982 |
| Culture and recreation | 119,095 | 122,255 |
| Conservation of natural resources | 209,820 | 191,839 |
| Economic development | - | 253,683 |
| Interest | 65,259 | 74,893 |
| Total Expenses | <u>\$ 9,515,130</u> | <u>\$ 10,032,316</u> |
| Change in net assets | \$ 1,673,166 | \$ 2,612,660 |
| Net Assets - Beginning | <u>28,887,219</u> | <u>26,274,559</u> |
| Net Assets - Ending | <u>\$ 30,560,385</u> | <u>\$ 28,887,219</u> |

Mahnomen County's total revenues for the year ended December 31, 2010, were \$11,188,296. The total cost of County programs and services for the year ended December 31, 2010, was \$9,515,130. The net assets for governmental activities increased by \$1,673,166. The following pie chart depicts those revenues in seven categories.

**Total County Revenues
(Percent of Total)**



Governmental Activities

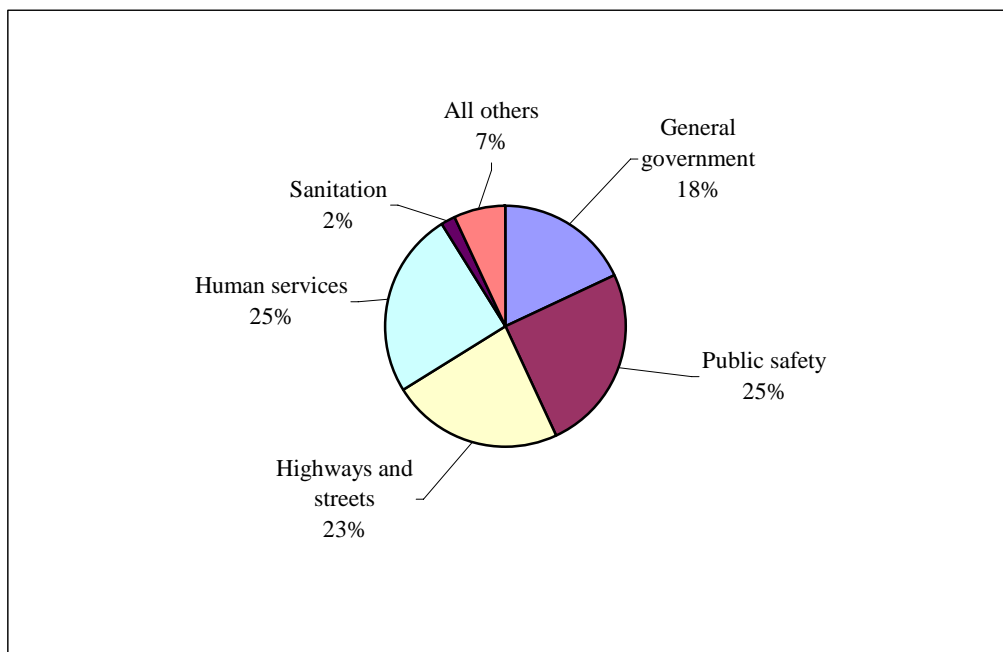
Mahnomen County's costs for all governmental activities for the year ended December 31, 2010, were \$9,515,130 as shown on the Statement of Activities. The net cost of services was ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, and grants.

Table 3 presents the cost of each of Mahnomen 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 placed on the County's taxpayers by each of these functions.

**Table 3
Governmental Activities**

| | 2010 | |
|----------------------|------------------------|----------------------|
| | Total Cost of Services | Net Cost of Services |
| Program expenses | | |
| General government | \$ 1,717,401 | \$ 1,428,441 |
| Public safety | 2,428,215 | 1,503,460 |
| Highways and streets | 2,239,719 | (229,642) |
| Human services | 2,415,025 | 756,144 |
| Sanitation | 257,614 | 75,634 |
| All others | 457,156 | 110,654 |
| | <hr/> | <hr/> |
| Totals | \$ 9,515,130 | \$ 3,644,691 |

**Governmental Activities' Expenses
(Percent of Total)**



(Unaudited)

The County's Funds

As Mahnomen County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$5,302,548, which is above last year's total combined fund balance of \$4,397,871. This increase of \$904,677 represents a 20.57 percent total increase. Included in this year's total fund balance is the County's General Fund balance of \$2,317,172. The General Fund's change in fund balance (an increase of \$730,047 from 2009) represented a 46.00 percent increase in the General Fund balance. The General Fund's increase was due to excess revenues over expenditures of \$628,065, the transfer in from the Forfeited Tax Sale Special Revenue Fund of \$1,982, and proceeds from capital lease of \$100,000. The Road and Bridge Special Revenue Fund balance increased by \$208,840, or 20.35 percent, and the Social Services Special Revenue Fund was decreased by \$56,469, or 8.30 percent.

General Fund Budgetary Highlights

The Mahnomen County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2010, the County Board of Commissioners did not make any budgetary amendments/revisions. If the County Board of Commissioners had made changes to the budget as originally adopted on Tuesday, December 15, 2009, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the County's General Fund, the actual revenues were over the budgeted revenues by \$225,272. The total actual expenditures in the County's General Fund were under the budgeted expenditures by \$186,390. The General Fund balance increased by a total of \$730,047.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, Mahnomen County had \$24,812,562 invested in a broad range of capital assets including land, construction in progress, buildings, highways and streets, and equipment (see Table 4). This amount represents a net increase (including additions and deductions) of \$1,163,510, or 4.92 percent, over last year. This increase was due largely to the airport's construction project.

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

| | 2010 | 2009 |
|-------------------------------------|----------------------|----------------------|
| Land | \$ 534,639 | \$ 498,568 |
| Construction in progress | 2,965,361 | 2,667,030 |
| Land improvements | 6,360 | 7,478 |
| Buildings and improvements | 750,886 | 706,395 |
| Machinery, furniture, and equipment | 771,490 | 527,608 |
| Infrastructure | 19,783,826 | 19,241,973 |
| Totals | <u>\$ 24,812,562</u> | <u>\$ 23,649,052</u> |

Mahnomen County's fiscal year 2010 capital budget plans did not call for any other major expenditures outside of the normal equipment, vehicles, and road construction projects. More detailed information about the County's capital assets can be found in Note 3.A.3. to the Mahnomen County financial statements.

Debt

As of December 31, 2010, Mahnomen County had \$1,530,000 in bonds outstanding, compared with \$1,725,000 as of December 31, 2009, a decrease of 11.30 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

| | 2010 | 2009 |
|--|---------------------|---------------------|
| Bonds payable - general obligation bonds | \$ 470,000 | \$ 560,000 |
| Bonds payable - revenue bonds | 1,060,000 | 1,165,000 |
| Total | <u>\$ 1,530,000</u> | <u>\$ 1,725,000</u> |

It is imperative to point out that Table 5 illustrates the County amount due on bonded debt. The City of Mahnomen has 22 percent ownership of the Mahnomen Health Center and is responsible for its portion of the bond payments for the general obligation bonds. That amount is included in the totals.

Mahnomen County's general obligation bonds are non-rated. The State limits the amount of net debt that the counties can issue to three percent (Minn. Stat. § 475.53) of the market value of all taxable property in the county. Mahnomen County's outstanding 2010 net debt is below this \$14,841,003 state-imposed limit.

Other obligations may include capital leases, compensated absences, and other postemployment benefits. Mahnomen County's notes to the financial statements provide detailed information about the County's long-term liabilities.

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 governmental activities.

- The State of Minnesota continues further addressing its serious budget deficit issues. This may have a significant impact on future Mahnomen County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce or eliminate these revenues, implement levy limits, or pass on costs to the County, it would have a significant impact on next year's budget.
- Mahnomen County's average net tax capacity rates have remained relatively consistent in comparison to other counties over the years. The County also has a good seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.
- Mahnomen County's unemployment rate for 2010 averaged 8.1 percent. The County's unemployment rate for 2009 averaged 8.0 percent according to the Minnesota Department of Employment and Economic Development.
- The Minnesota State Demographer's census data has estimated Mahnomen County's 2010 population at 5,413 residents, which is an increase of 7.72 percent from the estimated 2009 population estimate of 5,025.
- The 2011 net property tax levies are established as of the time of this printing.
- Planning and financing for facility needs and the possibility of a new jail/law enforcement center project are continuing to be monitored by the County Board.
- Union contracts and employment-related issues will affect the 2012 budget.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Mahnomen County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Mahnomen County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances, and it shows the County's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Frank Thompson, Mahnomen County Auditor, at 311 North Main Street, P. O. Box 379, Mahnomen, Minnesota 56557, (218-935-5669).

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

| | Primary Government Governmental Activities | Mahnomen Health Center Component Unit |
|---|---|--|
| <u>Assets</u> | | |
| Current assets | | |
| Cash and pooled investments | \$ 4,335,425 | \$ 537,244 |
| Departmental cash | 90,489 | - |
| Taxes receivable | | |
| Current - net | 88,892 | - |
| Prior - net | 66,712 | - |
| Special assessments receivable | | |
| Current - net | 5,959 | - |
| Prior - net | 6,283 | - |
| Noncurrent - net | 46,060 | - |
| Accounts receivable - net | 17,720 | 1,498,386 |
| Accrued interest receivable | 9,359 | - |
| Due from other governments | 2,450,827 | - |
| Inventories | 77,787 | 105,890 |
| Prepaid items | - | 105,885 |
| Noncurrent assets | | |
| Advance to other governments | 807,916 | - |
| Long-term receivables | 110,707 | 400,541 |
| Contract for deed | 217,557 | - |
| Investment in joint venture | - | 226,840 |
| Held by trustee for debt service | - | 131,553 |
| Deferred charges | 13,122 | 23,336 |
| Restricted due from other governments - temporary | - | 64,322 |
| Capital assets | | |
| Non-depreciable | 3,500,000 | 119,485 |
| Depreciable - net of accumulated depreciation | 21,312,562 | 4,113,916 |
| Total Assets | \$ 33,157,377 | \$ 7,327,398 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

| | Primary Government Governmental Activities | Mahnomen Health Center Component Unit |
|--|---|--|
| <u>Liabilities</u> | | |
| Accounts payable | \$ 144,894 | \$ 350,010 |
| Salaries payable | 184,517 | 166,759 |
| Compensated absences/vacation/sick payable - current | - | 162,120 |
| Contracts payable | 3,190 | - |
| Due to other governments | 90,798 | - |
| Customer deposits | 1,000 | - |
| Accrued interest payable | 26,870 | 20,317 |
| Unearned revenue | - | 19,772 |
| Residents' personal funds | - | 10,746 |
| Revenue bonds payable - current | - | 110,000 |
| Capital leases payable - current | - | 7,410 |
| Long-term liabilities | | |
| Special assessments debt payable - noncurrent | - | 962,224 |
| Due within one year | 344,999 | - |
| Due in more than one year | 1,800,724 | - |
| | \$ 2,596,992 | \$ 1,809,358 |
| <u>Net Assets</u> | | |
| Invested in capital assets - net of related debt | \$ 24,921,191 | \$ 3,153,767 |
| Restricted for | | |
| Hospital operations | - | 64,322 |
| General government | 88,848 | - |
| Public safety | 157,682 | - |
| Highways and streets | 1,485,725 | - |
| Sanitation | 35,157 | - |
| Debt service | 110,707 | - |
| Unrestricted | 3,761,075 | 2,299,951 |
| | \$ 30,560,385 | \$ 5,518,040 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

| <u>Functions/Programs</u> | Expenses | Fees, Charges, Fines, and Other |
|-----------------------------------|---------------------|--|
| Primary government | | |
| Governmental activities | | |
| General government | \$ 1,717,401 | \$ 152,990 |
| Public safety | 2,428,215 | 444,351 |
| Highways and streets | 2,239,719 | 95,676 |
| Sanitation | 257,614 | 112,043 |
| Human services | 2,415,025 | 158,998 |
| Health | 62,982 | - |
| Culture and recreation | 119,095 | - |
| Conservation of natural resources | 209,820 | 44,945 |
| Economic development | - | 10,898 |
| Interest | 65,259 | - |
| | \$ 9,515,130 | \$ 1,019,901 |
| Total Primary Government | \$ 9,515,130 | \$ 1,019,901 |
| Component unit | | |
| Mahnomen Health Center | \$ 7,580,567 | \$ 7,382,065 |

