

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Year Ended December 31, 2012



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

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization Schedule		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	14
Statement of Activities	2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	18
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	20
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	23
Fiduciary Funds		
Statement of Fiduciary Net Position	7	25
Statement of Changes in Fiduciary Net Position	8	26
Notes to the Financial Statements		27
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	82
Road and Bridge Special Revenue Fund	A-2	85
Social Services Special Revenue Fund	A-3	86
Schedule of Funding Progress - Other Postemployment Benefits	A-4	87
Notes to the Required Supplementary Information		88

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		89
Combining Balance Sheet	B-1	90
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	91
Combining Balance Sheet - Special Revenue Funds	B-3	92
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Special Revenue Funds	B-4	93
Combining Balance Sheet - Debt Service Funds	B-5	94
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Debt Service Funds	B-6	95
Budgetary Comparison Schedules		
Solid Waste Special Revenue Fund	B-7	96
Ditch Special Revenue Fund	B-8	97
Nursing Home Revenue Bonds Debt Service Fund	B-9	98
Fiduciary Funds		
Agency Funds		99
Combining Statement of Changes in Assets and Liabilities	C-1	100
Other Schedules		
Schedule of Deposits and Investments	D-1	103
Balance Sheet by Ditch - Ditch Special Revenue Fund	D-2	104
Schedule of Intergovernmental Revenue	D-3	105
Schedule of Expenditures of Federal Awards	D-4	107
Notes to the Schedule of Expenditures of Federal Awards		109
Management and Compliance Section		
Schedule of Findings and Questioned Costs		111
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		120
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance		123

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

ORGANIZATION SCHEDULE
DECEMBER 31, 2012

Office	Name	Term Expires
Commissioners		
1st District	James Kochmann	January 2017
2nd District	Jerry Dahl	January 2015
3rd District	Everett Kjelbertson	January 2015
4th District	Karen Ahmann ¹	January 2017
5th District	David Geray ²	January 2017
Officials		
Elected		
Attorney	Darlene Rivera	January 2015
Auditor	Frank Thompson	January 2015
County Recorder	Susan Bendickson	January 2015
Registrar of Titles	Susan Bendickson	January 2015
Sheriff	Douglas Krier	January 2015
Treasurer	Brenda Lundon	January 2015
Appointed		
Assessor	Les Finseth	December 2016
Court Administrator	Lori Wiebolt	Indefinite
Highway Engineer	Jonathan Large	May 2017
Veterans Service Officer	Vacant	Indefinite
Medical Examiner	Dr. Mary Ann Sens	Indefinite
Solid Waste Officer	Mark Diekman	Indefinite
Social Services Board		
Chair	Karen Ahmann	January 2017
Vice Chair	David Geray	January 2017
Secretary	Theresa McCollum	July 2014
Member	Jerry Dahl	January 2015
Member	Colleen Blattenbauer	July 2015
Member	James Kochmann	January 2017
Member	Everett Kjelbertson	January 2015
Director	Kristi Nelson	Indefinite

¹Chair

²Vice Chair

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mahnomen County

Report on the Financial Statements

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, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2012, 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.

Other Matters

Required Supplementary Information

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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mahnomen County's basic financial statements. The supplementary information as 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. Such 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2013, on our consideration of Mahnomon County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mahnomon County’s internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 25, 2013

This page was left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. 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 position (assets minus liabilities) are \$32,352,243 of which Mahnomen County has a net investment in capital assets of \$25,510,155, \$3,249,208 is restricted to specific purposes/uses, and \$3,592,880 is classified as unrestricted by the County.
- The net costs (expenses) of Mahnomen County's governmental activities for the year ended December 31, 2012, was \$4,666,504. General property tax revenues and other revenue sources funded those costs.
- Mahnomen County's total governmental funds' fund balances increased by \$357,413.

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) and certain budgetary comparison schedules 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.

Management's Discussion and Analysis (Required Supplementary Information)

Government-Wide Financial Statements	Fund Financial Statements
Notes to the Financial Statements	

Required Supplementary Information (Other than Management's Discussion and Analysis)
--

Mahnomen County presents two government-wide financial statements. They are the Statement of Net Position 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 Position and the Statement of Activities

The Statement of Net Position 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 expense. These two statements report Mahnomen County's net position and changes in net position. You can think of the County's net position 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 position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the County's property tax base and the general economic conditions of the State and County, in order to assess the overall financial health of Mahnomen County.

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

- Governmental activities - Mahanomen 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. Mahanomen 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 Mahanomen Health Center. Although legally separate, this component unit is important because the County is financially accountable for it.

Fund Financial Statements

Mahanomen 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. Mahanomen 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. Mahanomen County has described the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

Reporting the County’s Fiduciary Responsibilities

Mahanomen 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 Position and Changes in Fiduciary Net Position. 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 position for the year ended December 31, 2012, were \$32,352,243. The analysis below focuses on the net (position) assets (Table 1) and change in net (position) assets (Table 2) of the County's governmental activities.

**Table 1
Net Position**

	Governmental Activities	
	2012	2011
Assets		
Current and other assets	\$ 9,357,896	\$ 8,478,202
Capital assets	25,684,008	25,773,288
Total Assets	<u>\$ 35,041,904</u>	<u>\$ 34,251,490</u>
Liabilities		
Long-term debt outstanding	\$ 2,096,996	\$ 2,092,506
Other liabilities	592,665	516,479
Total Liabilities	<u>\$ 2,689,661</u>	<u>\$ 2,608,985</u>
Net Position		
Net investment in capital assets	\$ 25,510,155	\$ 25,679,028
Restricted	3,249,208	2,478,454
Unrestricted	3,592,880	3,485,023
Total Net Position	<u>\$ 32,352,243</u>	<u>\$ 31,642,505</u>

Unrestricted net assets totaling \$3,592,880 are available to Mahnomen County to finance day-to-day operations.

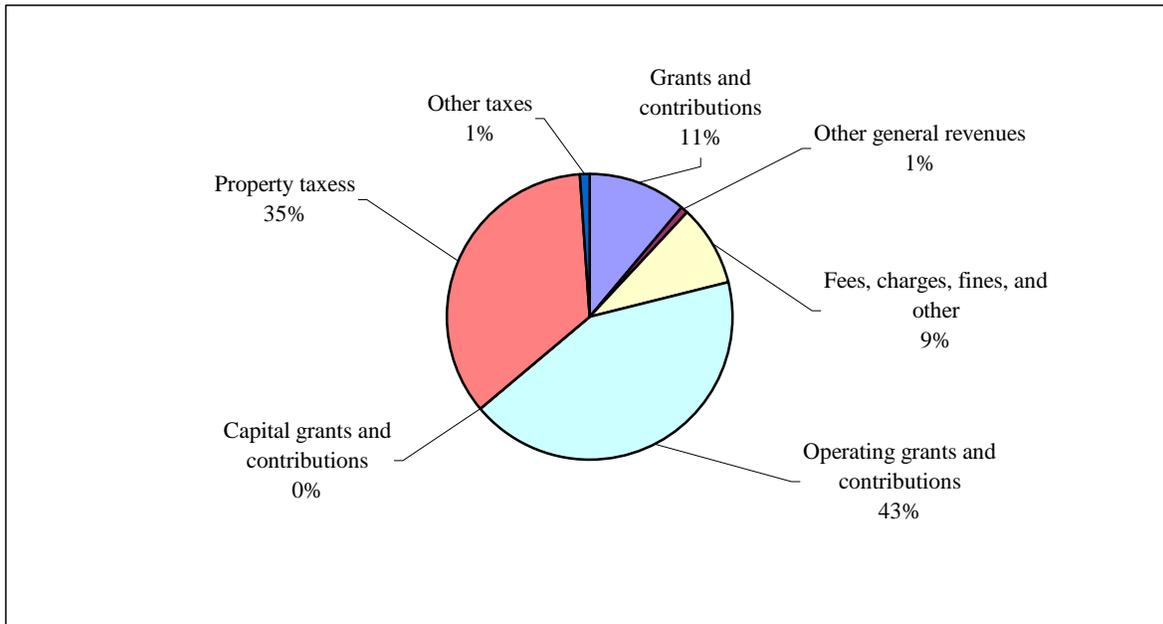
**Table 2
Change in Net Position**

	Governmental Activities	
	2012	2011
Revenues		
Program Revenues		
Fees, charges, fines, and other	\$ 1,002,072	\$ 1,015,336
Operating grants and contributions	4,800,485	4,818,418
Capital grants and contributions	31,228	27,391
General Revenues		
Property taxes	3,973,477	3,771,658
Other taxes	82,714	82,040
Grants and contributions	1,237,363	1,448,656
Other general revenues	82,688	134,769
Total Revenues	<u>\$ 11,210,027</u>	<u>\$ 11,298,268</u>

	Governmental Activities	
	2012	2011
Expenditures		
Program Expenses		
General government	\$ 1,956,095	\$ 1,884,586
Public safety	2,407,764	2,419,908
Highways and streets	2,405,526	2,489,747
Sanitation	255,611	265,496
Human services	2,631,182	2,444,600
Health	235,804	111,103
Culture and recreation	132,947	161,938
Conservation of natural resources	206,844	176,637
Economic development	213,944	202,889
Interest	54,572	59,244
Total Expenses	\$ 10,500,289	\$ 10,216,148
Change in Net Position	\$ 709,738	\$ 1,082,120
Net Position - Beginning	31,642,505	30,560,385
Net Position - Ending	\$ 32,352,243	\$ 31,642,505

Mahnomen County's total revenues for the year ended December 31, 2012, were \$11,210,027. The total cost of County programs and services for the year ended December 31, 2012, was \$10,500,289. The net position for governmental activities increased by \$709,738. The following pie chart depicts those revenues in seven categories.