General Revenues

Property taxes
Special assessments
Mortgage registry and deed tax
Gravel taxes
Grants and contributions not restricted to specific programs
Payments in lieu of tax
Unrestricted investment earnings
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets | |
|---|---|---|--|
| Operating Grants and Contributions | Capital Grants and Contributions | Primary Government Governmental Activities | Mahnomen Health Center Component Unit |
| \$ 135,970 | \$ - | \$ (1,428,441) | |
| 480,404 | - | (1,503,460) | |
| 2,352,418 | 21,267 | 229,642 | |
| 69,937 | - | (75,634) | |
| 1,499,883 | - | (756,144) | |
| - | - | (62,982) | |
| 89,462 | - | (29,633) | |
| 28,338 | - | (136,537) | |
| 172,859 | - | 183,757 | |
| - | - | (65,259) | |
| \$ 4,829,271 | \$ 21,267 | \$ (3,644,691) | |
| \$ 88,040 | \$ 143,554 | | \$ 33,092 |
| | | \$ 3,503,858 | \$ - |
| | | - | 54,204 |
| | | 2,286 | - |
| | | 3,269 | - |
| | | 1,665,345 | - |
| | | 64,816 | - |
| | | 35,142 | 8,809 |
| | | 43,141 | - |
| | | \$ 5,317,857 | \$ 63,013 |
| | | \$ 1,673,166 | \$ 96,105 |
| | | 28,887,219 | 5,421,935 |
| | | \$ 30,560,385 | \$ 5,518,040 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Social Services</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|---|---------------------|----------------------------|----------------------------|---|---------------------|
| <u>Assets</u> | | | | | |
| Current assets | | | | | |
| Cash and pooled investments | \$ 1,973,883 | \$ 769,981 | \$ 604,717 | \$ 907,321 | \$ 4,255,902 |
| Petty cash and change funds | 1,700 | - | - | - | 1,700 |
| Undistributed cash in agency funds - taxes and other | 50,476 | 9,140 | 14,361 | 3,846 | 77,823 |
| Departmental cash | 90,489 | - | - | - | 90,489 |
| Taxes receivable | | | | | |
| Current - net | 57,287 | 11,407 | 18,236 | 1,962 | 88,892 |
| Prior - net | 43,196 | 8,391 | 13,441 | 1,684 | 66,712 |
| Special assessments | | | | | |
| Current - net | - | 236 | - | 5,723 | 5,959 |
| Prior - net | - | - | - | 6,283 | 6,283 |
| Noncurrent - net | - | 5,560 | - | 40,500 | 46,060 |
| Accounts receivable | 7,003 | 204 | 8,982 | 1,531 | 17,720 |
| Accrued interest receivable | 9,327 | - | - | 32 | 9,359 |
| Due from other funds | 2,442 | 2,300 | - | - | 4,742 |
| Due from other governments | 321,031 | 1,872,412 | 254,675 | 2,709 | 2,450,827 |
| Inventories | - | 77,787 | - | - | 77,787 |
| Noncurrent assets | | | | | |
| Contract for deed | 217,557 | - | - | - | 217,557 |
| Long-term receivables | - | - | - | 110,707 | 110,707 |
| Total Assets | \$ 2,774,391 | \$ 2,757,418 | \$ 914,412 | \$ 1,082,298 | \$ 7,528,519 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Social Services</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|---|---------------------|----------------------------|----------------------------|---|---------------------|
| <u>Liabilities and Fund Balances</u> | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 61,786 | \$ 36,889 | \$ 44,529 | \$ 1,690 | \$ 144,894 |
| Salaries payable | 107,405 | 23,039 | 52,192 | 1,881 | 184,517 |
| Contracts payable | - | 3,190 | - | - | 3,190 |
| Due to other funds | 2,005 | 250 | 13,242 | 2,192 | 17,689 |
| Due to other governments | 34,495 | 6,010 | 26,818 | 10,528 | 77,851 |
| Customer deposits | - | 1,000 | - | - | 1,000 |
| Deferred revenue - unavailable | 251,528 | 1,451,736 | 40,539 | 53,027 | 1,796,830 |
| Total Liabilities | \$ 457,219 | \$ 1,522,114 | \$ 177,320 | \$ 69,318 | \$ 2,225,971 |
| Fund Balances | | | | | |
| Reserved for | | | | | |
| Inventories | \$ - | \$ 77,787 | \$ - | \$ - | \$ 77,787 |
| Contract for deed | 217,557 | - | - | - | 217,557 |
| Sheriff's contingency | 5,000 | - | - | - | 5,000 |
| HAVA | 6,436 | - | - | - | 6,436 |
| Highway projects | - | 35,121 | - | - | 35,121 |
| Gravel pit restoration | - | 19,770 | - | - | 19,770 |
| SCORE | - | - | - | 35,157 | 35,157 |
| Missing heirs | 500 | - | - | - | 500 |
| Recorder's compliance fund | 40,257 | - | - | - | 40,257 |
| Recorder's equipment purchases | 42,155 | - | - | - | 42,155 |
| Enhanced 911 | 151,960 | - | - | - | 151,960 |
| Boat and water safety | 722 | - | - | - | 722 |
| Long-term receivables | - | - | - | 110,707 | 110,707 |
| Unreserved, designated for | | | | | |
| Drug eradication | 1,475 | - | - | - | 1,475 |
| County development | 2,692 | - | - | - | 2,692 |
| Timber development | 157,603 | - | - | - | 157,603 |
| Parks and recreation | 87,719 | - | - | - | 87,719 |
| Extension youth grant | 395 | - | - | - | 395 |
| Extension programming funds | 139 | - | - | - | 139 |
| Unreserved, undesignated | 1,602,562 | 1,102,626 | 737,092 | - | 3,442,280 |
| Unreserved, reported in nonmajor | | | | | |
| Special revenue funds | - | - | - | 627,727 | 627,727 |
| Debt service funds | - | - | - | 239,389 | 239,389 |
| Total Fund Balances | \$ 2,317,172 | \$ 1,235,304 | \$ 737,092 | \$ 1,012,980 | \$ 5,302,548 |
| Total Liabilities and Fund Balances | \$ 2,774,391 | \$ 2,757,418 | \$ 914,412 | \$ 1,082,298 | \$ 7,528,519 |

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

| | | |
|---|-----------|------------------|
| Fund balances - total governmental funds (Exhibit 3) | \$ | 5,302,548 |
|---|-----------|------------------|

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. | | 24,812,562 |
|--|--|------------|

Advances to other governments result in long-term assets not available to pay for current period expenditures. Therefore, advances made are not reported in the funds as assets but rather as expenditures. Collections on the advance are reported as intergovernmental revenue.

| | | |
|-----------------------------------|------------------|---------|
| Advance to Mahnomen Health Center | \$ 953,433 | |
| Repayments on advance | <u>(145,517)</u> | 807,916 |

| | | |
|---|--|-----------|
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | 1,796,830 |
|---|--|-----------|

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 | \$ (470,000) | |
| Revenue bonds | (1,060,000) | |
| Capital leases | (108,539) | |
| Accrued interest payable | (26,870) | |
| Compensated absences | (187,031) | |
| Net OPEB liability | (320,153) | |
| Deferred debt issuance charges | <u>13,122</u> | <u>(2,159,471)</u> |

| | | |
|--|-----------|--------------------------|
| Net Assets of Governmental Activities (Exhibit 1) | \$ | <u>30,560,385</u> |
|--|-----------|--------------------------|

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Social Services</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|---|---------------------|----------------------------|----------------------------|---|----------------------|
| Revenues | | | | | |
| Taxes | \$ 2,253,038 | \$ 446,288 | \$ 708,249 | \$ 76,344 | \$ 3,483,919 |
| Special assessments | - | 5,210 | - | 141,104 | 146,314 |
| Licenses and permits | 7,885 | - | - | - | 7,885 |
| Intergovernmental | 2,700,754 | 2,498,563 | 1,536,019 | 219,578 | 6,954,914 |
| Charges for services | 295,279 | 75,227 | 90,807 | 6,691 | 468,004 |
| Fines and forfeits | 8,511 | - | - | - | 8,511 |
| Gifts and contributions | 1,876 | - | - | - | 1,876 |
| Investment earnings | 35,404 | - | - | 510 | 35,914 |
| Miscellaneous | 340,839 | 16,429 | 68,191 | 6,985 | 432,444 |
| Total Revenues | \$ 5,643,586 | \$ 3,041,717 | \$ 2,403,266 | \$ 451,212 | \$ 11,539,781 |
| Expenditures | | | | | |
| Current | | | | | |
| General government | \$ 1,892,033 | \$ - | \$ - | \$ - | \$ 1,892,033 |
| Public safety | 2,530,008 | - | - | - | 2,530,008 |
| Highways and streets | - | 2,648,122 | - | - | 2,648,122 |
| Sanitation | - | - | - | 248,762 | 248,762 |
| Human services | - | - | 2,346,797 | - | 2,346,797 |
| Health | 62,982 | - | - | - | 62,982 |
| Culture and recreation | 119,095 | - | - | - | 119,095 |
| Conservation of natural resources | 154,884 | - | - | 54,965 | 209,849 |
| Economic development | 239,927 | - | - | - | 239,927 |
| Intergovernmental | | | | | |
| Highways and streets | - | 114,005 | - | - | 114,005 |
| Debt service | | | | | |
| Principal | 8,040 | 3,069 | - | 195,000 | 206,109 |
| Interest | 2,502 | 382 | - | 64,345 | 67,229 |
| Bond issuance costs | 6,050 | - | - | - | 6,050 |
| Administrative (fiscal) charges | - | - | - | 351 | 351 |
| Total Expenditures | \$ 5,015,521 | \$ 2,765,578 | \$ 2,346,797 | \$ 563,423 | \$ 10,691,319 |
| Excess of Revenues Over (Under) Expenditures | \$ 628,065 | \$ 276,139 | \$ 56,469 | \$ (112,211) | \$ 848,462 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT 5
(Continued)*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>General</u> | <u>Road and Bridge</u> | <u>Social Services</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|--|----------------------------|----------------------------|----------------------------|---|----------------------------|
| Other Financing Sources (Uses) | | | | | |
| Transfers in | \$ 1,982 | \$ - | \$ - | \$ 23,514 | \$ 25,496 |
| Transfers out | - | (23,514) | - | (1,982) | (25,496) |
| Capital lease issued | 100,000 | - | - | - | 100,000 |
| Total Other Financing Sources (Uses) | <u>\$ 101,982</u> | <u>\$ (23,514)</u> | <u>\$ -</u> | <u>\$ 21,532</u> | <u>\$ 100,000</u> |
| Net Change in Fund Balance | \$ 730,047 | \$ 252,625 | \$ 56,469 | \$ (90,679) | \$ 948,462 |
| Fund Balance - January 1 | 1,587,125 | 1,026,464 | 680,623 | 1,103,659 | 4,397,871 |
| Increase (decrease) in reserved for inventories | <u>-</u> | <u>(43,785)</u> | <u>-</u> | <u>-</u> | <u>(43,785)</u> |
| Fund Balance - December 31 | <u><u>\$ 2,317,172</u></u> | <u><u>\$ 1,235,304</u></u> | <u><u>\$ 737,092</u></u> | <u><u>\$ 1,012,980</u></u> | <u><u>\$ 5,302,548</u></u> |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 948,462

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. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

| | | |
|--------------------------------|--------------------|-----------|
| Deferred revenue - December 31 | \$ 1,796,830 | |
| Deferred revenue - January 1 | <u>(2,002,798)</u> | (205,968) |

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. In the statement of activities, the net book value of assets disposed of is expensed, while not reported in the fund statements.

| | | |
|--|--------------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ 2,173,573 | |
| Current year depreciation | <u>(1,010,063)</u> | 1,163,510 |

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net assets.

| | | |
|-------------------------|--|-----------|
| Proceeds of new debt | | |
| Capital lease purchases | | (100,000) |

| | | |
|--------------------------|---------------|---------|
| Principal repayments | | |
| General obligation bonds | \$ 90,000 | |
| Revenue bonds | 105,000 | |
| Capital lease | <u>11,109</u> | 206,109 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***EXHIBIT 6
(Continued)***

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

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 | \$ 2,321 | |
| Change in deferred charges | 6,050 | |
| Amortization of deferred debt issuance costs | (2,074) | |
| Change in compensated absences | (8,821) | |
| Change in net OPEB liability | (147,121) | |
| Change in inventories | (43,785) | |
| Change in advance to other governments | (145,517) | (338,947) |
| | | |
| Change in Net Assets of Governmental Activities (Exhibit 2) | | <u><u>\$ 1,673,166</u></u> |

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FIDUCIARY FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010**

| | Family Services Collaborative Investment Trust Fund | Agency Funds |
|--|--|-------------------------|
| | <hr/> | <hr/> |
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 249,727 | \$ 67,588 |
| Receivables | | |
| Accounts | - | 989 |
| Interest | 88 | - |
| Due from other funds | <hr/> 12,947 | <hr/> - |
| Total Assets | <hr/> \$ 262,762 | <hr/> \$ 68,577 |
| <u>Liabilities</u> | | |
| Accounts payable | \$ 55,200 | \$ - |
| Due to other governments | <hr/> - | <hr/> 68,577 |
| Total Liabilities | <hr/> \$ 55,200 | <hr/> \$ 68,577 |
| <u>Net Assets</u> | | |
| Net assets held in trust for pool participants | <hr/> \$ 207,562 | |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| <u>Additions</u> | |
|---------------------------------|--------------------------|
| Contributions from participants | \$ 98,158 |
| Investment earnings | |
| Interest | <u>1,155</u> |
| Total Additions | \$ 99,313 |
| <u>Deductions</u> | |
| Distributions to participants | <u>108,288</u> |
| Change in net assets | \$ (8,975) |
| Net Assets - January 1 | <u>216,537</u> |
| Net Assets - December 31 | <u><u>\$ 207,562</u></u> |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

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, 2010. 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 County are discussed below.

A. Financial Reporting Entity

Mahnomen County was established December 27, 1906, 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 Mahnomen County (primary government) and its component unit 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.

The Social Services Board governs the activities of the Social Services Department and consists of seven members: five County Commissioners and two lay members appointed by the Commissioners and approved by the Minnesota Department of Human Services.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Mahnomen County is discretely presented:

| <u>Component Unit</u> | <u>Component Unit Included in Reporting Entity Because</u> | <u>Separate Financial Statements Available at</u> |
|------------------------|---|--|
| Mahnomen Health Center | The County appoints a majority of the Mahnomen Health Center Board. | Mahnomen Health Center 414 West Jefferson P. O. Box 396 Mahnomen, Minnesota 56557 |

Joint Ventures

The County participates in joint ventures, jointly-governed organizations, and a related organization, which are described in Notes 6.B., 6.C., and 6.D., respectively.

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 unit. 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.

In the government-wide statement of net assets, the governmental activities column: (a) is presented on a consolidated basis; and (b) is 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund types:

The Family Services Collaborative Investment Trust Fund accounts for the external pooled and non-pooled investments held on behalf of the Family Services Collaborative.

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Mahnomen 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 long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, 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 2010 were \$35,142.

2. External Investment Pools

Included in total cash and pooled investments are the assets held for the Mahnomen County Interagency Collaborative in an external investment pool. For the purposes of financial reporting, the Collaborative's portion of the County's pool of the cash and investments is reported as an investment trust fund. Assets in the pool are reported at fair value based on quoted market prices. The pool is not subject to the regulatory oversight. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

| | |
|---|---------------------|
| Cash and pooled investments | |
| Held for internal pool participants (County funds) | \$ 4,493,502 |
| Held for external pool participants (Interagency Collaborative) | <u>249,727</u> |
| Total | <u>\$ 4,743,229</u> |

3. Receivables and Payables

Activity between funds representing 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).

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

Advances receivable, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

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

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

4. Advance to Other Governments

The noncurrent portion of an intergovernmental advance, reported as “Advance to other governments,” is offset by revenue bonds payable - noncurrent at the government-wide level.

In 2008, an advance of \$1,260,000 was made to the Mahnomen Health Center to cover capital expenditures to remodel its facilities. During 2010, the Mahnomen Health Center repaid \$145,517. The balance of \$807,916 as of December 31, 2010, will be repaid in monthly installments through 2018. The County will use these payments to cover the principal and interest due on \$1,260,000 Gross Revenue Hospital Facilities Bonds issued for the purpose of funding the Mahnomen Health Center remodeling project.

5. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Inventories and Prepaid Items (Continued)

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than the capitalization threshold and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The County's capitalization threshold for capital assets is as follows:

| <u>Assets</u> | <u>Capitalization Threshold</u> |
|------------------------------------|-------------------------------------|
| Land | \$ 1 |
| Buildings | 5,000 |
| Building improvements | 5,000 |
| Public domain infrastructure | 1 |
| Furniture, equipment, and vehicles | 5,000 |

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. During the current period, the County did not have any capitalized interest.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

| <u>Assets</u> | <u>Years</u> |
|------------------------------------|--------------|
| Buildings | 15 - 40 |
| Building improvements | 10 - 30 |
| Public domain infrastructure | 50 - 75 |
| Furniture, equipment, and vehicles | 3 - 15 |

7. Compensated Absences

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

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2010:

| | Expenditures | Budget | Excess |
|--|--------------|-----------|-----------|
| Ditch Special Revenue Fund | \$ 54,043 | \$ 40,500 | \$ 13,543 |
| Nursing Home Revenue Bonds Debt Service Fund | 103,521 | 80,473 | 23,048 |

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

| | | |
|---|----|-----------|
| Government-wide statement of net assets | | |
| Governmental activities | | |
| Cash and pooled investments | \$ | 4,335,425 |
| Departmental cash | | 90,489 |
| Statement of fiduciary net assets | | |
| Cash and pooled investments | | |
| Investment trust fund | | 249,727 |
| Agency funds | | 67,588 |
| Total Cash and Investments | \$ | 4,743,229 |

a. Deposits

Mahnomen 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 County 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. 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’s policy is to minimize its exposure to custodial credit risk by requiring all deposits to be insured or collateralized in accordance with Minn. Stat. § 118A.03. As of December 31, 2010, the County’s deposits were undercollateralized by \$324,599.

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;

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. 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's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. 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 the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy is to minimize custodial credit risk by limiting investments to the types of securities permitted by Minn. Stat. ch. 118A and by obtaining broker certification forms and documentation of perfected security interest in pledged collateral from authorized financial institutions, brokers/dealers, and intermediaries or advisors. As of December 31, 2010, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposits and investment balances at December 31, 2010, and information relating to potential investment risks:

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|--|---------------|---------------|-----------------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | |
| U.S. government agency securities | | | | | |
| Federal National Mortgage Association | Aaa | Moody's | | 07/27/2018 | \$ 299,997 |
| Federal National Mortgage Association | Aaa | Moody's | | 04/05/2019 | 296,634 |
| Total Federal National Mortgage Association | | | 41.77% | | \$ 596,631 |
| Federal Home Loan Mortgage Corporation | Aaa | Moody's | 14.00% | 07/06/2016 | \$ 200,028 |
| Federal Home Loan Bank | Aaa | Moody's | | 09/13/2017 | \$ 146,734 |
| Federal Home Loan Bank | Aaa | Moody's | | 09/13/2017 | 97,823 |
| Total Federal Home Loan Bank | | | 17.12% | | \$ 244,557 |
| Negotiable certificates of deposit | | | | | |
| American Express Bank | N/R | N/A | 6.78% | 06/10/2011 | \$ 96,786 |
| Citibank | N/R | N/A | 6.77% | 05/13/2011 | 96,675 |
| GE Capital Financial | N/R | N/A | 13.55% | 06/13/2011 | 193,597 |
| Total negotiable certificates of deposit | | | | | \$ 387,058 |
| Total investments | | | | | \$ 1,428,274 |
| Deposits | | | | | 3,313,255 |
| Petty cash and change funds | | | | | 1,700 |
| Total Cash and Investments | | | | | \$ 4,743,229 |

N/A - Not Applicable

N/R - Not Rated

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2010, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

| | Total Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|-------------------------------|----------------------|--|
| Governmental Activities | | |
| Taxes | \$ 155,604 | \$ - |
| Special assessments | 58,302 | - |
| Accounts | 17,720 | - |
| Interest | 9,359 | - |
| Due from other governments | 2,450,287 | - |
| Contract for deed | 217,557 | 207,585 |
| Long-term receivable | 110,707 | 88,425 |
| Total Governmental Activities | \$ 3,019,536 | \$ 296,010 |

3. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|--------------------------------------|----------------------|--------------|-----------|-------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 498,568 | \$ 36,071 | \$ - | \$ 534,639 |
| Construction in progress | 2,667,030 | 381,677 | 83,346 | 2,965,361 |
| Total capital assets not depreciated | \$ 3,165,598 | \$ 417,748 | \$ 83,346 | \$ 3,500,000 |
| Capital assets depreciated | | | | |
| Land improvements | \$ 32,010 | \$ - | \$ - | \$ 32,010 |
| Buildings | 2,782,861 | 84,681 | - | 2,867,542 |
| Machinery, furniture, and equipment | 1,923,148 | 445,635 | 62,701 | 2,306,082 |
| Infrastructure | 29,479,299 | 1,308,855 | - | 30,788,154 |
| Total capital assets depreciated | \$ 34,217,318 | \$ 1,839,171 | \$ 62,701 | \$ 35,993,788 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|---------------------------------------|------------------------------|---------------------|------------------|---------------------------|
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 24,532 | \$ 1,118 | \$ - | \$ 25,650 |
| Buildings | 2,076,466 | 40,190 | - | 2,116,656 |
| Machinery, furniture, and equipment | 1,395,540 | 201,753 | 62,701 | 1,534,592 |
| Infrastructure | <u>10,237,326</u> | <u>767,002</u> | <u>-</u> | <u>11,004,328</u> |
| Total accumulated depreciation | <u>\$ 13,733,864</u> | <u>\$ 1,010,063</u> | <u>\$ 62,701</u> | <u>\$ 14,681,226</u> |
| Total capital assets depreciated, net | <u>\$ 20,483,454</u> | <u>\$ 829,108</u> | <u>\$ -</u> | <u>\$ 21,312,562</u> |
| Governmental Activities | | | | |
| Capital Assets, Net | <u>\$ 23,649,052</u> | <u>\$ 1,246,856</u> | <u>\$ 83,346</u> | <u>\$ 24,812,562</u> |

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

| | |
|---|---------------------|
| Governmental Activities | |
| General government | \$ 34,962 |
| Public safety | 100,789 |
| Highways and streets, including depreciation of infrastructure assets | 836,215 |
| Sanitation | 2,221 |
| Human services | 23,460 |
| Economic development | <u>12,416</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 1,010,063</u> |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2010, is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|--------------------|-----------|
| General | Road and Bridge | \$ 250 |
| | Other governmental | 2,192 |
| Total due to General Fund | | \$ 2,442 |
| Road and Bridge Special Revenue | General | \$ 2,005 |
| | Social Services | 295 |
| Total due to Road and Bridge Special Revenue Fund | | \$ 2,300 |
| Investment Trust | Social Services | \$ 12,947 |
| Total Due To/From Other Funds | | \$ 17,689 |

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

| | | |
|--|-----------|------------------------|
| Transfers to General Fund from Forfeited Tax Sale Special Revenue Fund | \$ 1,982 | Settlement of proceeds |
| Transfer to Ditch Special Revenue Fund from Road and Bridge Special Revenue Fund | 23,514 | Allocation of revenue |
| Total Transfers Between Funds | \$ 25,496 | |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

| | Governmental Activities |
|--------------------------|----------------------------|
| Accounts | \$ 144,894 |
| Salaries | 184,517 |
| Contracts | 3,190 |
| Due to other governments | 90,798 |
| Customer deposits | 1,000 |
| Total Payables | \$ 424,399 |

2. Deferred Revenue

Deferred revenue as of December 31, 2010, for the County's governmental funds and activities are as follows:

| | Deferred Unavailable |
|-------------------------------|-------------------------|
| Governmental funds | |
| Taxes and special assessments | \$ 166,967 |
| State-shared revenue | 101,775 |
| State-aid highway allotments | 1,430,835 |
| Charges for services | 307 |
| Grants | 93,648 |
| Interest on investments | 3,288 |
| Miscellaneous | 10 |
| Total Governmental Funds | \$ 1,796,830 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Other Postemployment Benefits - Retirees

The County provides post-retirement health care benefits for qualified retirees (employees who have been employed by the County for at least ten years, effective July 8, 1986) from retirement until age 65 when they become eligible for Medicare.

As of year-end, the County has five eligible participants. The County finances the plan on a pay-as-you-go basis. During 2010, the County expended \$43,560 for these benefits.

4. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment and facilities. In 2010, the County entered into a lease agreement as lessee for financing the acquisition of the Mahnomen Service Center. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2010:

| <u>Lease</u> | <u>Maturity</u> | <u>Installment</u> | <u>Payment Amount</u> | <u>Original</u> | <u>Balance</u> |
|----------------------|-----------------|--------------------|---------------------------|-----------------|-------------------|
| 2006 Copier | 2011 | Monthly | \$ 288 | \$ 14,544 | \$ 2,766 |
| 2009 Copier | 2014 | Monthly | 273 | 15,560 | 9,787 |
| 2010 Service Center | 2020 | Semi-Annually | 6,264 | 100,000 | 95,986 |
| Total Capital Leases | | | | | <u>\$ 108,539</u> |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2010, were as follows:

| Year Ending December 31 | Governmental Activities |
|---|----------------------------|
| 2011 | \$ 18,685 |
| 2012 | 15,808 |
| 2013 | 15,810 |
| 2014 | 12,802 |
| 2015 | 12,529 |
| 2016 - 2020 | 16,376 |
| Total minimum lease payments | \$ 132,010 |
| Less: amount representing interest | (23,471) |
| Present Value of Minimum Lease Payments | \$ 108,539 |

5. Long-Term Debt

Bonds Payable

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2010 |
|--|-------------------|--------------------------|-------------------------|-----------------------------|--|
| General obligation bonds | | | | | |
| 2009A G.O. Nursing Home Revenue Refunding Bonds | 2015 | \$90,000 - \$100,000 | 2.00 - 3.00 | \$ 560,000 | \$ 470,000 |
| Revenue bonds | | | | | |
| 2007 Gross Revenue Hospital Facilities Bond | 2018 | \$110,000 - \$155,000 | 4.60 | \$ 1,260,000 | \$ 1,060,000 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

| Year Ending December 31 | General Obligation Bonds | | Revenue Bonds | |
|----------------------------|--------------------------|-----------|---------------|------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 90,000 | \$ 11,280 | \$ 110,000 | \$ 46,230 |
| 2012 | 90,000 | 9,210 | 120,000 | 40,940 |
| 2013 | 95,000 | 6,895 | 125,000 | 35,305 |
| 2014 | 95,000 | 4,330 | 130,000 | 29,440 |
| 2015 | 100,000 | 1,500 | 135,000 | 23,345 |
| 2016 - 2018 | - | - | 440,000 | 31,050 |
| Total | \$ 470,000 | \$ 33,215 | \$ 1,060,000 | \$ 206,310 |

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------------------|----------------------|------------|------------|-------------------|------------------------|
| Long-Term Liabilities | | | | | |
| General obligation bonds | \$ 560,000 | \$ - | \$ 90,000 | \$ 470,000 | \$ 90,000 |
| Revenue bonds | 1,165,000 | - | 105,000 | 1,060,000 | 110,000 |
| Capital leases | 19,648 | 100,000 | 11,109 | 108,539 | 14,173 |
| Compensated absences | 178,210 | 189,307 | 180,486 | 187,031 | 130,826 |
| Other postemployment Benefits | 173,032 | 147,121 | - | 320,153 | - |
| Total Long-Term Liabilities | \$ 2,095,890 | \$ 436,428 | \$ 386,595 | \$ 2,145,723 | \$ 344,999 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

General 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, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Two methods are used to compute benefits for General Employees Retirement Fund 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 General 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 General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. 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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are 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 2010:

| | |
|---------------------------------------|--------|
| General Employees Retirement Fund | |
| Basic Plan members | 11.78% |
| Coordinated Plan members | 7.00 |
| Public Employees Police and Fire Fund | 14.10 |
| Public Employees Correctional Fund | 8.75 |

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---------------------------------------|-------------|-------------|-------------|
| General Employees Retirement Fund | \$ 184,812 | \$ 170,245 | \$ 163,314 |
| Public Employees Police and Fire Fund | 83,466 | 85,864 | 72,588 |
| Public Employees Correctional Fund | 21,882 | 21,300 | 20,289 |

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

One employee of Mahnomen County is 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 plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.0 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 receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2010, were:

| | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount | \$ 1,043 | \$ 1,043 |
| Percentage of covered payroll | 5% | 5% |

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Mahnomen County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Mahnomen County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2010, there were 95 participants in the plan, including 4 retirees.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) 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 costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

| | | |
|---|----|----------|
| ARC | \$ | 239,562 |
| Interest on net OPEB obligation | | 6,921 |
| Adjustment to ARC | | (10,006) |
| | | _____ |
| Annual OPEB cost (expense) | \$ | 236,477 |
| Contributions made | | (89,356) |
| | | _____ |
| Increase in net OPEB obligation | \$ | 147,121 |
| Net OPEB Obligation - Beginning of Year | | 173,032 |
| | | _____ |
| Net OPEB Obligation - End of Year | \$ | 320,153 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

GASB Statement 45 was adopted effective January 1, 2009. Therefore, disclosure of annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal years ending December 31, 2008, and earlier are not applicable. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and 2010 was as follows:

| <u>Fiscal Year-End</u> | <u>Annual OPEB Cost</u> | <u>Employer Contribution</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------|---------------------------------|----------------------------------|---|--------------------------------|
| December 31, 2009 | \$ 229,556 | \$ 56,524 | 24.6% | \$ 173,032 |
| December 31, 2010 | 236,477 | 89,356 | 37.8 | 320,153 |

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$1,914,577, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,914,577. The covered payroll (annual payroll of active employees covered by the plan) was \$3,323,915, and the ratio of the UAAL to the covered payroll was 57.6 percent.

Actuarial valuations of an ongoing plan 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 the health care cost trend. 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a four percent investment rate of return (net of investment expenses), which is Mahnomen County's implicit rate of return on the General Fund. The annual health care cost trend is ten percent initially, reduced by decrements to an ultimate rate of five percent over 10 years. Both rates included a four percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2010, was 28 years.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT), formerly the Minnesota Counties Insurance Trust. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigation. The County Attorney identified no potential claims against the County that would materially affect the financial statements.