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



Governmental Activities

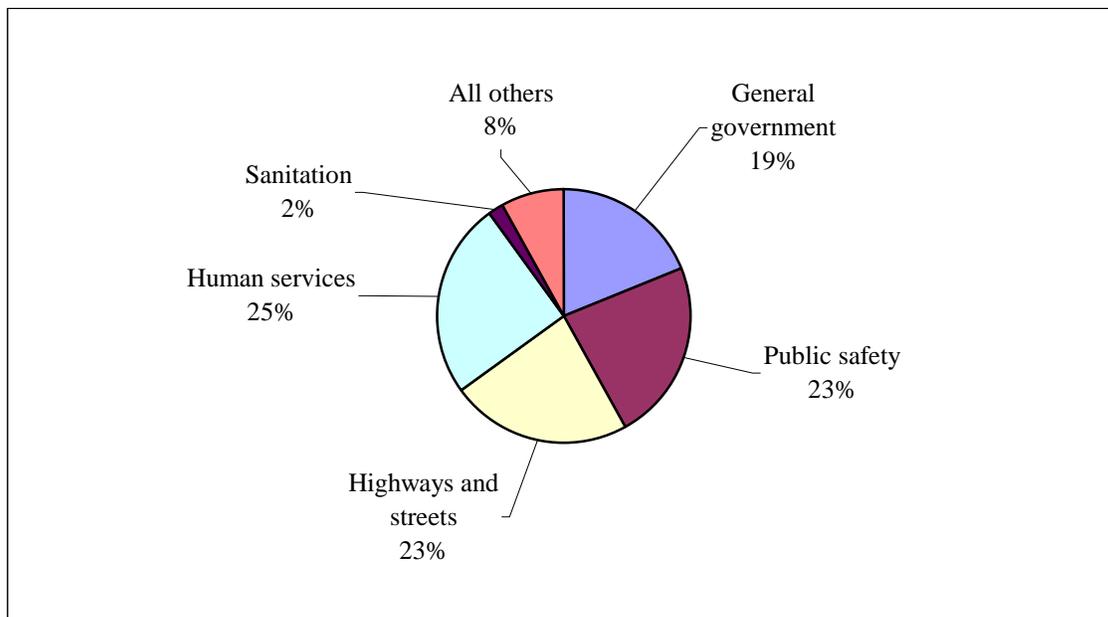
Mahnomen County's costs for all governmental activities for the year ended December 31, 2012, were \$10,500,289, as shown on the Statement of Activities. The net cost of services was ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, 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

	2012	
	Total Cost of Services	Net Cost of Services
Program expenses		
General government	\$ 1,956,095	\$ 1,668,415
Public safety	2,407,764	2,035,174
Highways and streets	2,405,526	(377,811)
Human services	2,631,182	864,874
Sanitation	255,611	49,221
All others	844,111	426,631
Totals	<u>\$ 10,500,289</u>	<u>\$ 4,666,504</u>

Governmental Activities' Expenses
(Percent of Total)



The County's Funds

As Mahanomen County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$6,003,467, which is above last year's total combined fund balance of \$5,646,054. This increase of \$357,413 represents a 6.33 percent total increase. Included in this year's total fund balance is the County's General Fund balance of \$2,579,778. The General Fund's change in fund balance (an increase of \$21,526 from 2011) represented a 0.84 percent increase in the General Fund balance. The General Fund's increase was due to excess expenditures over revenues of \$(135,751) plus other financing sources in the amount of \$157,277. The Road and Bridge Special Revenue Fund balance increased by \$337,645, or 32.38 percent, and the Social Services Special Revenue Fund increased by \$66,409, or 6.13 percent.

General Fund Budgetary Highlights

The Mahanomen County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2012, 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 20, 2011, 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 under the budgeted revenues by \$93,538. The total actual expenditures in the County's General Fund were under the budgeted expenditures by \$89,181. The General Fund balance increased by a total of \$21,526.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, Mahanomen County had \$25,684,008 invested in a broad range of capital assets including land, buildings, highways and streets, and equipment (see Table 4). This amount represents a net decrease (including additions and deductions) of \$89,280, or 0.35 percent, less than last year.

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

	2012	2011
Land	\$ 534,639	\$ 534,639
Construction in progress	18,308	-
Land improvements	35,852	38,280
Buildings and improvements	788,282	769,152
Machinery, furniture, and equipment	1,162,175	963,077
Infrastructure	23,144,752	\$ 23,468,140
Totals	<u>\$ 25,684,008</u>	<u>\$ 25,773,288</u>

Mahnomen County's fiscal year 2012 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, 2012, Mahnomen County had \$1,120,000 in bonds outstanding, compared with \$1,330,000 as of December 31, 2011, a decrease of 15.79 percent as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	2012	2011
Bonds payable - general obligation bonds	\$ 290,000	\$ 380,000
Bonds payable - revenue bonds	830,000	950,000
Totals	<u>\$ 1,120,000</u>	<u>\$ 1,330,000</u>

It is imperative to point out that Table 5 illustrates the County's 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 2012 net debt is below this \$14,561,187 state-imposed limit.

Other obligations may include capital leases and compensated absences. 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 2013 budget, tax rates, and fees that will be charged for governmental activities.

- The State of Minnesota is addressing its 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 may have a significant impact on next year's budget.
- Mahnomen County's average net tax capacity rates have remained relatively consistent. 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 annual unemployment rate for 2012 averaged 7.0 percent. The County's unemployment rate for 2011 averaged 7.6 percent according to the Minnesota Department of Employment and Economic Development.
- The Minnesota state demographer's census data has estimated Mahnomen County's 2012 population at 5,504 residents, which is an increase of 1.16 percent from the estimated 2011 population estimate of 5,441.
- The 2013 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 2014 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, (218-935-5669) at 311 North Main Street, P. O. Box 379, Mahnomen, Minnesota 56557.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
<u>Assets</u>		
Current assets		
Cash and pooled investments	\$ 5,678,128	\$ 1,097,139
Departmental cash	110,606	-
Taxes receivable delinquent	135,618	-
Special assessments receivable		
Prior	20,275	-
Deferred	45,500	-
Accounts receivable - net	19,092	1,397,328
Accrued interest receivable	7,719	-
Property held for resale	87,300	-
Due from other governments	2,490,225	-
Inventories	94,966	99,691
Prepaid items	-	59,868
Noncurrent assets		
Advance to other governments	481,875	-
Long-term receivables	66,600	-
Other long-term investments	-	603,928
Contract for deed	111,018	-
Investment in joint venture	-	322,282
Held by trustee for debt service	-	171,400
Deferred charges	8,974	16,677
Restricted due from other governments - temporary	-	80,000
Restricted cash	-	387,021
Capital assets		
Non-depreciable	552,947	84,798
Depreciable - net of accumulated depreciation	25,131,061	4,200,702
Total Assets	\$ 35,041,904	\$ 8,520,834

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 215,929	\$ 630,935
Salaries payable	182,013	264,666
Compensated absences/vacation/sick payable - current	-	179,944
Due to other governments	173,242	-
Customer deposits	1,000	-
Accrued interest payable	20,481	15,908
Unearned revenue	-	387,021
Residents' personal funds	-	11,583
Gross revenue bonds - current	-	125,000
Capital leases payable - current	-	52,001
Long-term liabilities		
Long-term debt payable - noncurrent	-	1,002,991
Due within one year	396,425	-
Due in more than one year	1,700,571	-
	\$ 2,689,661	\$ 2,670,049
<u>Net Position</u>		
Net investment in capital assets	\$ 25,510,155	\$ 3,105,508
Restricted for		
Hospital operations	-	467,021
General government	100,663	-
Public safety	146,622	-
Highways and streets	2,124,414	-
Sanitation	37,250	-
Culture and recreation	98,807	-
Conservation of natural resources	419,763	-
Debt service	321,189	-
Held in trust for other purposes	500	-
Unrestricted	3,592,880	2,278,256
	\$ 32,352,243	\$ 5,850,785

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 1,956,095	\$ 156,812
Public safety	2,407,764	101,172
Highways and streets	2,405,526	73,755
Sanitation	255,611	133,676
Human services	2,631,182	271,677
Health	235,804	154,927
Culture and recreation	132,947	-
Conservation of natural resources	206,844	87,511
Economic development	213,944	22,542
Interest	54,572	-
Total Primary Government	\$ 10,500,289	\$ 1,002,072
Component unit		
Mahnomen Health Center	\$ 8,325,316	\$ 8,373,007

General Revenues

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

Total general revenues

Change in net position

Net position - Beginning

Net position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
\$ 130,868	\$ -	\$ (1,668,415)	
271,418	-	(2,035,174)	
2,678,354	31,228	377,811	
72,714	-	(49,221)	
1,494,631	-	(864,874)	
-	-	(80,877)	
100,072	-	(32,875)	
35,455	-	(83,878)	
16,973	-	(174,429)	
-	-	(54,572)	
\$ 4,800,485	\$ 31,228	\$ (4,666,504)	
\$ 382,055	\$ -		\$ 429,746
		\$ 3,973,477	\$ -
		-	54,914
		2,668	-
		1,237,363	-
		80,046	-
		31,531	9,243
		51,157	-
		\$ 5,376,242	\$ 64,157
		\$ 709,738	\$ 493,903
		31,642,505	5,356,882
		\$ 32,352,243	\$ 5,850,785