B. Joint Ventures

Norman-Mahnomen Public Health

The Multi-County Nursing Service was established in 1997, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and included Becker, Mahnomen, and Norman Counties. On June 24, 2003, the Becker County Board passed a resolution to withdraw from the Multi-County Nursing Service as of January 1, 2005. On January 1, 2005, Norman and Mahnomen Counties amended the joint powers agreement forming the Multi-County Nursing Service and started doing business as Norman-Mahnomen Public Health. The purpose of Norman-Mahnomen Public Health is the development, implementation, and operation of public health services throughout the member counties.

Control of Norman-Mahnomen Public Health is vested in the Norman-Mahnomen Community Health Board, which consists of six members. Norman and Mahnomen Counties each appoint three members.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Norman-Mahnomen Public Health (Continued)

In the event of withdrawal from the Norman-Mahnomen Public Health, the withdrawing county is not entitled to any reimbursement of funds contributed during the course of its membership, except to the extent of any surplus uncommitted monies remaining in the operation account upon expiration of the fiscal year of the county's withdrawal. Such surplus shall be distributed in the proportion that the withdrawing county's contribution bears to the aggregate contribution of all member parties for the year of withdrawal. Funds utilized for capital asset acquisition shall be paid only at the time of sale of such assets.

Norman-Mahnomen Public Health's long-term liabilities were \$29,033 at December 31, 2009 (most recent available information). Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Mahnomen County's contribution for 2010 was \$62,982.

Complete financial information can be obtained from:

Norman-Mahnomen Public Health
16 East 3rd Avenue North, Room 107
Ada, Minnesota 56510

Joint County Natural Resources Board

The Joint County Natural Resources Board was formed in 1985 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Aitkin, Beltrami, Clearwater, Koochiching, Lake of the Woods, Mahnomen, Marshall, and Roseau Counties.

The purpose of the Natural Resources Board is to gather information on and formulate policies for the development, utilization, and protection of natural resources in northern Minnesota, and to ensure that there is an interrelated plan for the use and protection of both public and private resources.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

Control of the Natural Resources Board is vested in the Joint County Natural Resources Board, which is composed of at least one resident of each county appointed by its respective County Board, as provided in the Natural Resources Board's by-laws.

In the event of dissolution of the Joint County Natural Resources Board, the net assets of the Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each.

The Natural Resources Board has no long-term debt. Financing is provided by the appropriations from member counties. Complete financial information can be obtained from:

Mr. Wayne Bendickson
Treasurer
Joint County Natural Resources Board
Box 808
Baudette, Minnesota 56623

Mahnomen County Interagency Collaborative

The Mahnomen County Interagency Collaborative (MCIC) was established in 1998, pursuant to Minn. Stat. § 124D.23, between Mahnomen County Human Services, Mahnomen County Sheriff's Department, Independent School District Nos. 432 and 435, Minnesota Department of Corrections, Multi-County Nursing Service (now Norman-Mahnomen Public Health), Northwestern Mental Health Center, Stellher Human Services, University of Minnesota Mahnomen County Extension Office, Mahnomen Health Center, MAHUBE Community Council, White Earth Human Services, and White Earth Mental Health. Mahnomen County Human Services is the acting fiscal agent of the MCIC. The purpose of the MCIC is to provide healthier communities and families and to reduce the number of out-of-home placements.

The management of the MCIC is vested in the interagency agreements. Each participating agency is granted one vote upon the receipt of a resolution from its governing board. Mahnomen County is granted two votes.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

In the event of dissolution of the MCIC, the withdrawing party shall give a 30-day notice. Should the MCIC cease to exist, all property, real and personal, held by the MCIC at the time of termination shall be distributed by resolution of the MCIC in accordance with law and in a manner to best accomplish the continuing purposes of the MCIC.

Financing is provided by state and federal grants. During 2010, the County did not contribute any funds to the MCIC.

Northwestern Counties Data Processing Security Association

The Northwestern Counties Data Processing Security Association (NCDPSA) was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Pennington, Polk, Roseau, and Wadena Counties. The purpose of the NCDPSA is to provide a mechanism whereby the counties may cooperatively provide for a data processing disaster recovery plan and back-up system.

Control of the NCDPSA is vested in the NCDPSA Joint Powers Board, which comprises one County Commissioner from each member county. In the event of dissolution, the net assets of the NCDPSA at that time shall be distributed to the respective member counties in proportion to their contributions.

The NCDPSA has no long-term debt. Financing is provided by grants from the State of Minnesota and appropriations from member counties. Complete financial information can be obtained from:

Clearwater County Auditor
213 North Main Avenue
Bagley, Minnesota 56621

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board's convening meeting was held February 6, 2008, pursuant to the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the Cities of Moorhead and Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties.

The purpose of the Northwest Minnesota Regional Radio Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

Control of the Northwest Minnesota Regional Radio Board is vested in the Northwest Minnesota Regional Radio Board, which is composed of one Commissioner from each county appointed by its respective County Board and one City Council member from each city appointed by its respective City Council, as provided in the Northwest Minnesota Regional Radio Board's by-laws.

In the event of dissolution of the Northwest Minnesota Regional Radio Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. Complete financial information can be obtained from:

Northwest Minnesota Regional Radio Board
c/o Greater Northwest EMS
2301 Johanneson Avenue N.W., Suite 103
Bemidji, Minnesota 56601

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items (Continued)

C. Jointly-Governed Organizations

Wild Rice Watershed District

The Wild Rice Watershed District was established in 1969, pursuant to Minn. Stat. ch. 103D, and includes Becker, Clay, Clearwater, Mahnomen, Norman, and Polk Counties. The purpose of the Watershed District is to oversee watershed projects, conduct studies for future project planning, administration of legal drainage systems, issuance of applications and permits, public education on conservation issues, and dispute resolution.

Control of the Wild Rice Watershed District is vested in the Board of Managers composed of seven members appointed by the County Commissioners of Becker, Clay, Mahnomen, and Norman Counties. Norman County appoints three members, Clay County appoints two members, and the remaining counties each appoint one member.

Complete financial information can be obtained from:

Wild Rice Watershed District Office
11 East 5th Avenue
Ada, Minnesota 56510

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Mahnomen County and 14 other counties. The agreement was made to serve as a focal point for land and water concerns for those counties surrounding the Minnesota Red River Basin. Each county is responsible for its proportionate share of the administrative budget.

Control is vested in a Joint Powers Board, comprising one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. Mahnomen County did not contribute to the Joint Powers Agreement for 2010.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Minnesota Red River Basin of the North Joint Powers Agreement (Continued)

Complete financial statements can be obtained from:

The International Coalition
119 - 5th Street South
Moorhead, Minnesota 56560

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnomen, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee, which is composed of ten directors, each with an alternate, who are appointed annually by each respective County Board. Mahnomen County's responsibility does not extend beyond making this appointment.

Agassiz Regional Library

The Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Becker, Clay, Clearwater, Mahnomen, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, which is composed of 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Mahnomen County contributed \$32,875 to the Agassiz Regional Library during 2010.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Mahnomen County expended \$66,479 to the Cooperative.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Homeland Security and Emergency Management (HSEM) Region 3 Emergency Managers

The HSEM Region 3 Emergency Managers Joint Powers Board was formed pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The Board was established to engage in planning, training, and/or the purchase and use of equipment in order to better respond to emergencies and other disasters within the HSEM Region 3, specifically, within the jurisdictional boundaries of the 14 member counties. Control is vested in the HSEM Region 3 Emergency Managers Board, which is composed of 14 representatives appointed by each Board of County Commissioners. Mahnomen County's responsibility does not extend beyond making this appointment.

Paul Bunyan Task Force

The Paul Bunyan Task Force was established July 16, 1992, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Beltrami, Clearwater, Hubbard, Lake of the Woods, Mahnomen, Pennington, Red Lake, and Roseau Counties, and the Cities of Bemidji and Thief River Falls. The purpose of the Paul Bunyan Task Force is to assist member organizations in the investigation and prosecution of persons in violation of Minnesota statutes.

Control of the Paul Bunyan Task Force is established by a majority vote represented with one vote from each member of the organization. In the event of dissolution of the Paul Bunyan Task Force, the net assets shall be liquidated to the member organizations based on the percentage of population of all member counties and cities.

The Paul Bunyan Task Force has no long-term debt. During 2010, Mahnomen County did not contribute to the Paul Bunyan Task Force. Financing is provided by the profits from forfeitures and seizures pursuant to Minn. Stat. § 609.531. The City of Bemidji, in an agent capacity, reports the cash transactions of the Paul Bunyan Task Force on its financial statements. Complete financial information can be obtained from:

Kay Mack, Auditor-Treasurer
Beltrami County
701 Minnesota Ave., Suite 220
Bemidji, Minnesota 56601

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items (Continued)

D. Related Organization

Sand Hill River Watershed District

The Sand Hill River Watershed District was formed pursuant to Minn. Stat. § 103D.201, effective August 29, 1974, and includes land within Mahnomen, Norman, and Polk Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, the use of sound scientific principles for the protection of the public health and welfare, and the provident use of natural resources. Control of the District is vested in the Sand Hill River Watershed District Board of Managers, composed of five members appointed by the Polk County Board for staggered terms of three years each.

7. Mahnomen Health Center

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

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Mahnomen Health Center consists of a hospital, nursing home, and clinic located in Mahnomen, Minnesota. The Health Center is an operating entity under the ownership of Mahnomen County (County) and the City of Mahnomen (City), Minnesota, and is a component unit of Mahnomen County. The Health Center is governed under a Joint Powers Agreement between the County and City. For the year ending December 31, 2010, the County owned 78 percent of the Health Center, while the City owned 22 percent. The County and City each appoint Mahnomen Health Center Commission members who are responsible for the operation of the hospital, nursing home, and clinic. The Mahnomen Health Center Commission (the Commission) consists of nine members. The Commission is the ultimate governing body of the Health Center. The Commission shall acquire the necessary property to establish, construct, enlarge, improve, maintain, equip, operate, and control the facilities subject to the other terms of the Joint Powers Agreement.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity (Continued)

For financial reporting purposes, the Health Center has included all funds, organizations, agencies, boards, commissions, and authorities. The Health Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Health Center are such that the exclusion would cause the Health Center's financial situation to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of the other organization's governing body and (1) the ability of the Health Center to impose its will on that organization, or (2) the potential for the Health Center to provide specific benefits to or impose specific financial burdens on the Health Center. The Health Center does not have a component unit which meets GASB criteria.

Enterprise Fund Accounting

The Health Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Health Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Method of Accounting

The Health Center reports in accordance with *Audit and Accounting Guide for Health Care Organizations*, published by the American Institute of Certified Public Accountants, which prescribes accounting and reporting policies, some of which are unique to providers of health care services.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

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.

Risk Management

The Health Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; employee injuries and illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, including noncurrent cash and investments.

Patient and Resident Receivables, Net

Patient and resident receivables are uncollateralized customer and third-party obligations. Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies

Patient and Resident Receivables, Net (Continued)

Management considers historical write-off and recovery information in determining the estimated bad debt provision. At December 31, 2010, the allowance for doubtful accounts was approximately \$443,000. When all collection efforts have been exhausted, the account is written off against the related allowance.

Supplies

Supplies are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation and have estimated lives as follows:

| | |
|-------------------|---------------|
| Land improvements | 15 - 20 years |
| Buildings | 20 - 40 years |
| Movable equipment | 3 - 15 years |

Noncurrent Cash and Investments

Noncurrent cash and investments are recorded at cost, if purchased or at fair market value on the date received, if by gift or bequest. All investments are carried at market value which approximates cost. Noncurrent cash and investments required for obligations classified as current liabilities are reported as current assets.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Investment in Joint Venture

The Health Center reports its investment in Central Minnesota Diagnostic, Inc., (CMDI) on the equity method of accounting which approximates the Health Center's equity in the underlying book value based on its most recent December 31 fiscal year-end. The Health Center's shares of net income from these investments are recognized as other income from operations.

Deferred Financing Costs, Net

Deferred financing costs as of December 31, 2010, of \$33,298 will be amortized over the period the obligation is outstanding, using the effective interest rate method, which approximates to the straight-line method. Accumulated amortization and amortization expense was \$9,962 as of December 31, 2010.

Vacation and Sick

The Health Center's employees earn paid time off days at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees are paid for accumulated paid time off if they leave the Health Center. The liability for compensated absences is included with accrued vacation and sick leave in the accompanying balance sheets.

Net Assets

Net assets of the Health Center are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted assets expendable for operations are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Health Center. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Net Patient and Resident Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

To fulfill its mission of community service, the Health Center provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue. Charges foregone for charity care were approximately \$6,000 for the year ended December 31, 2010.

Operating Revenues and Expenses

The Health Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services--the Health Center's principal activity. Nonexchange revenues, including assessments, grants, and contributions received for the purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

A. Description of Reporting Entity and Summary of Significant Accounting Policies
(Continued)

Grants and Contributions

From time to time, the Health Center receives grants from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized as revenue when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts unrestricted or restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants receivable are reported in the statement of net assets at net realizable value.

Advertising Costs

The Health Center expenses advertising costs as they are incurred.

Recent Pronouncement

On January 1, 2009, the Health Center adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement creates a uniform method to account for OPEB plans. OPEBs are generally provided to an employee in exchange for services to the employer. OPEBs can be made up of several different types of plans (but not pension plans) and typically include life insurance and health care benefits. Under the accrual method of accounting, OPEB cost is recognized in the same period as the compensated services are performed. The impact of this statement is immaterial to the Health Center's financial statements.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

B. Net Patient and Resident Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

The Health Center became a Critical Access Hospital (CAH) as of April 1999 for Medicare reimbursement purposes. There are certain criteria that the Health Center must meet to be a CAH. Once met, the reimbursement method changed to cost based for both inpatient and outpatient services. The Health Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare fiscal intermediary.

Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology.

Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

Nursing Home Medicare

Under the Medicare program, payment for resident services is made on a prospectively determined per diem rate that varies based on a case-mix adjusted resident classification system.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Nursing Home Medicaid

Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program or who pay from private resources are paid according to a schedule of prospectively determined daily rates determined by Minnesota's Medicaid program. A rate is assigned to each nursing home resident based on the resident's ability to perform certain activities of daily living and on certain other clinical factors. Payments are made for each case-mix category and are adjusted each year by an inflation index.