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<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	\$ 2,302,364	\$ 1,218,037	\$ 1,204,833	\$ 835,455	\$ 5,560,689
Petty cash and change funds	1,700	-	-	-	1,700
Undistributed cash in agency funds - taxes and other	75,093	12,854	21,901	5,891	115,739
Departmental cash	110,606	-	-	-	110,606
Taxes receivable delinquent	87,544	16,744	28,385	2,945	135,618
Special assessments					
Prior	-	659	-	19,616	20,275
Deferred	-	5,000	-	40,500	45,500
Accounts receivable	10,800	5,937	914	1,441	19,092
Accrued interest receivable	7,703	-	-	16	7,719
Property held for resale	87,300	-	-	-	87,300
Due from other funds	854	688	4,865	-	6,407
Due from other governments	131,896	2,199,551	158,778	-	2,490,225
Inventories	-	94,966	-	-	94,966
Noncurrent assets					
Contract for deed	111,018	-	-	-	111,018
Long-term receivables	-	-	-	66,600	66,600
Total Assets	<u>\$ 2,926,878</u>	<u>\$ 3,554,436</u>	<u>\$ 1,419,676</u>	<u>\$ 972,464</u>	<u>\$ 8,873,454</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 74,866	\$ 38,866	\$ 93,642	\$ 8,555	\$ 215,929
Salaries payable	108,717	19,150	52,225	1,921	182,013
Due to other funds	4,865	208	22,494	70	27,637
Due to other governments	62,348	436	80,174	9,054	152,012
Customer deposits	-	1,000	-	-	1,000
Deferred revenue - unavailable	96,304	2,114,336	21,822	58,934	2,291,396
Total Liabilities	<u>\$ 347,100</u>	<u>\$ 2,173,996</u>	<u>\$ 270,357</u>	<u>\$ 78,534</u>	<u>\$ 2,869,987</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<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>					
(Continued)					
Fund Balances					
Nonspendable					
Inventories	\$ -	\$ 94,966	\$ -	\$ -	\$ 94,966
Contract for deed	111,018	-	-	-	111,018
Property held for resale	87,300	-	-	-	87,300
Restricted for					
Debt service	-	-	-	321,189	321,189
Recorder's technology equipment	41,371	-	-	-	41,371
E-911	111,432	24,658	-	-	136,090
Recorder's compliance	59,292	-	-	-	59,292
Boat and water safety	1,165	-	-	-	1,165
Extension youth grant	395	-	-	-	395
Handgun permits	3,989	-	-	-	3,989
SCORE	-	-	-	37,250	37,250
Highway projects	-	129,207	-	-	129,207
Gravel pit restoration	-	19,770	-	-	19,770
Ditch maintenance and construction	-	-	-	278,667	278,667
DARE	378	-	-	-	378
Missing heirs	500	-	-	-	500
Timber development	140,701	-	-	-	140,701
Parks and recreation	98,807	-	-	-	98,807
Committed to					
Sheriff's contingencies	5,000	-	-	-	5,000
Assigned to					
Highways and streets	-	1,111,839	-	-	1,111,839
Social services	-	-	1,149,319	-	1,149,319
Solid waste	-	-	-	145,538	145,538
Drug eradication	1,475	-	-	-	1,475
County development	2,692	-	-	-	2,692
Extension programming funds	139	-	-	-	139
Hospital reserve	-	-	-	111,286	111,286
Unassigned	1,914,124	-	-	-	1,914,124
Total Fund Balances	\$ 2,579,778	\$ 1,380,440	\$ 1,149,319	\$ 893,930	\$ 6,003,467
Total Liabilities and Fund Balances	\$ 2,926,878	\$ 3,554,436	\$ 1,419,676	\$ 972,464	\$ 8,873,454

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)	\$	6,003,467
---	-----------	------------------

Amounts reported for governmental activities in the statement of net position 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.		25,684,008
--	--	------------

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	\$ 631,226	
Repayments on advance	<u>(149,351)</u>	481,875

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,291,396
---	--	-----------

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	\$ (290,000)	
Revenue bonds	(830,000)	
Capital leases	(173,853)	
Accrued interest payable	(20,481)	
Compensated absences	(169,488)	
Net OPEB liability	(633,655)	
Deferred debt issuance charges	<u>8,974</u>	<u>(2,108,503)</u>

Net Position of Governmental Activities (Exhibit 1)	\$	<u>32,352,243</u>
--	-----------	--------------------------

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 2,585,447	\$ 482,113	\$ 832,681	\$ 82,014	\$ 3,982,255
Special assessments	-	5,317	-	162,972	168,289
Licenses and permits	10,474	-	-	-	10,474
Intergovernmental	1,893,310	2,064,098	1,521,907	223,650	5,702,965
Charges for services	225,755	53,517	173,048	5,790	458,110
Fines and forfeits	13,964	-	-	-	13,964
Investment earnings	34,342	-	-	190	34,532
Miscellaneous	232,744	15,635	98,629	46,608	393,616
Total Revenues	\$ 4,996,036	\$ 2,620,680	\$ 2,626,265	\$ 521,224	\$ 10,764,205
Expenditures					
Current					
General government	\$ 2,110,119	\$ -	\$ -	\$ -	\$ 2,110,119
Public safety	2,357,586	-	-	-	2,357,586
Highways and streets	-	2,166,091	-	-	2,166,091
Sanitation	-	-	-	246,458	246,458
Human services	-	-	2,559,856	-	2,559,856
Health	235,804	-	-	-	235,804
Culture and recreation	132,947	-	-	-	132,947
Conservation of natural resources	156,767	-	-	50,155	206,922
Economic development	85,757	-	-	-	85,757
Intergovernmental					
Highways and streets	-	129,127	-	-	129,127
Debt service					
Principal	45,407	-	-	210,000	255,407
Interest	7,150	-	-	50,150	57,300
Administrative (fiscal) charges	250	-	-	351	601
Total Expenditures	\$ 5,131,787	\$ 2,295,218	\$ 2,559,856	\$ 557,114	\$ 10,543,975
Excess of Revenues Over (Under)					
Expenditures	\$ (135,751)	\$ 325,462	\$ 66,409	\$ (35,890)	\$ 220,230

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***EXHIBIT 5
(Continued)***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	\$ 32,277	\$ -	\$ -	\$ -	\$ 32,277
Transfers out	-	-	-	(32,277)	(32,277)
Capital lease purchase	125,000	-	-	-	125,000
Total Other Financing Sources (Uses)	<u>\$ 157,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,277)</u>	<u>\$ 125,000</u>
Net Change in Fund Balance	\$ 21,526	\$ 325,462	\$ 66,409	\$ (68,167)	\$ 345,230
Fund Balance - January 1	2,558,252	1,042,795	1,082,910	962,097	5,646,054
Increase (decrease) in inventories	<u>-</u>	<u>12,183</u>	<u>-</u>	<u>-</u>	<u>12,183</u>
Fund Balance - December 31	<u><u>\$ 2,579,778</u></u>	<u><u>\$ 1,380,440</u></u>	<u><u>\$ 1,149,319</u></u>	<u><u>\$ 893,930</u></u>	<u><u>\$ 6,003,467</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 345,230

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	\$ 2,291,396	
Deferred revenue - January 1	<u>(1,696,223)</u>	595,173

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	\$ 1,203,396	
Current year depreciation	<u>(1,292,676)</u>	(89,280)

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 position. 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 position.

Proceeds of new debt		
Capital lease purchase		(125,000)
Principal repayments		
General obligation bonds	\$ 90,000	
Revenue bonds	120,000	
Capital lease	<u>45,407</u>	255,407

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 6
(Continued)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

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	\$ 3,330	
Amortization of deferred debt issuance costs	(2,074)	
Change in compensated absences	5,097	
Change in net OPEB liability	(140,977)	
Change in inventories	12,183	
Change in advance to other governments	(149,351)	(271,792)
Change in Net Position of Governmental Activities (Exhibit 2)		<u>\$ 709,738</u>

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012**

	Family Services Collaborative Investment Trust Fund	Agency Funds
<u>Assets</u>		
Cash and pooled investments	\$ 198,292	\$ 76,925
Receivables		
Accounts	-	22,943
Interest	37	-
Due from other funds	21,230	-
Total Assets	\$ 219,559	\$ 99,868
<u>Liabilities</u>		
Due to other governments	-	\$ 99,868
<u>Net Position</u>		
Net position, held in trust for pool participants	\$ 219,559	

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FAMILY SERVICES COLLABORATIVE INVESTMENT TRUST FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Additions</u>	
Contributions from participants	\$ 105,407
Investment earnings	
Interest	<u>551</u>
Total Additions	\$ 105,958
<u>Deductions</u>	
Distributions to participants	<u>98,228</u>
Change in net position	\$ 7,730
Net Position - January 1	<u>211,829</u>
Net Position - December 31	<u><u>\$ 219,559</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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 position 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 position, 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. 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. Sources of revenues include property taxes, intergovernmental revenues, and charges for services.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs. Sources of revenues include property taxes, intergovernmental revenues, and charges for services.

**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, 2012, 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 2012 were \$32,082.

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)	\$ 5,865,659
Held for external pool participants (Interagency Collaborative)	<u>198,292</u>
Total	<u>\$ 6,063,951</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)

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 taxes receivable delinquent.

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 2012, the Mahnomen Health Center repaid \$149,351. The balance of \$481,875 as of December 31, 2012, 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, Prepaid Items, and Property Held for Resale

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.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Inventories, Prepaid Items, and Property Held for Resale (Continued)

Real property acquired for subsequent resale as a result of a default of a contract for deed and not as an investment program is recorded at the lesser of cost or net realizable value. Property held for resale is offset by a nonspendable fund balance account in the General Fund.

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 value at the date of donation. The County's capitalization threshold for capital assets is as follows:

Assets	Capitalization Threshold
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 position. 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. Classification of Net Position

Net position in the government-wide statements are classified in the following components:

Net investment in capital assets - the portion of net position representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted - the portion of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - the portion of net position that is not included in the net investment in capital assets or restricted components.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classifications of Fund Balance

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

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

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

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor who has been delegated that authority by Board resolution.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

11. Classifications of Fund Balance (Continued)

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

12. Minimum Fund Balance

Unrestricted Fund Balance (Committed, Assigned, and Unassigned) may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget revision by the County's Board. In the event of projected revenue shortfalls, it is the responsibility of the County Auditor to report the projections to the County's Board on a quarterly basis and shall be recorded in the minutes.

Any budget revision that will result in the Unrestricted Fund Balance dropping below the minimum level will require the approval of 3/5 vote of the County Board.

The Fund Balance Policy establishes a minimum Unrestricted Fund Balance equal to 16 percent of total General Fund expenditures. In the event that the balance drops below the established minimum level, the County's Board will develop a plan to replenish the fund balance to the established minimum level within two years.

13. 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, 2012:

	Expenditures	Budget	Excess
Social Services Special Revenue Fund	\$ 2,559,856	\$ 2,342,026	\$ 217,830
Nursing Home Revenue Bonds Debt Service Fund	99,561	78,226	21,335

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 position	
Governmental activities	
Cash and pooled investments	\$ 5,678,128
Departmental cash	110,606
Statement of fiduciary net position	
Cash and pooled investments	
Investment trust fund	198,292
Agency funds	76,925
Total Cash and Investments	\$ 6,063,951

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, 2012, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**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, 2012, \$465,288 of government securities and \$529,718 of publicly traded certificates of deposit were exposed to custodial credit risk because they were held by the counterparty.

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, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal Home Loan Mortgage Corporation	Aaa	Moody's		01/30/2020	\$ 198,906
Federal Home Loan Mortgage Corporation	Aaa	Moody's		02/15/2022	<u>100,071</u>
Total Federal Home Loan Mortgage Corporation			20.00%		<u>\$ 298,977</u>
Federal Home Loan Bank	Aaa	Moody's		07/18/2022	\$ 300,078
Federal Home Loan Bank	Aaa	Moody's		08/15/2022	<u>100,043</u>
Total Federal Home Loan Bank			26.76%		<u>\$ 400,121</u>
Negotiable certificates of deposit			N/A		<u>\$ 795,908</u>
Total investments					\$ 1,495,006
Deposits					4,567,245
Petty cash and change funds					<u>1,700</u>
Total Cash and Investments					<u><u>\$ 6,063,951</u></u>

N/A - Not Applicable

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, 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	\$ 135,618	\$ -
Special assessments	65,775	-
Accounts	19,092	-
Interest	7,719	-
Due from other governments	2,490,225	-
Contract for deed	111,018	102,672
Long-term receivable	66,600	44,183
Total Governmental Activities	\$ 2,896,047	\$ 146,855

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 534,639	\$ -	\$ -	\$ 534,639
Construction in progress	-	18,308	-	18,308
Total capital assets not depreciated	\$ 534,639	\$ 18,308	\$ -	\$ 552,947
Capital assets depreciated				
Land improvements	\$ 65,354	\$ -	\$ -	\$ 65,354
Buildings	2,929,254	75,090	-	3,004,344
Machinery, furniture, and equipment	2,469,125	495,288	94,724	2,869,689
Infrastructure	35,382,945	614,710	-	35,997,655
Total capital assets depreciated	\$ 40,846,678	\$ 1,185,088	\$ 94,724	\$ 41,937,042

**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	\$ 27,074	\$ 2,428	\$ -	\$ 29,502
Buildings	2,160,102	55,960	-	2,216,062
Machinery, furniture, and equipment	1,506,048	296,190	94,724	1,707,514
Infrastructure	11,914,805	938,098	-	12,852,903
	<u>\$ 15,608,029</u>	<u>\$ 1,292,676</u>	<u>\$ 94,724</u>	<u>\$ 16,805,981</u>
Total accumulated depreciation				
Total capital assets depreciated, net	\$ 25,238,649	\$ (107,588)	\$ -	\$ 25,131,061
	<u>\$ 25,773,288</u>	<u>\$ (89,280)</u>	<u>\$ -</u>	<u>\$ 25,684,008</u>
Governmental Activities				
Capital Assets, Net				

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

Governmental Activities	
General government	\$ 49,628
Public safety	107,946
Highways and streets, including depreciation of infrastructure assets	985,750
Sanitation	421
Human services	20,926
Economic development	128,005
	<u>128,005</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,292,676</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, 2012, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and Bridge Special Revenue	\$ 208
	Social Services Special Revenue	576
	Other governmental	<u>70</u>
Total due to General Fund		\$ 854
Road and Bridge Special Revenue	Social Services Special Revenue	688
Social Services Special Revenue	General	4,865
Investment Trust	Social Services Special Revenue	<u>21,230</u>
Total Due To/From Other Funds		<u>\$ 27,637</u>

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, 2012, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale Special Revenue Fund	<u>\$ 32,277</u>	Settlement of proceeds
---	------------------	------------------------

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 215,929
Salaries	182,013
Due to other governments	173,242
Customer deposits	<u>1,000</u>
Total Payables	<u>\$ 572,184</u>

2. Deferred Revenue

Deferred revenue as of December 31, 2012, for the County's governmental funds and activities are as follows:

	<u>Deferred Unavailable</u>
Governmental funds	
Taxes and special assessments	\$ 154,296
State-aid highway allotments	2,095,720
Charges for services	3,842
Grants	36,437
Interest on investments	489
Miscellaneous	<u>612</u>
Total Governmental Funds	<u>\$ 2,291,396</u>

**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 eight eligible participants. The County finances the plan on a pay-as-you-go basis. During 2012, the County expended \$66,576 for these benefits.

4. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment and facilities. 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, 2012:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2009 copier	2014	Monthly	\$ 273	\$ 15,560	\$ 3,511
2010 service center	2020	Semi-Annually	6,264	100,000	78,899
2012 server upgrade	2015	Monthly	3,675	125,000	91,443
Total Capital Leases					<u>\$ 173,853</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, 2012, were as follows:

Year Ending December 31	Governmental Activities
2013	\$ 59,910
2014	56,902
2015	19,879
2016	12,528
2017	12,528
2018 - 2020	31,214
Total minimum lease payments	\$ 192,961
Less: amount representing interest	(19,108)
Present Value of Minimum Lease Payments	\$ 173,853

5. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
2009A G.O. Nursing Home Revenue Refunding Bonds	2015	\$95,000 - \$100,000	2.00 - 3.00	\$ 560,000	\$ 290,000
Revenue bonds					
2007 Gross Revenue Hospital Facilities Bond	2018	\$125,000 - \$155,000	4.60	\$ 1,260,000	\$ 830,000

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
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	-	-	140,000	17,020
2017	-	-	145,000	10,465
2018	-	-	155,000	3,565
Total	\$ 290,000	\$ 12,725	\$ 830,000	\$ 119,140

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
General obligation bonds	\$ 380,000	\$ -	\$ 90,000	\$ 290,000	\$ 95,000
Revenue bonds	950,000	-	120,000	830,000	125,000
Capital leases	94,260	125,000	45,407	173,853	53,551
Compensated absences	174,585	172,738	177,835	169,488	122,874
Other postemployment benefits	492,678	140,977	-	633,655	-
Total Long-Term Liabilities	\$ 2,091,523	\$ 438,715	\$ 433,242	\$ 2,096,996	\$ 396,425

**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 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 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 2012:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	14.40
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 164,189	\$ 170,901	\$ 184,812
Public Employees Police and Fire Fund	85,265	84,724	83,466
Public Employees Correctional Fund	22,018	20,932	21,882

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

Two employees of Mahnomen County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA 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, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,036	\$ 2,036
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 2012, there were 82 participants in the plan, including 6 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	\$ 289,949
Interest on net OPEB obligation	19,707
Adjustment to ARC	<u>(28,447)</u>
Annual OPEB cost (expense)	\$ 281,209
Contributions made	<u>(140,232)</u>
Increase in net OPEB obligation	\$ 140,977
Net OPEB Obligation - Beginning of Year	<u>492,678</u>
Net OPEB Obligation - End of Year	<u>\$ 633,655</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for December 31, 2012, was \$281,209. The percentage of OPEB cost contributed to the plan was 49.9 percent, and the net OPEB obligation for 2012 was \$633,655.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2011, and 2012 were 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, 2010	\$ 236,477	\$ 89,356	37.8%	\$ 320,153
December 31, 2011	242,362	69,837	28.8	492,678
December 31, 2012	281,209	140,232	49.9	633,655

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$2,341,568, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,341,568. The covered payroll (annual payroll of active employees covered by the plan) was \$3,118,242, and the ratio of the UAAL to the covered payroll was 75.1 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, 2012, 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, 2012, was 26 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). 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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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. Effective December 31, 2012, Norman-Mahnomen Community Health Board was dissolved. Effective January 1, 2013, the Norman-Mahnomen Board of Health was created and will do business under the name 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Norman-Mahnomen Public Health (Continued)

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

In the event of withdrawal from the Norman-Mahnomen Community Health Board, 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 \$3,868 at December 31, 2012. Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Mahnomen County's contribution for 2012 was \$67,590.

Complete financial information can be obtained from:

Norman-Mahnomen Board of Health
15 East 2nd Avenue, 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 2012, 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, and 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 Mahnomen County appoints two members.

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 contributed \$130 to the Joint Powers for 2012.

**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 2012.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Mahnomen County expended \$69,982 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 2012, 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 Avenue, 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, 2012, 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.

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.

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**

7. Mahnomen Health Center

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

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. Management considers historical write-off and recovery information in determining the estimated bad debt provision. At December 31, 2012, the allowance for doubtful accounts was approximately \$432,000. 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

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

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.

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 equity earnings from joint venture.

Deferred Financing Costs, Net

Deferred financing costs as of December 31, 2012, 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 was \$16,621 as of December 31, 2012.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

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

Vacation and Sick Leave

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 Position

Net position of the Health Center is classified in three components. *Net investment in capital assets*, 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 expendable* for specific operating activities are noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Health Center. *Unrestricted net position* are remaining net position that do not meet the definition of invested in capital assets, net of related debt, or restricted.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

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

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 \$5,000 for the year ended December 31, 2012.

Operating Revenues and Expenses

The Health Center's statement of revenues, expenses, and changes in net position 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.

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 that are unrestricted or that are 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 position at net realizable value.

Advertising Costs

The Health Center expenses advertising costs as they are incurred.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center

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

Other Postemployment Benefits

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.

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform with the current year basis of presentation. These reclassifications had no effect on the overall net position of the Health Center.

Change in Accounting Standards

The Health Center adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which renames the residual amounts from “net assets” to “net position.” These financial statements include the statement of net position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

**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 34 percent and 20 percent, respectively, of the Health Center's net patient revenue for the year ended December 31, 2012.