Other Payors

The Health Center has entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenue from Medicare and Medicaid programs accounted for approximately 36 percent and 20 percent, respectively, of the Health Center's net patient revenue for the year ended December 31, 2010.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The December 31, 2010, net patient service revenue increased approximately \$140,000 due to prior year retroactive adjustments in excess of amounts previously estimated as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Patient and resident service revenue and contractual adjustments for the year ended December 31, 2010, is as follows:

| | |
|--|-----------------------|
| Total patient service revenue | <u>\$ 11,059,519</u> |
| Contractual adjustments | |
| Medicare | \$ (1,517,549) |
| Medicaid | (1,491,013) |
| Indian Health Service | (147,268) |
| Other | (342,890) |
| Provision for bad debts | <u>(408,116)</u> |
| Total contractual adjustments | <u>\$ (3,906,836)</u> |
| Net Patient and Resident Service Revenue | <u>\$ 7,152,683</u> |

C. Noncurrent Cash and Investments

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Health Center's deposits may not be returned to it in full. The Health Center follows Minnesota statutes for deposits.

In accordance with Minnesota statutes, the Health Center maintains deposits at financial institutions that are authorized by the Mahnomen Health Center's Commission.

Minnesota statutes require that all the Health Center's deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

C. Noncurrent Cash and Investments

Deposits

Custodial Credit Risk (Continued)

Authorized collateral includes certain U.S. government securities, state or local government obligations, and other securities authorized by Minn. Stat. § 118A.03. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

The Health Center's deposits in banks at December 31, 2010, were covered by federal depository insurance or by collateral held by the Health Center's custodial bank in the Health Center's name.

Interest Rate Risk

The Health Center does not have an investment policy. There is no current provision the Health Center has that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Noncurrent Cash and Investments

The Health Center has no investments as of December 31, 2010. All of the Health Center's deposits are insured or registered in the Health Center's name and held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

D. Accounts Receivable

Patient and resident receivables reported as current assets by the Health Center at December 31, 2010, consist of these amounts:

| | |
|--|-------------------------|
| Receivables from patients and their insurance carriers | \$ 1,192,029 |
| Receivable from Medicare | 440,282 |
| Receivable from Medicaid | <u>245,951</u> |
| Total patient and resident receivables | \$ 1,878,262 |
| Less: allowance for uncollectible amounts | <u>(443,000)</u> |
| Total Patient and Resident Receivables, Net | <u>\$ 1,435,262</u> |

E. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2010, are as follows:

| | Balance December 31, 2009 | Additions | Retirements/ Transfers | Balance December 31, 2010 |
|--|---------------------------------|-------------------------|---------------------------|---------------------------------|
| Land | \$ 36,729 | \$ - | \$ - | \$ 36,729 |
| Land improvements | 281,319 | - | - | 281,319 |
| Buildings | 4,967,773 | - | (2,855) | 4,964,918 |
| Movable equipment | 3,946,837 | 83,752 | 140,772 | 4,171,361 |
| Construction in progress | <u>140,772</u> | <u>82,756</u> | <u>(140,772)</u> | <u>82,756</u> |
| Totals at historical cost | <u>\$ 9,373,430</u> | <u>\$ 166,508</u> | <u>\$ (2,855)</u> | <u>\$ 9,537,083</u> |
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 79,346 | \$ 14,484 | \$ - | \$ 93,830 |
| Buildings | 2,045,432 | 190,682 | - | 2,236,114 |
| Movable equipment | <u>2,694,575</u> | <u>279,163</u> | <u>-</u> | <u>2,973,738</u> |
| Total accumulated depreciation | <u>\$ 4,819,353</u> | <u>\$ 484,329</u> | <u>\$ -</u> | <u>\$ 5,303,682</u> |
| Capital Assets, Net | <u>\$ 4,554,077</u> | <u>\$ (317,821)</u> | <u>\$ (2,855)</u> | <u>\$ 4,233,401</u> |

Construction in progress at December 31, 2010, consists of costs to upgrade electronic health records. Total estimated cost of the project is approximately \$133,500 and will be funded through internal funds.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

F. Long-Term Debt

The Health Center leases a piece of equipment under a noncancelable long-term lease agreement. The capitalized leased assets consist of:

| | |
|--------------------------------|------------------|
| Movable equipment | \$ 36,195 |
| Less: accumulated depreciation | <u>(17,277)</u> |
| Total Capital Assets, Net | <u>\$ 18,918</u> |

Long-term debt as of December 31, 2010, consists of the following:

| | Balance December 31, 2009 | Additions | Reductions | Balance December 31, 2010 |
|--|---------------------------------|-----------------|-------------------|---------------------------------|
| 1990 Special assessments ¹ | \$ 2,882 | \$ - | \$ 2,882 | \$ - |
| 2007 Gross revenue bond ² | 1,165,000 | - | 105,000 | 1,060,000 |
| Capital lease obligations | <u>17,106</u> | <u>8,900</u> | <u>6,372</u> | <u>19,634</u> |
| Total long-term debt | <u>\$ 1,184,988</u> | <u>\$ 8,900</u> | <u>\$ 114,254</u> | \$ 1,079,634 |
| Less: current maturities | | | | <u>(117,410)</u> |
| Total Long-Term Debt, Net of Current Maturities | | | | <u>\$ 962,224</u> |

¹Due in annual installments through 2010. The assessment does not bear interest.

²County of Mahnomen, Minnesota, Gross Revenue Hospital Facilities Bond, Series 2007, matures in February 2018. Bond bears interest rate coupon at 4.6 percent.

The following is a maturity schedule of long-term debt and capital lease obligations as of December 31, 2010:

| Year Ending December 31 | Long-Term Debt | | Capital Lease Obligations | |
|----------------------------|---------------------|-------------------|---------------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 110,000 | \$ 46,230 | \$ 7,410 | \$ 1,281 |
| 2012 | 120,000 | 40,940 | 6,892 | 713 |
| 2013 | 125,000 | 35,305 | 1,805 | 363 |
| 2014 | 130,000 | 29,440 | 1,955 | 213 |
| 2015 | 135,000 | 23,345 | 1,572 | 53 |
| Thereafter | <u>440,000</u> | <u>31,050</u> | - | - |
| Total | <u>\$ 1,060,000</u> | <u>\$ 206,310</u> | <u>\$ 19,634</u> | <u>\$ 2,623</u> |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

G. Investment in Joint Venture

The Health Center and other hospitals (all of which are unrelated parties to the Health Center) formed a non-profit corporation known as Central Minnesota Diagnostic, Inc. (CMDI). CMDI was organized to provide certain agreed-upon shared services to those hospitals who are members of this corporation.

CMDI provides the equipment for CT scans for the Health Center's patients. The Health Center billed and collected the revenue for these services to patients and paid CMDI \$212,100 in 2010 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2010, amounted to \$17,700. At December 31, 2010, the Health Center owned 0.60 percent of CMDI.

Summarized financial information from the financial statements of CMDI at December 31, 2010, and for the year then ended, is presented below:

| | |
|---------------------------------------|----------------------|
| Total Assets | <u>\$ 45,186,984</u> |
| Total Liabilities | \$ 7,391,791 |
| Members' equity | |
| Retained earnings | <u>37,795,193</u> |
| Total Liabilities and Members' Equity | <u>\$ 45,186,984</u> |
| Total Operating Revenue | <u>\$ 41,081,169</u> |
| Net Income | <u>\$ 19,455,426</u> |

H. Defined Benefit Pension Plan

The Health Center contributes to the General Employees Retirement Fund, a cost-sharing multiple-employer defined benefit pension plan administered by PERA. The General Employees Retirement Fund provides retirement, disability, and death benefits to plan members and beneficiaries. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. See Note 4.A. for information on the plan description and funding policy.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

H. Defined Benefit Pension Plan (Continued)

Benefits established by state statute are based upon the member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. PERA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by contacting PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103, or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Plan members are required to contribute 6.00 percent of the annual covered salary, and the Health Center is required to contribute at an actuarially determined rate. The Health Center's current rate is 7.00 percent of annual covered payroll. The contribution requirements of plan members and the Health Center are established and may be amended by state statute. The Health Center's contributions, equal to the required contributions, to the General Employees Retirement Fund for the year ended December 31, 2010, were \$219,697. The Health Center's contributions were equal to the contractually required contributions for each year as set by state statute.

I. Concentrations of Credit Risk

The Health Center grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2010, was as follows:

| | |
|---|--------------------|
| Medicare | 30% |
| Blue Cross | 9 |
| Medicaid | 13 |
| Commercial insurance | 11 |
| Other third-party payors, patients, and residents | <u>37</u> |
| Total | <u><u>100%</u></u> |

J. Restricted Expendable Net Assets

Restricted, expendable net assets are available for the following purposes as of December 31, 2010:

| | |
|---------------------------|------------------|
| Expendable for operations | \$ <u>64,322</u> |
|---------------------------|------------------|

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

K. Related-Party Transactions

In August 1999, the County issued \$1,100,000 of General Obligation Nursing Home Revenue Bonds, Series 1999, to finance improvements to the nursing home portion of the Organization. The bonds were general obligations of the County for which the County had pledged its full faith, credit, and taxing powers. In 2009, the County issued \$560,000 of General Obligation Nursing Home Refunding Bonds, Series 2009A, to currently refund the General Obligation Nursing Home Reserve Bonds, Series 1999. This current refunding was undertaken to reduce the total debt service payments over the next six years by \$34,689 and resulted in an economic gain of \$31,519. The refunded bonds were retired in March 2009. The County made a principal payment of \$550,000 and an interest payment of \$20,629 for the year ended December 31, 2009, related to the Series 1999 bonds. The County made a principal payment of \$90,000 for the year ended December 31, 2010, and made an interest payment of \$13,170 related to the Series 2009A bonds for the year ended December 31, 2010.

L. Management Service Agreement

The Health Center has a management service agreement with Sanford Health (formerly Meritcare), a nonprofit corporation (Manager). The Manager has the full authority to implement and fulfill the policy decisions of the Hospital Board. Total management fee expense for the year ended December 31, 2010, was \$155,298. Accounts payable to Sanford Health for these services at December 31, 2010, was \$72,673.

M. Commitments and Contingencies

Malpractice Claims

The Health Center's malpractice insurance is a claims-made policy subject to a limit of \$1 million per claim and an annual aggregate limit of \$5 million. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

M. Commitments and Contingencies (Continued)

Litigation, Claims, and Other Disputes

The Health Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position of the Health Center.

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- lawsuits alleging negligence in care,
- environmental pollution,
- violation of the regulatory body's rules and regulations, and
- violation of federal and/or state laws.

No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

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REQUIRED SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---------------------------------|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 2,456,101 | \$ 2,456,101 | \$ 2,253,038 | \$ (203,063) |
| Licenses and permits | 5,850 | 5,850 | 7,885 | 2,035 |
| Intergovernmental | 2,523,785 | 2,523,785 | 2,700,754 | 176,969 |
| Charges for services | 283,180 | 283,180 | 295,279 | 12,099 |
| Fines and forfeits | 14,000 | 14,000 | 8,511 | (5,489) |
| Gifts and contributions | 500 | 500 | 1,876 | 1,376 |
| Investment earnings | 100,500 | 100,500 | 35,404 | (65,096) |
| Miscellaneous | 34,398 | 34,398 | 340,839 | 306,441 |
| Total Revenues | \$ 5,418,314 | \$ 5,418,314 | \$ 5,643,586 | \$ 225,272 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 186,049 | \$ 186,049 | \$ 185,768 | \$ 281 |
| Courts | 20,000 | 20,000 | 26,600 | (6,600) |
| County auditor | 221,468 | 221,468 | 201,059 | 20,409 |
| License bureau | 76,223 | 76,223 | 71,461 | 4,762 |
| County treasurer | 136,276 | 136,276 | 130,124 | 6,152 |
| County assessor | 150,585 | 150,585 | 142,455 | 8,130 |
| Elections | 38,350 | 38,350 | 43,163 | (4,813) |
| Accounting and auditing | 55,000 | 55,000 | 53,732 | 1,268 |
| Data processing | 183,275 | 183,275 | 153,630 | 29,645 |
| Attorney | 386,803 | 386,803 | 323,744 | 63,059 |
| Contracted legal services | 50,000 | 50,000 | 212 | 49,788 |
| Law library | 17,000 | 17,000 | 20,891 | (3,891) |
| Recorder | 102,223 | 102,223 | 97,609 | 4,614 |
| Planning and zoning | 23,306 | 23,306 | 23,865 | (559) |
| Buildings and plant | 193,943 | 193,943 | 316,869 | (122,926) |
| Service center | - | - | 769 | (769) |
| Veterans service officer | 23,949 | 23,949 | 24,619 | (670) |
| Unallocated | 143,240 | 143,240 | 75,463 | 67,777 |
| Total general government | \$ 2,007,690 | \$ 2,007,690 | \$ 1,892,033 | \$ 115,657 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Public safety | | | | |
| Sheriff | \$ 2,102,008 | \$ 2,102,008 | \$ 2,015,546 | \$ 86,462 |
| Boat and water safety | 2,100 | 2,100 | 8,166 | (6,066) |
| Emergency services | 215,504 | 215,504 | 206,640 | 8,864 |
| Coroner | 14,500 | 14,500 | 11,890 | 2,610 |
| E-911 system | 75,928 | 75,928 | 93,223 | (17,295) |
| Victim assistance | 61,475 | 61,475 | 61,315 | 160 |
| Probation and parole | 130,828 | 130,828 | 125,573 | 5,255 |
| County safety program | 14,887 | 14,887 | 7,324 | 7,563 |
| Snowmobile safety | 2,272 | 2,272 | 331 | 1,941 |
| Total public safety | \$ 2,619,502 | \$ 2,619,502 | \$ 2,530,008 | \$ 89,494 |
| Health | | | | |
| Nursing service | \$ 62,982 | \$ 62,982 | \$ 62,982 | \$ - |
| Culture and recreation | | | | |
| Parks | \$ 1,000 | \$ 1,000 | \$ - | \$ 1,000 |
| County/regional library | 32,875 | 32,875 | 32,875 | - |
| Snowmobile trails | 92,700 | 92,700 | 86,220 | 6,480 |
| Total culture and recreation | \$ 126,575 | \$ 126,575 | \$ 119,095 | \$ 7,480 |
| Conservation of natural resources | | | | |
| County extension | \$ 73,329 | \$ 73,329 | \$ 69,486 | \$ 3,843 |
| Soil and water conservation | 54,939 | 54,939 | 52,777 | 2,162 |
| Agricultural inspections | 9,640 | 9,640 | 10,467 | (827) |
| Agricultural society/County fair | 5,500 | 5,500 | 5,500 | - |
| Predator control | 500 | 500 | 109 | 391 |
| Water planning | 22,660 | 22,660 | 16,545 | 6,115 |
| Total conservation of natural resources | \$ 166,568 | \$ 166,568 | \$ 154,884 | \$ 11,684 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|----------------------------|----------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Expenditures | | | | |
| Current (Continued) | | | | |
| Economic development | | | | |
| Airport | \$ 218,594 | \$ 218,594 | \$ 239,927 | \$ (21,333) |
| Debt service | | | | |
| Principal | \$ - | \$ - | \$ 8,040 | \$ (8,040) |
| Interest | - | - | 2,502 | (2,502) |
| Bond issuance costs | - | - | 6,050 | (6,050) |
| Total debt service | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 16,592</u> | <u>\$ (16,592)</u> |
| Total Expenditures | <u>\$ 5,201,911</u> | <u>\$ 5,201,911</u> | <u>\$ 5,015,521</u> | <u>\$ 186,390</u> |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | <u>\$ 216,403</u> | <u>\$ 216,403</u> | <u>\$ 628,065</u> | <u>\$ 411,662</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ - | \$ - | \$ 1,982 | \$ 1,982 |
| Proceeds from capital lease/installment purchase | - | - | 100,000 | 100,000 |
| Total Other Financing Sources (Uses) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 101,982</u> | <u>\$ 101,982</u> |
| Net Change in Fund Balance | \$ 216,403 | \$ 216,403 | \$ 730,047 | \$ 513,644 |
| Fund Balance - January 1 | <u>1,587,125</u> | <u>1,587,125</u> | <u>1,587,125</u> | <u>-</u> |
| Fund Balance - December 31 | <u><u>\$ 1,803,528</u></u> | <u><u>\$ 1,803,528</u></u> | <u><u>\$ 2,317,172</u></u> | <u><u>\$ 513,644</u></u> |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|-----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 487,161 | \$ 487,161 | \$ 446,288 | \$ (40,873) |
| Special assessments | 5,000 | 5,000 | 5,210 | 210 |
| Intergovernmental | 2,248,222 | 2,248,222 | 2,498,563 | 250,341 |
| Charges for services | 50,000 | 50,000 | 75,227 | 25,227 |
| Miscellaneous | - | - | 16,429 | 16,429 |
| Total Revenues | \$ 2,790,383 | \$ 2,790,383 | \$ 3,041,717 | \$ 251,334 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 365,918 | \$ 365,918 | \$ 272,294 | \$ 93,624 |
| Maintenance | 903,232 | 903,232 | 792,906 | 110,326 |
| Construction | 2,167,567 | 2,167,567 | 1,332,296 | 835,271 |
| Equipment maintenance and shop | 223,284 | 223,284 | 220,278 | 3,006 |
| Materials and services for resale | 53,306 | 53,306 | 30,348 | 22,958 |
| Total highways and streets | \$ 3,713,307 | \$ 3,713,307 | \$ 2,648,122 | \$ 1,065,185 |
| Intergovernmental | \$ 115,963 | \$ 115,963 | \$ 114,005 | \$ 1,958 |
| Debt service | | | | |
| Principal | \$ - | \$ - | \$ 3,069 | \$ (3,069) |
| Interest | - | - | 382 | (382) |
| Total debt service | \$ - | \$ - | \$ 3,451 | \$ (3,451) |
| Total Expenditures | \$ 3,829,270 | \$ 3,829,270 | \$ 2,765,578 | \$ 1,063,692 |
| Excess of Revenues Over (Under) Expenditures | \$ (1,038,887) | \$ (1,038,887) | \$ 276,139 | \$ 1,315,026 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | - | - | (23,514) | (23,514) |
| Net Change in Fund Balance | \$ (1,038,887) | \$ (1,038,887) | \$ 252,625 | \$ 1,291,512 |
| Fund Balance - January 1 | 1,026,464 | 1,026,464 | 1,026,464 | - |
| Increase (decrease) in reserved for inventories | - | - | (43,785) | (43,785) |
| Fund Balance - December 31 | \$ (12,423) | \$ (12,423) | \$ 1,235,304 | \$ 1,247,727 |

The notes to the required supplementary information are an integral part of this schedule.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 778,853 | \$ 778,853 | \$ 708,249 | \$ (70,604) |
| Intergovernmental | 1,547,177 | 1,547,177 | 1,536,019 | (11,158) |
| Charges for services | 80,000 | 80,000 | 90,807 | 10,807 |
| Miscellaneous | 14,000 | 14,000 | 68,191 | 54,191 |
| Total Revenues | \$ 2,420,030 | \$ 2,420,030 | \$ 2,403,266 | \$ (16,764) |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 898,773 | \$ 898,773 | \$ 900,556 | \$ (1,783) |
| Social services | 1,456,911 | 1,456,911 | 1,268,639 | 188,272 |
| Transportation | 170,000 | 170,000 | 177,602 | (7,602) |
| Total Expenditures | \$ 2,525,684 | \$ 2,525,684 | \$ 2,346,797 | \$ 178,887 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (105,654) | \$ (105,654) | \$ 56,469 | \$ 162,123 |
| Fund Balance - January 1 | 680,623 | 680,623 | 680,623 | - |
| Fund Balance - December 31 | \$ 574,969 | \$ 574,969 | \$ 737,092 | \$ 162,123 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (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) |
|--------------------------------|--|---|--|--------------------------|---------------------------|---|
| January 1, 2009 | \$ - | \$1,914,577 | \$1,914,577 | 0.0% | \$3,323,915 | 57.6% |

See Note 4.C. to the financial statements, "Other Postemployment Benefits," for more information.

Multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2009.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Forfeited Tax Sale Special Revenue Fund, the Hospital Special Revenue Fund, and the Mahnomen Health Center Debt Service Fund. All annual appropriations lapse at fiscal year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the County Auditor so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. 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. Other Postemployment Benefits Funded Status

The County implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2009. See Note 4.C. to the financial statements for more information.

GASB 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported.

Currently, only one year's worth of data is available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

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SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Solid Waste Fund accounts for the County's share of operations of the Fosston incinerator and for costs of the Sanitation Department and the demolition site. Financing is provided by special assessments levied against benefiting users.

The Ditch Fund accounts for the financial transactions of the County drainage systems. Financing is provided by special assessments levied against benefited property owners.

The Hospital Fund accounts for tax revenues collected and accumulated to fund future needs related to the Mahnomen Health Center.

The Forfeited Tax Sale Fund accounts for the proceeds from the sale or rental of land forfeited to the State of Minnesota. The net proceeds, after deducting the expense for the County for managing the tax-forfeited land, are apportioned to various County funds and taxing districts. Title to the tax-forfeited land remains with the state until sold by the County.

DEBT SERVICE FUNDS

The Nursing Home Revenue Bonds Fund accounts for the retirement of general obligation bonds issued for the nursing home construction project. The bonds will be retired from net revenues and an annual ad valorem tax levied by the County. The fund also accounts for the receipt and use of the proceeds of these bonds.

The Mahnomen Health Center Bonds Fund accounts for the retirement of gross revenue hospital facilities bonds issued for the Mahnomen Health Center construction project.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

| | Special Revenue (Exhibit B-3) | Debt Service (Exhibit B-5) | Total (Exhibit 3) |
|---|--|---|------------------------------|
| <u>Assets</u> | | | |
| Current assets | | | |
| Cash and pooled investments | \$ 670,358 | \$ 236,963 | \$ 907,321 |
| Undistributed cash in agency funds | 2,300 | 1,546 | 3,846 |
| Taxes receivable | | | |
| Current - net | - | 1,962 | 1,962 |
| Prior - net | 51 | 1,633 | 1,684 |
| Special assessments receivable | | | |
| Current - net | 5,723 | - | 5,723 |
| Prior - net | 6,283 | - | 6,283 |
| Noncurrent - net | 40,500 | - | 40,500 |
| Accounts receivable | 1,531 | - | 1,531 |
| Accrued interest receivable | - | 32 | 32 |
| Due from other governments | 2,709 | - | 2,709 |
| Noncurrent assets | | | |
| Long-term receivables | - | 110,707 | 110,707 |
| Total Assets | \$ 729,455 | \$ 352,843 | \$ 1,082,298 |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 1,690 | \$ - | \$ 1,690 |
| Salaries payable | 1,881 | - | 1,881 |
| Due to other funds | 2,192 | - | 2,192 |
| Due to other governments | 10,528 | - | 10,528 |
| Deferred revenue - unavailable | 50,280 | 2,747 | 53,027 |
| Total Liabilities | \$ 66,571 | \$ 2,747 | \$ 69,318 |
| Fund Balances | | | |
| Reserved for SCORE | \$ 35,157 | \$ - | \$ 35,157 |
| Reserved for long-term receivables | - | 110,707 | 110,707 |
| Unreserved | | | |
| Designated for debt service | - | 239,389 | 239,389 |
| Undesignated | 627,727 | - | 627,727 |
| Total Fund Balances | \$ 662,884 | \$ 350,096 | \$ 1,012,980 |
| Total Liabilities and Fund Balances | \$ 729,455 | \$ 352,843 | \$ 1,082,298 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Special Revenue (Exhibit B-4) | Debt Service (Exhibit B-6) | Total (Exhibit 5) |
|--|--|---|------------------------------|
| Revenues | | | |
| Taxes | \$ 69 | \$ 76,275 | \$ 76,344 |
| Special assessments | 141,104 | - | 141,104 |
| Intergovernmental | 69,937 | 149,641 | 219,578 |
| Charges for services | 6,691 | - | 6,691 |
| Investment earnings | - | 510 | 510 |
| Miscellaneous | 5,713 | 1,272 | 6,985 |
| | \$ 223,514 | \$ 227,698 | \$ 451,212 |
| Expenditures | | | |
| Current | | | |
| Sanitation | \$ 248,762 | \$ - | \$ 248,762 |
| Conservation of natural resources | 54,965 | - | 54,965 |
| Debt service | | | |
| Principal | - | 195,000 | 195,000 |
| Interest | - | 64,345 | 64,345 |
| Administrative - fiscal charges | - | 351 | 351 |
| | \$ 303,727 | \$ 259,696 | \$ 563,423 |
| Excess of Revenues Over (Under) | | | |
| Expenditures | \$ (80,213) | \$ (31,998) | \$ (112,211) |
| Other Financing Sources (Uses) | | | |
| Transfers in | \$ 23,514 | \$ - | \$ 23,514 |
| Transfers out | (1,982) | - | (1,982) |
| | \$ 21,532 | \$ - | \$ 21,532 |
| Net Change in Fund Balance | \$ (58,681) | \$ (31,998) | \$ (90,679) |
| Fund Balance - January 1 | 721,565 | 382,094 | 1,103,659 |
| Fund Balance - December 31 | \$ 662,884 | \$ 350,096 | \$ 1,012,980 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-3

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2010**

| | <u>Solid Waste</u> | <u>Ditch</u> | <u>Hospital</u> | <u>Forfeited Tax Sale</u> | <u>Total (Exhibit B-1)</u> |
|---|------------------------|-------------------|-------------------|-------------------------------|--------------------------------|
| <u>Assets</u> | | | | | |
| Cash and pooled investments | \$ 296,748 | \$ 259,647 | \$ 111,259 | \$ 2,704 | \$ 670,358 |
| Undistributed cash in agency funds | 2,104 | 196 | - | - | 2,300 |
| Taxes receivable | | | | | |
| Prior - net | - | - | 51 | - | 51 |
| Special assessments receivable | | | | | |
| Current - net | 5,571 | 152 | - | - | 5,723 |
| Prior - net | 6,264 | 19 | - | - | 6,283 |
| Noncurrent - net | - | 40,500 | - | - | 40,500 |
| Accounts receivable | 1,031 | - | - | 500 | 1,531 |
| Due from other governments | 2,709 | - | - | - | 2,709 |
| Total Assets | \$ 314,427 | \$ 300,514 | \$ 111,310 | \$ 3,204 | \$ 729,455 |
| <u>Liabilities and Fund Balances</u> | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 1,550 | \$ 115 | \$ - | \$ 25 | \$ 1,690 |
| Salaries payable | 1,881 | - | - | - | 1,881 |
| Due to other funds | - | - | - | 2,192 | 2,192 |
| Due to other governments | 9,541 | - | - | 987 | 10,528 |
| Deferred revenue - unavailable | 9,687 | 40,548 | 45 | - | 50,280 |
| Total Liabilities | \$ 22,659 | \$ 40,663 | \$ 45 | \$ 3,204 | \$ 66,571 |
| Fund Balances | | | | | |
| Reserved for SCORE | \$ 35,157 | \$ - | \$ - | \$ - | \$ 35,157 |
| Unreserved | | | | | |
| Undesignated | 256,611 | 259,851 | 111,265 | - | 627,727 |
| Total Fund Balances | \$ 291,768 | \$ 259,851 | \$ 111,265 | \$ - | \$ 662,884 |
| Total Liabilities and Fund Balances | \$ 314,427 | \$ 300,514 | \$ 111,310 | \$ 3,204 | \$ 729,455 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-4

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Solid Waste</u> | <u>Ditch</u> | <u>Hospital</u> | <u>Forfeited Tax Sale</u> | <u>Total (Exhibit B-2)</u> |
|---|------------------------|--------------------|-------------------|-------------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 49 | \$ - | \$ 20 | \$ - | \$ 69 |
| Special assessments | 100,693 | 40,411 | - | - | 141,104 |
| Intergovernmental | 69,937 | - | - | - | 69,937 |
| Charges for services | 6,691 | - | - | - | 6,691 |
| Miscellaneous | 2,809 | - | - | 2,904 | 5,713 |
| Total Revenues | \$ 180,179 | \$ 40,411 | \$ 20 | \$ 2,904 | \$ 223,514 |
| Expenditures | | | | | |
| Current | | | | | |
| Sanitation | \$ 248,762 | \$ - | \$ - | \$ - | \$ 248,762 |
| Conservation of natural resources | - | 54,043 | - | 922 | 54,965 |
| Total Expenditures | \$ 248,762 | \$ 54,043 | \$ - | \$ 922 | \$ 303,727 |
| Excess of Revenues Over (Under) Expenditures | \$ (68,583) | \$ (13,632) | \$ 20 | \$ 1,982 | \$ (80,213) |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | \$ - | \$ 23,514 | \$ - | \$ - | \$ 23,514 |
| Transfers out | - | - | - | (1,982) | (1,982) |
| Total Other Financing Sources (Uses) | \$ - | \$ 23,514 | \$ - | \$ (1,982) | \$ 21,532 |
| Net Change in Fund Balance | \$ (68,583) | \$ 9,882 | \$ 20 | \$ - | \$ (58,681) |
| Fund Balance - January 1 | 360,351 | 249,969 | 111,245 | - | 721,565 |
| Fund Balance - December 31 | \$ 291,768 | \$ 259,851 | \$ 111,265 | \$ - | \$ 662,884 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-5

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
DECEMBER 31, 2010**

| | Nursing Home Revenue Bonds | Mahnomen Health Center Bonds | Total (Exhibit B-1) |
|---|---------------------------------------|---|--------------------------------|
| <u>Assets</u> | | | |
| Current assets | | | |
| Cash and pooled investments | \$ 105,783 | \$ 131,180 | \$ 236,963 |
| Undistributed cash in agency funds | 1,546 | - | 1,546 |
| Taxes receivable | | | |
| Current - net | 1,962 | - | 1,962 |
| Prior - net | 1,633 | - | 1,633 |
| Accrued interest receivable | - | 32 | 32 |
| Noncurrent assets | | | |
| Long-term receivables | 110,707 | - | 110,707 |
| Total Assets | \$ 221,631 | \$ 131,212 | \$ 352,843 |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Deferred revenue - unavailable | \$ 2,747 | \$ - | \$ 2,747 |
| Fund Balances | | | |
| Reserved for long-term receivables | \$ 110,707 | \$ - | \$ 110,707 |
| Unreserved | | | |
| Designated for debt service | 108,177 | 131,212 | 239,389 |
| Total Fund Balances | \$ 218,884 | \$ 131,212 | \$ 350,096 |
| Total Liabilities and Fund Balances | \$ 221,631 | \$ 131,212 | \$ 352,843 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-6

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Nursing Home Revenue Bonds | Mahnomen Health Center Bonds | Total (Exhibit B-2) |
|---|---------------------------------------|---|--------------------------------|
| Revenues | | | |
| Taxes | \$ 76,275 | \$ - | \$ 76,275 |
| Intergovernmental | 4,124 | 145,517 | 149,641 |
| Investment earnings | - | 510 | 510 |
| Miscellaneous | 1,272 | - | 1,272 |
| Total Revenues | \$ 81,671 | \$ 146,027 | \$ 227,698 |
| Expenditures | | | |
| Debt service | | | |
| Principal | \$ 90,000 | \$ 105,000 | \$ 195,000 |
| Interest | 13,170 | 51,175 | 64,345 |
| Administrative - fiscal charges | 351 | - | 351 |
| Total Expenditures | \$ 103,521 | \$ 156,175 | \$ 259,696 |
| Excess of Revenues Over (Under) Expenditures | \$ (21,850) | \$ (10,148) | \$ (31,998) |
| Fund Balance - January 1 | 240,734 | 141,360 | 382,094 |
| Fund Balance - December 31 | \$ 218,884 | \$ 131,212 | \$ 350,096 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-7

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|--------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ - | \$ - | \$ 49 | \$ 49 |
| Special assessments | 100,000 | 100,000 | 100,693 | 693 |
| Intergovernmental | 68,750 | 68,750 | 69,937 | 1,187 |
| Charges for services | 3,000 | 3,000 | 6,691 | 3,691 |
| Miscellaneous | 100 | 100 | 2,809 | 2,709 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Revenues | \$ 171,850 | \$ 171,850 | \$ 180,179 | \$ 8,329 |
| Expenditures | | | | |
| Current | | | | |
| Sanitation | | | | |
| Solid waste | 251,399 | 251,399 | 248,762 | 2,637 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (79,549) | \$ (79,549) | \$ (68,583) | \$ 10,966 |
| Fund Balance - January 1 | 360,351 | 360,351 | 360,351 | - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Fund Balance - December 31 | \$ 280,802 | \$ 280,802 | \$ 291,768 | \$ 10,966 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-8

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Special assessments | \$ 40,500 | \$ 40,500 | \$ 40,411 | \$ (89) |
| Expenditures | | | | |
| Current | | | | |
| Conservation of natural resources | | | | |
| Drainage ditches | \$ 40,500 | \$ 40,500 | \$ 43,117 | \$ (2,617) |
| Other | - | - | 10,926 | (10,926) |
| Total Expenditures | \$ 40,500 | \$ 40,500 | \$ 54,043 | \$ (13,543) |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ (13,632) | \$ (13,632) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | - | - | 23,514 | 23,514 |
| Net Change in Fund Balance | \$ - | \$ - | \$ 9,882 | \$ 9,882 |
| Fund Balance - January 1 | 249,969 | 249,969 | 249,969 | - |
| Fund Balance - December 31 | \$ 249,969 | \$ 249,969 | \$ 259,851 | \$ 9,882 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-9

**BUDGETARY COMPARISON SCHEDULE
NURSING HOME REVENUE BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Taxes | \$ 83,772 | \$ 83,772 | \$ 76,275 | \$ (7,497) |
| Intergovernmental | - | - | 4,124 | 4,124 |
| Miscellaneous | - | - | 1,272 | 1,272 |
| Total Revenues | \$ 83,772 | \$ 83,772 | \$ 81,671 | \$ (2,101) |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 70,200 | \$ 70,200 | \$ 90,000 | \$ (19,800) |
| Interest | 10,273 | 10,273 | 13,170 | (2,897) |
| Administrative - fiscal charges | - | - | 351 | (351) |
| Total Expenditures | \$ 80,473 | \$ 80,473 | \$ 103,521 | \$ (23,048) |
| Excess of Revenues Over (Under) Expenditures | \$ 3,299 | \$ 3,299 | \$ (21,850) | \$ (25,149) |
| Fund Balance - January 1 | 240,734 | 240,734 | 240,734 | - |
| Fund Balance - December 31 | \$ 244,033 | \$ 244,033 | \$ 218,884 | \$ (25,149) |

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Headwaters Commission Fund accounts for the collection and payment of taxes due to the Headwaters Regional Development Commission.

The School Districts Fund accounts for the collection and payment of funds due to school districts.

The State Revenue Fund accounts for the state's share of fines, delinquent and severed mineral tax, assurance, and mortgage registry tax.

The Taxes and Penalties Fund accounts for the collection of taxes and penalties and their payment to the various taxing districts.

The Townships and Cities Fund accounts for the collection and payment of funds due to towns and cities.

The Watershed Fund accounts for the collection and payment of funds due to the watershed districts.

The Advanced Life Support Fund accounts for the collection and payment of funds due to the Mahnomen Health Center for ambulance services.

The Cafeteria Plan Fund accounts for the payroll deductions and disbursements of a County-administered cafeteria plan.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|-------------------------------------|----------------------|-------------------|-------------------|------------------------|
| <u>HEADWATERS COMMISSION</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 10,540 | \$ 10,540 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 10,540 | \$ 10,540 | \$ - |
| <u>SCHOOL DISTRICTS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 849,542 | \$ 849,542 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 849,542 | \$ 849,542 | \$ - |
| <u>STATE REVENUE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 808 | \$ 314,460 | \$ 314,184 | \$ 1,084 |
| Accounts receivable | - | 989 | - | 989 |
| Total Assets | \$ 808 | \$ 315,449 | \$ 314,184 | \$ 2,073 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 808 | \$ 315,449 | \$ 314,184 | \$ 2,073 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|----------------------|--------------|--------------|------------------------|
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 54,071 | \$ 5,920,163 | \$ 5,913,323 | \$ 60,911 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 54,071 | \$ 5,920,163 | \$ 5,913,323 | \$ 60,911 |
| <u>TOWNSHIPS AND CITIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 6,969 | \$ 930,103 | \$ 934,717 | \$ 2,355 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 6,969 | \$ 930,103 | \$ 934,717 | \$ 2,355 |
| <u>WATERSHED</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 255,041 | \$ 255,041 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 255,041 | \$ 255,041 | \$ - |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|--|----------------------|---------------------|---------------------|------------------------|
| <u>ADVANCED LIFE SUPPORT</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ - | \$ 52,210 | \$ 52,210 | \$ - |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ - | \$ 52,210 | \$ 52,210 | \$ - |
| <u>CAFETERIA PLAN</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 3,065 | \$ 5,831 | \$ 5,658 | \$ 3,238 |
| Accounts receivable | 461 | - | 461 | - |
| Total Assets | \$ 3,526 | \$ 5,831 | \$ 6,119 | \$ 3,238 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 3,526 | \$ 5,831 | \$ 6,119 | \$ 3,238 |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 64,913 | \$ 8,337,890 | \$ 8,335,215 | \$ 67,588 |
| Accounts receivable | 461 | 989 | 461 | 989 |
| Total Assets | \$ 65,374 | \$ 8,338,879 | \$ 8,335,676 | \$ 68,577 |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ 65,374 | \$ 8,338,879 | \$ 8,335,676 | \$ 68,577 |

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OTHER SCHEDULES

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | <u>Number</u> | <u>Interest Rate (%)</u> | <u>Maturity Dates</u> | <u>Fair Value</u> |
|--|---------------|------------------------------|--|---------------------|
| Cash and Pooled Investments | | | | |
| Cash on hand | N/A | N/A | N/A | \$ 1,700 |
| Interest-bearing checking | Six | 0.10 to 0.30 | Continuous | 2,943,929 |
| Passbook savings | One | 0.10 | Continuous | 158,132 |
| Certificates of deposit | Three | 0.90 to 1.60 | February 6, 2011, to September 28, 2011 | 42,735 |
| Money market savings | Four | 0.25 to 0.55 | Continuous | 168,459 |
| Certificates of deposit with broker | Three | 2.20 to 2.25 | May 13, 2011, to June 13, 2011 | 387,058 |
| Federal National Mortgage Association | Two | 2.00 to 2.375 | July 27, 2018, to April 5, 2019 | 596,631 |
| Federal Home Loan Mortgage Corporation | One | 2.00 | July 6, 2016 | 200,028 |
| Federal Home Loan Bank | Two | 1.25 | September 13, 2017 | <u>244,557</u> |
| | | | | <u>\$ 4,743,229</u> |
| Total Cash and Pooled Investments | | | | |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-2

**BALANCE SHEET BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2010**

| | <u>County Ditch No. 3</u> | <u>Joint Ditch No. 55</u> | <u>County Ditch No. 91-91A</u> | <u>Total</u> |
|--|-------------------------------|-------------------------------|------------------------------------|-------------------|
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 15,555 | \$ 128,707 | \$ 115,385 | \$ 259,647 |
| Undistributed cash in agency funds | 32 | - | 164 | 196 |
| Special assessments receivable | | | | |
| Current - net | 24 | - | 128 | 152 |
| Prior - net | - | - | 19 | 19 |
| Noncurrent - net | 3,000 | 7,500 | 30,000 | 40,500 |
| Total Assets | \$ 18,611 | \$ 136,207 | \$ 145,696 | \$ 300,514 |
| <u>Liabilities and Fund Balance</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ - | \$ - | \$ 115 | \$ 115 |
| Deferred revenue - unavailable | 3,005 | 7,500 | 30,043 | 40,548 |
| Total Liabilities | \$ 3,005 | \$ 7,500 | \$ 30,158 | \$ 40,663 |
| Fund Balance | | | | |
| Unreserved | | | | |
| Undesignated | 15,606 | 128,707 | 115,538 | 259,851 |
| Total Liabilities and Fund Balance | \$ 18,611 | \$ 136,207 | \$ 145,696 | \$ 300,514 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Shared Revenue

State

| | | |
|-------------------------------------|----|-----------|
| Highway users tax | \$ | 2,433,005 |
| County program aid | | 862,179 |
| PERA rate reimbursement | | 10,235 |
| Disparity reduction aid | | 64,032 |
| Police aid | | 77,214 |
| Market value credit | | 176,267 |
| Market value credit - mobile home | | 857 |
| Indian casino aid | | 107,133 |
| Property tax reimbursement - casino | | 450,000 |

Total shared revenue **\$ 4,180,922**

Reimbursement for Services

State

| | | |
|--|----|---------|
| Minnesota Department of Human Services | \$ | 262,327 |
|--|----|---------|

Payments

Local

| | | |
|---------------------------|----|---------|
| Other contributions | \$ | 145,517 |
| Local contributions | | 13,987 |
| Payments in lieu of taxes | | 64,816 |

Total payments **\$ 224,320**

Grants

State

| | | |
|--|----|---------|
| Minnesota Department/Board of | | |
| Corrections | \$ | 19,033 |
| Public Safety | | 127,636 |
| Transportation | | 123,268 |
| Natural Resources | | 94,883 |
| Human Services | | 348,717 |
| Water and Soil Resources | | 51,504 |
| Pollution Control Agency | | 55,950 |
| Peace Officer Standards and Training Board | | 4,660 |
| Veterans Affairs | | 1,400 |

Total State **\$ 827,051**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Grants (Continued)

Federal

| | |
|---------------------------|-----------|
| Department of | |
| Agriculture | \$ 96,991 |
| Commerce | 189,149 |
| Justice | 25,494 |
| Transportation | 366,565 |
| Health and Human Services | 757,419 |
| Homeland Security | 24,676 |