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, 2012, net patient service revenue increased approximately \$63,000 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

Other Payors (Continued)

Patient and resident service revenue and contractual adjustments for the year ended December 31, 2012, are as follows:

Total patient service revenue	\$ 12,851,597
Contractual adjustments	
Medicare	\$ (1,873,432)
Medicaid	(1,686,210)
Indian Health Service	(147,253)
Other	(470,364)
Provision for bad debts	(536,666)
	<hr/>
Total contractual adjustments	\$ (4,713,925)
	<hr/>
Net Patient and Resident Service Revenue	\$ 8,137,672

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 members.

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, 2012, 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 consist of certificates of deposit. The Health Center has no investments as of December 31, 2012. 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, 2012, consist of these amounts:

Receivables from patients and their insurance carriers	\$ 945,347
Receivable from Medicare	334,841
Receivable from Medicaid	<u>379,459</u>
 Total patient and resident receivables	 \$ 1,659,647
 Less: allowance for uncollectible amounts	 <u>(432,000)</u>
 Total Patient and Resident Receivables, Net	 <u>\$ 1,227,647</u>

E. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2012, are as follows:

	Balance December 31, 2011	Additions	Retirements/ Transfers	Balance December 31, 2012
Land	\$ 44,229	\$ -	\$ -	\$ 44,229
Land improvements	281,318	50,510	-	331,828
Buildings	5,101,033	406,325	-	5,507,358
Movable equipment	4,324,628	333,064	69,268	4,588,424
Construction in progress	<u>55,405</u>	<u>183,064</u>	<u>197,900</u>	<u>40,569</u>
 Totals at historical cost	 <u>\$ 9,806,613</u>	 <u>\$ 972,963</u>	 <u>\$ 267,168</u>	 <u>\$ 10,512,408</u>
 Less: accumulated depreciation for				
Land improvements	\$ 108,315	\$ 16,063	\$ -	\$ 124,378
Buildings	2,466,130	213,801	-	2,679,931
Movable equipment	<u>3,232,530</u>	<u>259,337</u>	<u>69,268</u>	<u>3,422,599</u>
 Total accumulated depreciation	 <u>\$ 5,806,975</u>	 <u>\$ 489,201</u>	 <u>\$ 69,268</u>	 <u>\$ 6,226,908</u>
 Capital Assets, Net	 <u>\$ 3,999,638</u>	 <u>\$ 483,762</u>	 <u>\$ 197,900</u>	 <u>\$ 4,285,500</u>

Construction in progress at December 31, 2012, primarily consists of costs to build a new digital mammography suite. Total estimated cost of the project is approximately \$100,000 and will be funded with a Leona Helmsley grant.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

F. Long-Term Debt

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

Movable equipment	\$	325,327
Less: accumulated depreciation		<u>(31,581)</u>
Total Capital Assets, Net	\$	<u>293,746</u>

Long-term debt as of December 31, 2012, consists of the following:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
2007 gross revenue bond ¹	\$ 950,000	\$ -	\$ 120,000	\$ 830,000
Capital lease obligations ²	<u>12,766</u>	<u>349,413</u>	<u>12,187</u>	<u>349,992</u>
Total long-term debt	<u>\$ 962,766</u>	<u>\$ 349,413</u>	<u>\$ 132,187</u>	\$ 1,179,992
Less: current maturities				<u>(177,001)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 1,002,991</u>

¹County of Mahnomen, Minnesota, Gross Revenue Hospital Facilities Bond, Series 2007, matures in February 2018. Bond bears interest rate coupon at 4.6 percent.

²The Health Center entered into a five-year capital lease through Mahnomen County during the fiscal year ended December 31, 2012, for the purchase of an electric boiler with an interest rate of 2.75 percent.

The following is a maturity schedule of long-term debt and capital lease obligations as of December 31, 2012:

Year Ending December 31	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2013	\$ 125,000	\$ 35,305	\$ 52,001	\$ 8,758
2014	130,000	29,440	68,220	7,442
2015	135,000	23,345	69,643	5,476
2016	140,000	17,020	69,931	3,563
2017	145,000	10,465	71,283	1,650
Thereafter	<u>155,000</u>	<u>3,565</u>	<u>18,914</u>	<u>356</u>
Total	<u>\$ 830,000</u>	<u>\$ 119,140</u>	<u>\$ 349,992</u>	<u>\$ 27,245</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 \$309,900 in 2012 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2012, amounted to \$15,900. At December 31, 2012, the Health Center owned 0.82 percent of CMDI.

Summarized financial information from the financial statements of CMDI at December 31, 2012, and for the year then ended, is presented below:

Total Assets	<u>\$ 49,996,856</u>
Total Liabilities	\$ 10,825,797
Members' equity	
Retained earnings	<u>39,171,059</u>
Total Liabilities and Members' Equity	<u>\$ 49,996,856</u>
Total Operating Revenue	<u>\$ 36,443,828</u>
Net Income	<u>\$ 11,877,208</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 6.25 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 7.25 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, 2012, were \$178,024. 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, 2012, was as follows:

Medicare	16%
Blue Cross	14
Medicaid	18
Commercial insurance	8
Other third-party payors, patients, and residents	<u>44</u>
Total	<u><u>100%</u></u>

J. Restricted Expendable Net Position

Restricted, expendable net position is available for the following purposes as of December 31, 2012:

Expendable for specific operating activities	<u>\$ 467,021</u>
--	-------------------

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

K. Related-Party Transactions

In March 2009, the County issued \$560,000 of General Obligation Nursing Home Revenue Refunding Bonds, Series 2009A, which refunded the Series 1999 Bonds that were used to finance improvements to the nursing home portion of the Health Center. The bonds are general obligations of the County for which the County pledged its full faith, credit, and taxing powers. The County made a principal payment of \$95,000 for the year ended December 31, 2012, and made an interest payment of \$9,210 related to the Series 2009A Bonds.

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, 2012, was \$241,463. Accounts payable to Sanford Health for these services at December 31, 2012, were \$183,151.

M. Commitments and Contingencies

Malpractice Claims

The Health Center's malpractice insurance is a claims-made policy subject to a limit of \$1.5 million per claim and an annual aggregate limit of \$5.0 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.

Payroll Tax Liability

During the first quarter of 2013, the Health Center discovered it had not withheld the appropriate amount of FICA and Medicare tax from PERA contributions in 2012 and some prior years. The Health Center recorded a liability for the past three years (2010 through 2012). The total amount of the payable at December 31, 2012 was \$73,402.

**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.

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,633,788	\$ 2,633,788	\$ 2,585,447	\$ (48,341)
Licenses and permits	6,730	6,730	10,474	3,744
Intergovernmental	2,101,285	2,101,285	1,893,310	(207,975)
Charges for services	215,072	215,072	225,755	10,683
Fines and forfeits	13,262	13,262	13,964	702
Gifts and contributions	800	800	-	(800)
Investment earnings	51,610	51,610	34,342	(17,268)
Miscellaneous	67,027	67,027	232,744	165,717
Total Revenues	\$ 5,089,574	\$ 5,089,574	\$ 4,996,036	\$ (93,538)
Expenditures				
Current				
General government				
Commissioners	\$ 195,729	\$ 195,729	\$ 193,277	\$ 2,452
Courts	20,000	20,000	31,158	(11,158)
County auditor	238,125	238,125	223,498	14,627
License bureau	80,827	80,827	67,183	13,644
County treasurer	141,082	141,082	101,739	39,343
County assessor	186,162	186,162	161,298	24,864
Elections	49,195	49,195	38,025	11,170
Accounting and auditing	55,000	55,000	70,402	(15,402)
Data processing	149,375	149,375	264,515	(115,140)
Attorney	373,185	373,185	333,574	39,611
Contracted legal services	50,000	50,000	60,421	(10,421)
Law library	9,000	9,000	10,295	(1,295)
Recorder	116,675	116,675	109,432	7,243
Planning and zoning	23,420	23,420	22,820	600
Buildings and plant	223,127	223,127	233,948	(10,821)
Veterans service officer	24,570	24,570	23,451	1,119
Unallocated	139,560	139,560	165,083	(25,523)
Total general government	\$ 2,075,032	\$ 2,075,032	\$ 2,110,119	\$ (35,087)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	\$ 2,033,132	\$ 2,033,132	\$ 1,955,723	\$ 77,409
Boat and water safety	2,500	2,500	4,547	(2,047)
Emergency services	31,026	31,026	42,817	(11,791)
Coroner	12,000	12,000	12,731	(731)
E-911 system	75,928	75,928	139,546	(63,618)
Victim assistance	58,907	58,907	54,651	4,256
Probation and parole	146,891	146,891	140,061	6,830
County safety program	12,468	12,468	7,395	5,073
Snowmobile safety	9,100	9,100	115	8,985
Total public safety	\$ 2,381,952	\$ 2,381,952	\$ 2,357,586	\$ 24,366
Health				
Nursing service	\$ 67,590	\$ 67,590	\$ 67,590	\$ -
Health	-	-	102	(102)
Health Center	-	-	168,112	(168,112)
Total health	\$ 67,590	\$ 67,590	\$ 235,804	\$ (168,214)
Culture and recreation				
County/regional library	\$ 32,875	\$ 32,875	\$ 32,875	\$ -
Snowmobile trails	86,225	86,225	100,072	(13,847)
Total culture and recreation	\$ 119,100	\$ 119,100	\$ 132,947	\$ (13,847)
Conservation of natural resources				
County extension	\$ 79,379	\$ 79,379	\$ 68,668	\$ 10,711
Soil and water conservation	52,539	52,539	53,026	(487)
Agricultural inspections	8,749	8,749	5,736	3,013
Agricultural society/County fair	5,500	5,500	12,132	(6,632)
Predator control	500	500	227	273
Water planning	16,273	16,273	16,978	(705)
Total conservation of natural resources	\$ 162,940	\$ 162,940	\$ 156,767	\$ 6,173

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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				
Housing authority	\$ -	\$ -	\$ 7,757	\$ (7,757)
Airport	401,826	401,826	78,000	323,826
Total economic development	\$ 401,826	\$ 401,826	\$ 85,757	\$ 316,069
Debt service				
Principal	\$ 8,679	\$ 8,679	\$ 45,407	\$ (36,728)
Interest	3,849	3,849	7,150	(3,301)
Administrative (fiscal) changes	-	-	250	(250)
Total debt service	\$ 12,528	\$ 12,528	\$ 52,807	\$ (40,279)
Total Expenditures	\$ 5,220,968	\$ 5,220,968	\$ 5,131,787	\$ 89,181
Excess of Revenues Over (Under)				
Expenditures	\$ (131,394)	\$ (131,394)	\$ (135,751)	\$ (4,357)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 32,277	\$ 32,277
Capital lease purchase	-	-	125,000	125,000
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 157,277	\$ 157,277
Net Change in Fund Balance	\$ (131,394)	\$ (131,394)	\$ 21,526	\$ 152,920
Fund Balance - January 1	2,558,252	2,558,252	2,558,252	-
Fund Balance - December 31	\$ 2,426,858	\$ 2,426,858	\$ 2,579,778	\$ 152,920

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 497,161	\$ 497,161	\$ 482,113	\$ (15,048)
Special assessments	5,000	5,000	5,317	317
Intergovernmental	2,609,065	2,609,065	2,064,098	(544,967)
Charges for services	60,000	60,000	53,517	(6,483)
Miscellaneous	-	-	15,635	15,635
Total Revenues	\$ 3,171,226	\$ 3,171,226	\$ 2,620,680	\$ (550,546)
Expenditures				
Current				
Highways and streets				
Administration	\$ 379,650	\$ 379,650	\$ 239,892	\$ 139,758
Maintenance	957,898	957,898	804,949	152,949
Construction	1,050,636	1,050,636	889,739	160,897
Equipment maintenance and shop	219,993	219,993	221,140	(1,147)
Materials and services for resale	63,915	63,915	10,371	53,544
Total highways and streets	\$ 2,672,092	\$ 2,672,092	\$ 2,166,091	\$ 506,001
Intergovernmental				
Highways and streets	114,005	114,005	129,127	(15,122)
Total Expenditures	\$ 2,786,097	\$ 2,786,097	\$ 2,295,218	\$ 490,879
Excess of Revenues Over (Under) Expenditures	\$ 385,129	\$ 385,129	\$ 325,462	\$ (59,667)
Fund Balance - January 1	1,042,795	1,042,795	1,042,795	-
Increase (decrease) in inventories	-	-	12,183	12,183
Fund Balance - December 31	\$ 1,427,924	\$ 1,427,924	\$ 1,380,440	\$ (47,484)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 857,451	\$ 857,451	\$ 832,681	\$ (24,770)
Intergovernmental	1,281,654	1,281,654	1,521,907	240,253
Charges for services	142,895	142,895	173,048	30,153
Miscellaneous	24,000	24,000	98,629	74,629
Total Revenues	\$ 2,306,000	\$ 2,306,000	\$ 2,626,265	\$ 320,265
Expenditures				
Current				
Human services				
Income maintenance	\$ 854,715	\$ 854,715	\$ 907,265	\$ (52,550)
Social services	1,321,111	1,321,111	1,455,490	(134,379)
Transportation	166,200	166,200	197,101	(30,901)
Total Expenditures	\$ 2,342,026	\$ 2,342,026	\$ 2,559,856	\$ (217,830)
Excess of Revenues Over (Under) Expenditures	\$ (36,026)	\$ (36,026)	\$ 66,409	\$ 102,435
Fund Balance - January 1	1,082,910	1,082,910	1,082,910	-
Fund Balance - December 31	\$ 1,046,884	\$ 1,046,884	\$ 1,149,319	\$ 102,435

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012**

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%
January 1, 2012	-	2,341,568	2,341,568	0.0	3,118,242	75.1

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 Reserve 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. During the year, the Board made no budgetary amendments.

2. Excess of Expenditures Over Budget

The following is a summary of individual major funds that had expenditures in excess of budget for the year ended December 31, 2012.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Social Services Special Revenue Fund	\$ 2,559,856	\$ 2,342,026	\$ 217,830

3. Other Postemployment Benefits Funded Status

GASB Statement 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 two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**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 Reserve 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.

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue (Exhibit B-3)	Debt Service (Exhibit B-5)	Total (Exhibit 3)
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 583,707	\$ 251,748	\$ 835,455
Undistributed cash in agency funds	3,729	2,162	5,891
Taxes receivable delinquent	21	2,924	2,945
Special assessments receivable			
Prior	19,616	-	19,616
Deferred	40,500	-	40,500
Accounts receivable	1,441	-	1,441
Accrued interest receivable	-	16	16
Noncurrent assets			
Long-term receivables	-	66,600	66,600
Total Assets	\$ 649,014	\$ 323,450	\$ 972,464
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 8,555	\$ -	\$ 8,555
Salaries payable	1,921	-	1,921
Due to other funds	70	-	70
Due to other governments	9,054	-	9,054
Deferred revenue - unavailable	56,673	2,261	58,934
Total Liabilities	\$ 76,273	\$ 2,261	\$ 78,534
Fund Balances			
Restricted for			
Debt service	\$ -	\$ 321,189	\$ 321,189
SCORE	37,250	-	37,250
Ditch maintenance and construction	278,667	-	278,667
Assigned to			
Solid waste	145,538	-	145,538
Hospital reserve	111,286	-	111,286
Total Fund Balances	\$ 572,741	\$ 321,189	\$ 893,930
Total Liabilities and Fund Balances	\$ 649,014	\$ 323,450	\$ 972,464

**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, 2012**

	Special Revenue (Exhibit B-4)	Debt Service (Exhibit B-6)	Total (Exhibit 5)
Revenues			
Taxes	\$ 40	\$ 81,974	\$ 82,014
Special assessments	162,972	-	162,972
Intergovernmental	72,714	150,936	223,650
Charges for services	5,790	-	5,790
Investment earnings	-	190	190
Miscellaneous	46,608	-	46,608
	\$ 288,124	\$ 233,100	\$ 521,224
Expenditures			
Current			
Sanitation	\$ 246,458	\$ -	\$ 246,458
Conservation of natural resources	50,155	-	50,155
Debt service			
Principal	-	210,000	210,000
Interest	-	50,150	50,150
Administrative - fiscal charges	-	351	351
	\$ 296,613	\$ 260,501	\$ 557,114
Excess of Revenues Over (Under)			
Expenditures	\$ (8,489)	\$ (27,401)	\$ (35,890)
Other Financing Sources (Uses)			
Transfers out	(32,277)	-	(32,277)
Net Change in Fund Balance	\$ (40,766)	\$ (27,401)	\$ (68,167)
Fund Balance - January 1	613,507	348,590	962,097
Fund Balance - December 31	\$ 572,741	\$ 321,189	\$ 893,930

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-3

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2012**

	Solid Waste	Ditch	Hospital Reserve	Forfeited Tax Sale	Total (Exhibit B-1)
<u>Assets</u>					
Cash and pooled investments	\$ 189,302	\$ 282,972	\$ 111,283	\$ 150	\$ 583,707
Undistributed cash in agency funds	3,150	579	-	-	3,729
Taxes receivable delinquent	-	-	21	-	21
Special assessments receivable					
Prior	14,733	4,883	-	-	19,616
Deferred	-	40,500	-	-	40,500
Accounts receivable	1,441	-	-	-	1,441
	\$ 208,626	\$ 328,934	\$ 111,304	\$ 150	\$ 649,014
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 3,667	\$ 4,888	\$ -	\$ -	\$ 8,555
Salaries payable	1,921	-	-	-	1,921
Due to other funds	-	-	-	70	70
Due to other governments	8,974	-	-	80	9,054
Deferred revenue - unavailable	11,276	45,379	18	-	56,673
	\$ 25,838	\$ 50,267	\$ 18	\$ 150	\$ 76,273
Fund Balances					
Restricted for					
SCORE	\$ 37,250	\$ -	\$ -	\$ -	\$ 37,250
Ditch maintenance and construction	-	278,667	-	-	278,667
Assigned to					
Solid waste	145,538	-	-	-	145,538
Hospital reserve	-	-	111,286	-	111,286
	\$ 182,788	\$ 278,667	\$ 111,286	\$ -	\$ 572,741
Total Liabilities and Fund Balances	\$ 208,626	\$ 328,934	\$ 111,304	\$ 150	\$ 649,014

**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, 2012**

	<u>Solid Waste</u>	<u>Ditch</u>	<u>Hospital Reserve</u>	<u>Forfeited Tax Sale</u>	<u>Total (Exhibit B-2)</u>
Revenues					
Taxes	\$ 24	\$ -	\$ 16	\$ -	\$ 40
Special assessments	127,784	35,188	-	-	162,972
Intergovernmental	72,714	-	-	-	72,714
Charges for services	5,790	-	-	-	5,790
Miscellaneous	102	-	-	46,506	46,608
Total Revenues	\$ 206,414	\$ 35,188	\$ 16	\$ 46,506	\$ 288,124
Expenditures					
Current					
Sanitation	\$ 246,458	\$ -	\$ -	\$ -	\$ 246,458
Conservation of natural resources	-	35,926	-	14,229	50,155
Total Expenditures	\$ 246,458	\$ 35,926	\$ -	\$ 14,229	\$ 296,613
Excess of Revenues Over (Under)					
Expenditures	\$ (40,044)	\$ (738)	\$ 16	\$ 32,277	\$ (8,489)
Other Financing Sources (Uses)					
Transfers out	-	-	-	(32,277)	(32,277)
Net Change in Fund Balance	\$ (40,044)	\$ (738)	\$ 16	\$ -	\$ (40,766)
Fund Balance - January 1	222,832	279,405	111,270	-	613,507
Fund Balance - December 31	\$ 182,788	\$ 278,667	\$ 111,286	\$ -	\$ 572,741