Total federal **\$ 1,460,294**

Total state and federal grants **\$ 2,287,345**

Total Intergovernmental Revenue **\$ 6,954,914**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|---------------------|
| U.S. Department of Agriculture | | |
| Passed Through Minnesota Department of Human Services | | |
| Supplemental Nutrition Assistance Program (SNAP) Cluster | | |
| State Administrative Matching Grants for SNAP | 10.561 | \$ 93,748 |
| State Administrative Matching Grants for SNAP - ARRA | 10.561 | <u>3,243</u> |
| Total U.S. Department of Agriculture | | \$ 96,991 |
| U.S. Department of Commerce | | |
| Direct Grant | | |
| Public Safety Interoperable Communications Grant Program | 11.555 | \$ 6,401 |
| Passed Through Minnesota Department of Public Safety | | |
| Applied Meteorological Research | 11.468 | <u>182,748</u> |
| Total U.S. Department of Commerce | | \$ 189,149 |
| U.S. Department of Justice | | |
| Direct Grant | | |
| Bulletproof Vest Partnership Program | 16.607 | \$ 2,113 |
| Public Safety Partnership and Community Policing Grants | 16.710 | <u>23,381</u> |
| Total U.S. Department of Justice | | \$ 25,494 |
| U.S. Department of Transportation | | |
| Passed Through Minnesota Department of Transportation | | |
| Airport Improvement Program | 20.106 | \$ 148,576 |
| Formula Grants for Other Than Urbanized Areas | 20.509 | 65,372 |
| Passed Through Minnesota Department of Public Safety | | |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | <u>1,589</u> |
| Total U.S. Department of Transportation | | \$ 215,537 |
| U.S. Election Assistance Commission | | |
| Passed Through Minnesota Secretary of State | | |
| Help America Vote Act Requirements Payments | 90.401 | <u>\$ 3,802</u> |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT D-4
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|---|------------------------------------|---------------------|
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Human Services | | |
| Promoting Safe and Stable Families | 93.556 | \$ 50 |
| Temporary Assistance for Needy Families | 93.558 | 187,975 |
| Child Support Enforcement Cluster | | |
| Child Support Enforcement | 93.563 | 168,795 |
| Child Support Enforcement - ARRA | 93.563 | 4,296 |
| Refugee and Entrant Assistance - State-Administered Programs | 93.566 | 112 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 3,974 |
| Child Welfare Services - State Grants | 93.645 | 323 |
| Foster Care - Title IV-E Cluster | | |
| Foster Care - Title IV-E | 93.658 | 66,781 |
| Foster Care - Title IV-E - ARRA | 93.658 | 4,015 |
| Social Services Block Grant | 93.667 | 79,611 |
| Chafee Foster Care Independence Program | 93.674 | 2,071 |
| Children's Health Insurance Program | 93.767 | 140 |
| Medical Assistance Program | 93.778 | 239,276 |
| Total U.S. Department of Health and Human Services | | \$ 757,419 |
| U.S. Department of Homeland Security | | |
| Passed Through Minnesota Department of Natural Resources | | |
| Boating Safety Financial Assistance | 97.012 | \$ 5,305 |
| Passed Through Minnesota Department of Public Safety | | |
| Hazard Mitigation Grant | 97.039 | 1,264 |
| Emergency Management Performance Grants | 97.042 | 23,027 |
| Total U.S. Department of Homeland Security | | \$ 29,596 |
| Total Federal Awards | | \$ 1,317,988 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Mahnomen 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 Mahnomen County under programs of the federal government for the year ended December 31, 2010. 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 Mahnomen County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Mahnomen 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 grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

| | | |
|--|----|-----------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ | 1,460,294 |
| Grants received more than 60 days after year-end, deferred in 2010 | | |
| Airport Improvement Program | | 72,136 |
| Formula Grants for Other than Urbanized Areas | | 16,592 |
| Emergency Management Performance Grants | | 4,920 |
| Help America Vote Act Requirements Payments grant monies, unspent in 2006 and expended in 2010 | | 3,802 |
| Grants deferred in 2009, recognized as revenue in 2010 | | |
| Airport Improvement Program | | (239,756) |
| | | (239,756) |
| Expenditures Per Schedule of Expenditures of Federal Awards | \$ | 1,317,988 |

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, Mahnomen County did not pass any federal awards to subrecipients.

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.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Mahnomen County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Mahnomen 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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Mahnomen County were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "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." The significant deficiency is not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Mahnomen County expresses an unqualified opinion.
- F. A finding relative to major federal award programs for Mahnomen County was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
 - Applied Meteorological Research CFDA #11.468
 - Airport Improvement Program CFDA #20.106
 - 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. Mahnomen 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

96-4 Segregation of Duties

Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Mahnomen County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Without proper segregation of duties, errors or irregularities may not be detected timely.

We recommend that Mahnomen County's management be aware of the lack of segregation of duties within the accounting function and implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

Client's Response:

While understanding that implementation of "Segregation of Duties" is not a cost effective practice for the taxpayers of the County, the Department Heads are aware of the incompatible duties and will continue to monitor the operations of their respective offices to ensure that cash, reporting, receivables, and other items are maintained currently and correctly. The Auditor's and Treasurer's Offices will continue attempting to cross train and rotate duties with its office staff to the best of their abilities, to ensure safe handling of all County, State, and Federal transactions.

06-2 Preparation of Financial Statements

Mahnomen 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 control 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.

Mahnomen County has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its 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 control over the preparation of financial statements in accordance with GAAP.

We recommend Mahnomen County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Mahnomen 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. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

The County does not currently have the financial resources to hire an outside consultant to assist in the preparation of its own annual financial statement in accordance with GAAP. However, now with new staff in house and with additional expertise training, we are positioned to prepare additional required GAAP information for our auditors.

06-3 Audit Adjustment

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.

During our audit, we identified an adjustment in the General Fund to reclassify \$280,976 of miscellaneous revenue from the sale of a radio tower incorrectly posted to the general ledger as intergovernmental revenue - state grants.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements.

We recommend the County establish review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete.

Client's Response:

The County has established an internal control procedures committee assigned to review and assure that audit adjustments are reviewed and approved by appropriate staff. The County may also attempt to discuss and educate staff on internal controls at their monthly departmental heads meeting.

08-1 Documenting and Monitoring Internal Controls

Management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Although the County may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (taxes, intergovernmental revenues, charges for services, and miscellaneous items);
- expenditure/expense processing; and
- payroll.

Mahnomen County has started addressing this issue with the establishment of a committee to assess risks, review controls in place to reduce those risks, and make suggestions for improvements in policies and procedures as necessary; however, they are still in the early stages of the process at the time of this report.

We recommend that County management document the significant internal controls in its accounting system, including an assessment of risks and the processes used to minimize those risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

The County has established an Internal Control/Fraud Risk Assessment Committee under the guidance of the OSA in order to review and document areas of risk and to implement procedures and policies used to minimize potential risks. This Committee has begun to meet and will continue to attempt to document significant internal controls as much as possible, given the limited staff time available.

ITEMS ARISING THIS YEAR

10-1 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Auditee Responsibilities*, subpart C § .300, requires, "The auditee shall (a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. (d) prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with subpart § .310."

Mahnomen County does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and CFDA title and number as required under OMB Circular A-133.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by the County. Since the County has not developed procedures for properly identifying all federal financial assistance, the County relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the County's internal control over financial reporting.

We recommend that Mahnomen County management develop a process, including written procedures that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having departments informing accounting/finance when they have received a

grant award, holding any intergovernmental revenue receipts in suspense accounts until properly identified as to nature and source, and comparison of the prior year SEFA to the current year. For each federal award identified, the County should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The County should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

The County has not yet had experience (to date) in this area of financial reporting. This will require additional training and education for various County employees. Due to limited financial resources and staff time, the County would hope the OSA would continue to assist in this reporting and/or train staff to develop a process and procedure(s) to meet this OMB Circular A-133 Standard, over a manageable period of time.

10-2 Departmental Control Procedures

During our audit of the Sheriff's Department and follow-up procedures on issues presented to Mahnomens County officials as oral comments in previous audits, we noted several weaknesses in departmental control procedures. They are as follows:

- Bank reconciliations are not maintained current and/or have unexplained differences for the Sheriff's, License Center, and Social Welfare Departments.
- The Transit Department uses a collection log rather than pre-numbered receipts for collections. Electronic fund transfers are not recorded on the collection log. Although the use of a collection log is a good compensating control, controls would be improved by receipting all collections on pre-numbered receipts.
- On January 12, 2011, the date of our count, cash and checks on hand in the Sheriff's Department exceeded current receipts by \$51 due to an error in the amount recorded on receipt number 216673.
- Sheriff's Department bank deposits for collections in January 2010 exceeded the amounts receipted by \$200. Receipts were not prepared for three booking fees of \$10 each, one fingerprinting fee of \$20, and bail of \$150. A separate spreadsheet of collections is prepared that tied to the deposit.

- The Sheriff's Department does not maintain a detailed listing or do a periodic inventory of the items held in the evidence room. Although access is limited by a locked door and a motion detector which requires a code to deactivate the alarm, controls could be improved by completing a periodic inventory of the items held.
- The Sheriff's Department had received permission from the U.S. Department of Justice to purchase P25-compliant radios in place of returning federal funds received for the construction of a tower, which was sold upon completion. The invoice documenting the purchase of the P25-compliant radios, along with invoices for purchases made with 911 funds, were used to support expenditures for a federal grant reimbursement that was passed through the Headwaters Regional Development Commission in 2011. Eligible grant expenditures can be funded from only one source.

The establishment and oversight of departmental control procedures is particularly important because generally these smaller departments lack proper segregation of duties, which increases the risk of errors or fraud.

Bank statements should be routinely reconciled with the cash balances recorded in the books of the account. All collections should be receipted on pre-numbered receipts at the time of collection, and receipts should match deposits. A periodic inventory of the evidence room will ensure that all recorded items are still in custody. A system should be in place to ensure expenditures reported for grant reimbursements have not been funded from another source.

We recommend that Mahnommen County's management implement oversight and monitoring procedures to ensure that internal control policies and procedures are being implemented by staff. We further recommend the County contact the Headwaters Regional Development Commission to determine if there are other allowable expenditures within the grant period that can be applied to the grant or if funding should be returned. A receivable and revenue was not recorded by the County for this grant in 2010.

The Office of the State Auditor has a Statement of Position 2007-1010 which discusses the importance of internal controls. It can be found on our website, state.auditor@state.mn.us, along with other useful information, and may offer additional guidance.

Client's Response:

This information/finding has been brought to the attention of the applicable departments for their review and implementation.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

10-3 Income Maintenance DHS 2550 and Social Services DHS 2556 Reporting Errors (CFDA #93.563 and CFDA #93.778)

Mahnomen County reports both Income Maintenance (IM) and Social Services Time Study (SSTS) indirect costs to the Minnesota Department of Human Services on a quarterly basis in order to claim administrative aid reimbursement. IM indirect costs are reported on the DHS 2550 report, and SSTS costs are reported on the DHS 2556 report. Both reports separate out an indirect cost pool from all other Health and Human Services costs incurred, from which IM and SSTS administrative aid will be reimbursed.

During our testing of administrative aid for the Child Support Enforcement (CFDA #93.563) and Medical Assistance Program (CFDA #93.778) grants, we noted numerous errors in the amounts and categories of expenditures reported to the Minnesota Department of Human Services on the quarterly DHS 2550 and DHS 2556 reports. The errors resulted in reporting some expenditures in the wrong categories and net underreporting of IM expenses in the amount of \$24,665 for the first quarter, net underreporting of IM expenses in the amount of \$201 for the second quarter, underreporting of IM expenditures in the amount of \$1,392 for the third quarter, as well as a net underreporting of SSTS expenditures of \$3,195 for the first quarter.

The errors resulted from an error in the posting of the first payroll in 2010, changes in the format of the reports, and lack of a review process prior to the submission of the reports. The errors from reporting expenditures in the wrong categories resulted in the County overreporting expenditures for certain programs and underreporting for others.

We recommend Mahnomen County contact the Minnesota Department of Human Services to discuss its options for correcting the reporting errors. We further recommend the County implement review procedures of the quarterly DHS 2550 and DHS 2556 reports before submission.

Corrective Action Plan:

Contact Person Responsible for Corrective Action:

Human Services Fiscal Officer

Corrective Action Planned:

Amended reports will be sent to the DHS. In the future, the Accounting Tech will be reviewing the applicable reports.

Completion Date:

June 1, 2011

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

10-4 Contract Compliance

In 2010, Mahnomon County paid Federal Signal Corporation, an out-of-state vendor, \$181,997 for the purchase and installation of weather alert signals under the Applied Meteorological Research grant. Documentation of approval of a contract with Federal Signal Corporation by the Board of County Commissioners could not be located in the official minutes. The Emergency Management Coordinator stated that Federal Signal Corporation was selected based on two quotes.

This transaction was not in compliance with Minn. Stat. §§ 471.345, 375.21, 290.9705, and 270C.66.

The transaction was entered into by the Emergency Management's office as a result of receiving a federal grant to cover expenditures related to the project. The Emergency Management Coordinator was not aware of all the statutory requirements related to this contract.

As provided by Minn. Stat. § 471.345, when a contract is expected to go over \$100,000, the contract needs to be let on sealed bids. As provided by Minn. Stat. § 375.21, the contract should be made by a county board only after advertising for bids or proposals in a qualified legal newspaper, and the notice should state the time and place of awarding the contract. Minn. Stat. § 290.9705 provides that eight percent of payments made to an out-of-state contractor must be withheld once payments made exceed \$50,000 in a calendar year. This payment is deposited with the Minnesota Department of Revenue to ensure the contractor's obligations to the State of Minnesota are met for withholding, sales and use, franchise, and income taxes. As provided by Minn. Stat. § 270C.66, the County should not make final payment to a contractor under a contract requiring wages until the contractor provides documentation that the contractor and any subcontractors have complied with the provisions of Minn. Stat. § 290.92.

We recommend the County establish procedures to ensure contracts are presented to the Board of County Commissioners for approval and that the approval be documented in the official minutes. We further recommend that any officials involved in the contracting process be informed of the statutory requirements to ensure compliance with Minn. Stat. §§ 471.345, 375.21, 290.9705, and 270C.66 that are applicable for all future contracts.

Client's Response:

The County is aware of the statutory requirements for contracting and will continue to attempt to establish adequate policies and procedures to address and communicate the requirements of properly processing contracts to its staff.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Mahnommen County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and 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 are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with 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.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

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 the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted and/or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. The County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.

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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
Mahnomen County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 21, 2011. Our report includes 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 Mahnomen Health Center, a discretely presented component unit, as described in our report on Mahnomen 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 Mahnomen 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.

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.

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 certain deficiencies in internal control over financial reporting described in the Schedule of Findings and Questioned Costs as items 96-4, 06-2, 06-3, 08-1, 10-1, and 10-2, that we consider to be significant deficiencies 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 Mahnomen 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 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 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 we did not test for compliance in tax increment financing because Mahnomen County has no tax increment financing.

The results of our tests indicate that, for the items tested, Mahnomen County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 10-4.

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 we are reporting it for that purpose.

Mahnomen 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 Mahnomen 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

June 21, 2011

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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 County Commissioners
Mahnomen County

Compliance

We have audited Mahnomen County's 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 each of its major federal programs for the year ended December 31, 2010. Mahnomen 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 Mahnomen 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 of the County's compliance with those requirements.

In our opinion, Mahnomen County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Mahnomen 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 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 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, as described in the accompanying Schedule of Findings and Questioned Costs as item 10-3. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Mahnomen County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 21, 2011