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-5

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
DECEMBER 31, 2012**

	Nursing Home Revenue Bonds	Mahnomen Health Center Bonds	Total (Exhibit B-1)
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 111,198	\$ 140,550	\$ 251,748
Undistributed cash in agency funds	2,162	-	2,162
Taxes receivable delinquent	2,924	-	2,924
Accrued interest receivable	-	16	16
Noncurrent assets			
Long-term receivables	66,600	-	66,600
Total Assets	\$ 182,884	\$ 140,566	\$ 323,450
<u>Liabilities and Fund Balances</u>			
Liabilities			
Deferred revenue - unavailable	\$ 2,261	\$ -	\$ 2,261
Fund Balances			
Restricted for			
Debt service	180,623	140,566	321,189
Total Liabilities and Fund Balances	\$ 182,884	\$ 140,566	\$ 323,450

**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, 2012**

	Nursing Home Revenue Bonds	Mahnomen Health Center Bonds	Total (Exhibit B-2)
Revenues			
Taxes	\$ 81,974	\$ -	\$ 81,974
Intergovernmental	1,584	149,352	150,936
Investment earnings	-	190	190
	\$ 83,558	\$ 149,542	\$ 233,100
Expenditures			
Debt service			
Principal	\$ 90,000	\$ 120,000	\$ 210,000
Interest	9,210	40,940	50,150
Administrative - fiscal charges	351	-	351
	\$ 99,561	\$ 160,940	\$ 260,501
Excess of Revenues Over (Under)			
Expenditures	\$ (16,003)	\$ (11,398)	\$ (27,401)
Fund Balance - January 1	196,626	151,964	348,590
Fund Balance - December 31	\$ 180,623	\$ 140,566	\$ 321,189

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-7

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 24	\$ 24
Special assessments	125,000	125,000	127,784	2,784
Intergovernmental	69,938	69,938	72,714	2,776
Charges for services	7,500	7,500	5,790	(1,710)
Miscellaneous	2,800	2,800	102	(2,698)
Total Revenues	\$ 205,238	\$ 205,238	\$ 206,414	\$ 1,176
Expenditures				
Current				
Sanitation				
Solid waste	271,546	271,546	246,458	25,088
Excess of Revenues Over (Under)				
Expenditures	\$ (66,308)	\$ (66,308)	\$ (40,044)	\$ 26,264
Fund Balance - January 1	222,832	222,832	222,832	-
Fund Balance - December 31	\$ 156,524	\$ 156,524	\$ 182,788	\$ 26,264

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-8

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	\$ 35,188	\$ (5,312)
Expenditures				
Current				
Conservation of natural resources				
Drainage ditches	40,500	40,500	35,926	4,574
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (738)	\$ (738)
Fund Balance - January 1	<u>279,405</u>	<u>279,405</u>	<u>279,405</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 279,405</u>	<u>\$ 279,405</u>	<u>\$ 278,667</u>	<u>\$ (738)</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT B-9

**BUDGETARY COMPARISON SCHEDULE
NURSING HOME REVENUE BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 84,474	\$ 84,474	\$ 81,974	\$ (2,500)
Intergovernmental	-	-	1,584	1,584
Total Revenues	\$ 84,474	\$ 84,474	\$ 83,558	\$ (916)
Expenditures				
Debt service				
Principal	\$ 70,200	\$ 70,200	\$ 90,000	\$ (19,800)
Interest	8,026	8,026	9,210	(1,184)
Administrative - fiscal charges	-	-	351	(351)
Total Expenditures	\$ 78,226	\$ 78,226	\$ 99,561	\$ (21,335)
Excess of Revenues Over (Under) Expenditures	\$ 6,248	\$ 6,248	\$ (16,003)	\$ (22,251)
Fund Balance - January 1	196,626	196,626	196,626	-
Fund Balance - December 31	\$ 202,874	\$ 202,874	\$ 180,623	\$ (22,251)

This page was left blank intentionally.

**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.

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>HEADWATERS COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 12,759	\$ 12,759	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 12,759	\$ 12,759	\$ -
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 952,660	\$ 952,660	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 952,660	\$ 952,660	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,048	\$ 365,934	\$ 365,858	\$ 1,124
Accounts receivable	766	22,943	766	22,943
Total Assets	\$ 1,814	\$ 388,877	\$ 366,624	\$ 24,067
<u>Liabilities</u>				
Due to other governments	\$ 1,814	\$ 388,877	\$ 366,624	\$ 24,067

**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, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 46,446</u>	<u>\$ 6,734,636</u>	<u>\$ 6,708,650</u>	<u>\$ 72,432</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 46,446</u>	<u>\$ 6,734,636</u>	<u>\$ 6,708,650</u>	<u>\$ 72,432</u>
 <u>TOWNSHIPS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 3,957</u>	<u>\$ 951,845</u>	<u>\$ 955,802</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 3,957</u>	<u>\$ 951,845</u>	<u>\$ 955,802</u>	<u>\$ -</u>
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 314,161</u>	<u>\$ 314,161</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 314,161</u>	<u>\$ 314,161</u>	<u>\$ -</u>

**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, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ADVANCED LIFE SUPPORT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 52,890	\$ 52,838	\$ 52
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 52,890	\$ 52,838	\$ 52
 <u>CAFETERIA PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,376	\$ 6,250	\$ 6,309	\$ 3,317
<u>Liabilities</u>				
Due to other governments	\$ 3,376	\$ 6,250	\$ 6,309	\$ 3,317
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 54,827	\$ 9,391,135	\$ 9,369,037	\$ 76,925
Accounts receivable	766	22,943	766	22,943
Total Assets	\$ 55,593	\$ 9,414,078	\$ 9,369,803	\$ 99,868
<u>Liabilities</u>				
Due to other governments	\$ 55,593	\$ 9,414,078	\$ 9,369,803	\$ 99,868

This page was left blank intentionally.

OTHER SCHEDULES

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<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	0.05 to 0.25	Continuous	2,362,118
Passbook savings	One	0.10	Continuous	100,466
Certificates of deposit	Three	0.25 to 1.20	September 28, 2013 to February 28, 2014	89,442
Money market savings	Three	0.20 to 0.35	Continuous	2,015,219
Negotiable certificates of deposit	Four	0.40 to 2.15	February 27, 2013 to July 25, 2019	795,908
Federal Home Loan Mortgage Corporation	Two	1.13 to 2.00	January 30, 2020 to February 15, 2022	298,977
Federal Home Loan Bank	Two	1.01 to 1.25	July 18, 2022 to August 15, 2022	400,121
Total Cash and Pooled Investments				\$ 6,063,951

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-2

**BALANCE SHEET BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2012**

	<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	\$ 11,691	\$ 142,252	\$ 129,029	\$ 282,972
Undistributed cash in agency funds	56	-	523	579
Special assessments receivable				
Prior	14	-	4,869	4,883
Deferred	3,000	7,500	30,000	40,500
Total Assets	\$ 14,761	\$ 149,752	\$ 164,421	\$ 328,934
<u>Liabilities and Fund Balance</u>				
Liabilities				
Accounts payable	\$ 70	\$ -	\$ 4,818	\$ 4,888
Deferred revenue - unavailable	3,010	7,500	34,869	45,379
Total Liabilities	\$ 3,080	\$ 7,500	\$ 39,687	\$ 50,267
Fund Balance				
Restricted				
Restricted for ditch maintenance and construction	11,681	142,252	124,734	278,667
Total Liabilities and Fund Balance	\$ 14,761	\$ 149,752	\$ 164,421	\$ 328,934

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Shared Revenue

State

Highway users tax	\$	2,013,126
County program aid		632,982
PERA rate reimbursement		10,234
Disparity reduction aid		63,937
Police aid		69,580
Market value credit		69,116
Indian casino aid		103,669
Property tax reimbursement - casino		450,000

Total shared revenue **\$ 3,412,644**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	<u>228,854</u>
--	----	----------------

Payments

Local

Other contributions	\$	160,445
Local contributions		16,764
Payments in lieu of taxes		80,046

Total payments **\$ 257,255**

Grants

State

Minnesota Department/Board of		
Human Services	\$	387,558
Veterans Affairs		2,298
Public Safety		129,713
Corrections		8,417
Natural Resources		101,821
Employment and Economic Development		6,632
Water and Soil Resources		51,124
Transportation		93,897
Peace Officer Standards and Training Board		3,985
Pollution Control Agency		55,950

Total state **\$ 841,395**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***EXHIBIT D-3
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Grants (Continued)

Federal

Department of

Agriculture

\$ 80,386

Commerce

17,682

Justice

27,006

Transportation

54,005

Health and Human Services

753,060

Homeland Security

30,678

Total federal

\$ 962,817

Total state and federal grants

\$ 1,804,212

Total Intergovernmental Revenue

\$ 5,702,965

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT D-4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants the Supplemental Nutrition Assistance Program (SNAP)	10.561	\$ <u>80,386</u>
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program	11.555	\$ <u>17,682</u>
U.S. Department of Justice		
Direct Grant Public Safety Partnership and Community Policing Grants - ARRA	16.710	\$ <u>27,006</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 13,109
Formula Grants for Other Than Urbanized Areas	20.509	42,822
Passed Through Minnesota Department of Public Safety Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	<u>795</u>
Total U.S. Department of Transportation		\$ <u>56,726</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 319
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (TANF)	93.558	174,487
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	4,035
Child Support Enforcement	93.563	161,467
Refugee and Entrant Assistance - State-Administered Programs	93.566	168
Child Care and Development Block Grant	93.575	3,550
Stephanie Tubbs Jones Child Welfare Services Program	93.645	36
Foster Care - Title IV-E	93.658	41,168
Social Services Block Grant	93.667	79,340
Chafee Foster Care Independence Program	93.674	771
Children's Health Insurance Program	93.767	21
Medical Assistance Program	93.778	<u>287,698</u>
Total U.S. Department of Health and Human Services		\$ <u>753,060</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT D-4
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 2,372
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	10,119
Pre-Disaster Mitigation	97.047	18,187
Total U.S. Department of Homeland Security		\$ 30,678
Total Federal Awards		\$ 965,538

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012. 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 position, 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families Cluster	\$ 178,522
---	------------

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 962,817
Grants received more than 60 days after year-end, deferred in 2012	
Airport Improvement Program	36,437
Grants deferred in 2011, recognized as revenue in 2012	
Airport Improvement Program	(24,328)
Formula Grants for Other Than Urbanized Areas	(9,388)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 965,538</u>

6. Subrecipients

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

7. 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.

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

State Administrative Matching Grants for the	
Supplemental Nutrition Assistance Program	CFDA #10.561
Child Support Enforcement	CFDA #93.563

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

Mahnomen County qualified as a low-risk auditee? **Yes**

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

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within several Mahanomen County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Mahanomen 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.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that the individual departments collecting fees have direct knowledge of the services provided making it more efficient for the department providing the service to collect the fees, periodically remitting those fees to the County Treasurer with the proper coding for posting to the County's general ledger. The County stated that the department heads are aware that employees collecting those fees and recording those fees have incompatible duties and that they monitor the operations of their respective offices to ensure collections are properly receipted and periodically remitted to the County Treasurer.

Recommendation: We recommend Mahanomen County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed 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 be mindful and 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 to the best of their abilities to ensure safe handling of all county, state, and federal transactions.

08-1 Documenting and Monitoring Internal Controls

Criteria: 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.

Condition: Mahanomen County maintains narratives to document the controls in place over its significant transaction cycles; however, there is no formal risk assessment process in place 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.

Context: Local governments tend to establish controls but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time. Mahanomen 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, it is still in the early stages of the process at the time of this report.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without a formal and timely risk assessment process in place.

Cause: Lack of resources dedicated to establish a formal process for assessing risks, documenting the internal controls established to reduce those risks and monitoring of those controls.

Recommendation: Mahnomon County management should document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. A formal plan should 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 will again attempt to meet and will continue to attempt to document significant internal controls as much as possible, given the limited staff time available.

10-2 Departmental Control Procedures

Criteria: Bank statements should be routinely reconciled with the cash balances recorded in the books of the account. Checks should be restrictively endorsed at the time of collection. A periodic inventory of the Sheriff's Department evidence room will ensure that all recorded items are still in custody.

Condition: During our audit of the Sheriff's Department, 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 Department.
- On May 21, 2013, we noted four checks on hand were not restrictively endorsed. Three of the checks were for \$100; the other one was for \$20.
- The Sheriff's Department does not maintain a detailed listing or do a periodic inventory of the items held in the evidence room. On May 21, 2013, the Sheriff noted that the Department has received lockers to put evidence in, but has yet to organize the evidence and prepare an inventory.

Context: 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. Departmental control procedures have improved in the Licenses Center, which now maintains current bank reconciliations. We also noted that during our testing of the August 2012 collections, the remittance to the County agreed with the collections. For the Sheriff's Department, an adjustment was made on January 2, 2012, to reimburse the E-911 department \$8,145 to

remove expenditures reported as eligible E-911 that had been reported to the Headwaters Regional Development Commission as eligible expenditures for the Public Safety Interoperable Communications Grant Program CFDA No. 11.555.

Effect: Internal control procedures assumed to be in place may not be working as intended to ensure accounting records are properly maintained and compared with the underlying items they represent, resulting in errors that need to be corrected. If the internal controls are not working as intended, there is increased risk that errors or fraud could occur and not be detected timely.

Cause: The County Board relies on management within the individual departments to ensure proper internal controls have been established and are working as intended. Although individual department managers may be aware certain control procedures should be performed, there is limited formal guidance documenting the internal control policies and procedures and consequences for not complying with those policies and procedures.

Recommendation: Mahnomen County's management should implement oversight and monitoring procedures to ensure that internal control policies and procedures are being implemented by staff.

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 along with other useful information, and may offer additional guidance:

http://www.auditor.state.mn.us/other/Statements/importanceic_0703_statement.pdf

Client's Response:

This information/finding has been brought to the attention of the applicable departments for their review and implementation. The County will continue to review and consider procedures for implementation.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-1 Review Over Eligibility Intake Function

Programs: U.S. Department of Health and Human Services' Temporary Assistance for Needy Families Cluster (TANF Cluster) (CFDA No. 93.558 and No. 93.714) and Medical Assistance (MA) (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Standard internal control procedures should include a review process for case files to ensure the intake functions related to eligibility requirements are met.

Condition: During our testing of controls over the TANF Cluster and MA case files, we noted no documented review process of case files.

Questioned Costs: None.

Context: Because of the lack of review process over the eligibility intake function, we increased our sample size for testing compliance. During our testing of compliance, no case files in our sample were missing any required items.

Effect: The lack of periodic review by a program supervisor or other person with knowledge of the programs of case files increases the risk that clients will receive benefits for which they are not eligible.

Cause: The County does not have a procedure in place to ensure that case files are reviewed.

Recommendation: We recommend Mahanomen County establish a process for reviewing a sample of case files periodically by a program supervisor or other person with knowledge of the programs to ensure that all the required information affecting eligibility is obtained and correctly entered. We further recommend that those reviews be documented, and the documentation should be retained in accordance with the County record retention schedule.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Julie Hanson, Social Services Director

Corrective Action Planned:

Shelly Brunner has offered to conduct random case reviews and to document the reviews.

Anticipated Completion Date:

July 1, 2013

11-2 Supervisory Review Over Income Maintenance DHS 2550 and Social Services
DHS 2556 Reporting

Programs: U.S. Department of Agriculture's State Administrative Matching Grants and Supplemental Nutritional Assistance Program (SNAP) (CFDA No. 10.561) and U.S. Department of Health and Human Services' Child Support Enforcement (CFDA No. 93.563), Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), and Medical Assistance (MA) (CFDA No. 93.778).

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Standard internal control procedures should include a review process of the claims and reports submitted to the Minnesota Department of Human Services (DHS) for reimbursement of program expenditures to ensure accurate and timely reporting.

Condition: During our current year testing of controls over SNAP and Child Support Enforcement, we noted no documented review process of reporting. The reporting forms tested are used for multiple programs. The condition continues to apply to TANF and MA as reported for 2011.

Questioned Costs: None.

Context: Mahnommen County submits its quarterly DHS 2550 and 2556 reports electronically. The DHS 2550 and 2556 reports provide a signature space for the preparer and a signature space for the County Financial Official or Human Services Director. The Fiscal Officer generally types her name on both signature lines of the reports.

The lack of supervisory review of reporting which was previously reported for MA Access has been addressed. The Transportation Coordinator currently retains copies of the MA Access billings that are entered by another employee in the State MN-ITS system to claim reimbursement. The Transportation Coordinator compares the copies of billings to the system to verify all billings were entered correctly.

Effect: Without formal documentation of a review of the DHS 2550 and 2556 reports, there is no assurance the reviews are being completed as intended, which may increase the risk that the reports could contain errors and may not be submitted timely.

Cause: The County does not have a procedure in place to ensure that reports are reviewed and approved and that the process is documented.

Recommendation: We recommend Mahnomen County establish a review process for all reports submitted to DHS for reimbursement. The review of reports should be documented, and the documentation should be retained in accordance with the County record retention schedule.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Janell Soyring, Social Services Fiscal Officer

Corrective Action Planned:

With only two workers, Janell plans on reviewing reports two months after submitting them with the new Director or Board Chair signing off on the original reports.

Anticipated Completion Date:

June 1, 2013

PREVIOUSLY REPORTED ITEMS RESOLVED

Income Maintenance DHS 2550/Social Services DHS 2556 Reporting (11-3)

During our review of the Income Maintenance DHS 2550 and Social Services DHS 2556 reporting, we noted three of the Social Services DHS 2556 quarterly reports were not submitted timely; for three of the four quarterly Income Maintenance DHS 2550 reports, Income Maintenance employees were reported in the IMRMS Section A that were not reported to DHS as being included in the IMRMS; and the IMRMS Coordinator does not print and retain copies of the employee data base each quarter to document employees participating in the IMRMS.

Resolution

During 2012, Mahnomen County Human Services began to submit its Social Services DHS 2556 quarterly reports timely. On March 4, 2013, the County received a letter from the Minnesota Department of Human Services commending them for meeting the DHS reporting requirements. All participants of the random moment study were correctly reported in the IMRMS Section A of the quarterly Income Maintenance DHS 2550 reports in the final two quarters of 2012. The Fiscal Supervisor now retains copies of the employee data base each quarter to document support for employees participating in the IMRMS.

Central Services Cost Allocation Plan (11-4)

During our testing of the 2011 Central Services Cost Allocation Plan, we were able to tie the indirect costs reported in the County's 2009 Account Activity Report and verify those costs as allowable costs in accordance with OMB Circular A-87; however, we could not verify the correctness of the allocation base information for one of the three departments tested. Supporting documentation to verify the allocation base was not available.

Resolution

During our testing of the 2012 Central Services Cost Allocation Plan, we were able to tie the plan to the indirect costs reported in the County's 2010 Account Activity Report and verify those costs as allowable as well as verify the correctness of the allocation base information for the department tested. Supporting documentation to verify the allocation base was available.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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*

Independent Auditor's Report

Board of County Commissioners
Mahnomen County

We have audited, 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, 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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 25, 2013. 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 of the financial statements, we considered Mahnomen County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. 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 the attention of those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item items 96-4, 08-1, and 10-2, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mahnomen County's financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Mahnomen County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Mahnomen County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Mahnomen County's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 25, 2013

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Mahnomen County

Report on Compliance for Each Major Federal Program

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 the County's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mahnomen County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Mahnomen County complied, in all material respects, with the types of compliance 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, 2012.

Report on Internal Control Over Compliance

Management of Mahnomen County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. 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 the attention of those charged with governance.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be

material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 and 11-2 that we consider to be significant deficiencies.

Mahnomen County's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Mahnomen County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

July 25, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR