

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Year Ended December 31, 2008



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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization Schedule		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	14
Statement of Activities	Exhibit 2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	18
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets--Governmental Activities	Exhibit 4	20
Statement of Revenues, Expenditures, and Changes in Fund Balance	Exhibit 5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities--Governmental Activities	Exhibit 6	23
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	24
Statement of Changes in Fiduciary Net Assets	Exhibit 8	25
Notes to the Financial Statements		26
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	75
Road and Bridge Special Revenue Fund	Schedule 2	78
Social Services Special Revenue Fund	Schedule 3	79
Notes to the Required Supplementary Information		80

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		81
Combining Balance Sheet	Statement A-1	82
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement A-2	83
Combining Balance Sheet - Special Revenue Funds	Statement B-1	84
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Special Revenue Funds	Statement B-2	85
Combining Balance Sheet - Debt Service Funds	Statement C-1	86
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Debt Service Funds	Statement C-2	87
Budgetary Comparison Schedules		
Solid Waste Special Revenue Fund	Schedule 4	88
Ditch Special Revenue Fund	Schedule 5	89
Nursing Home Revenue Bonds Debt Service Fund	Schedule 6	90
Fiduciary Funds		91
Agency Funds		
Combining Statement of Changes in Assets and Liabilities	Statement D-1	92
Other Schedules		
Schedule of Deposits and Investments	Schedule 7	95
Balance Sheet by Ditch - Ditch Special Revenue Fund	Schedule 8	96
Schedule of Intergovernmental Revenue	Schedule 9	97

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**TABLE OF CONTENTS
(Continued)**

	<u>Reference</u>	<u>Page</u>
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 10	99
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>		108
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		111
Schedule of Expenditures of Federal Awards	Schedule 11	114

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

ORGANIZATION SCHEDULE
DECEMBER 31, 2008

Offices	Name	Term Expires
Commissioners		
1st District	Wallace Eid ²	January 2009
2nd District	Jerry Dahl	January 2011
3rd District	Everett Kjelbertson	January 2009
4th District	Karen Ahmann	January 2011
5th District	Charles Pazdernik ¹	January 2011
Officials		
Elected		
Attorney	Julie Bruggeman	January 2011
Auditor	Frank Thompson	January 2011
County Recorder	Susan Bendickson	January 2011
Registrar of Titles	Susan Bendickson	January 2011
Sheriff	Douglas Krier	January 2011
Treasurer	Brenda Lundon	January 2011
Appointed		
Assessor	Les Finseth	December 2012
Court Administrator	Lori Wiebolt	Indefinite
Highway Engineer	Jonathan Large	May 2009
Veterans Service Officer	Neil Toso	Indefinite
Medical Examiner	Dr. Mary Ann Sens	Indefinite
Solid Waste Officer	Mark Diekman	Indefinite
Social Services Board		
Chair	Wallace Eid	January 2009
Vice Chair	Charles Pazdernik	January 2011
Secretary	Theresa McCollum	July 2010
Member	Karen Ahmann	January 2011
Member	Everett Kjelbertson	January 2009
Member	Jerry Dahl	January 2011
Member	Colleen Blattenbauer	July 2011
Director	Cindy Marihart	Indefinite

¹Chair

²Vice Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mahnomen County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Mahnomen County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mahnomen Health Center, which represent the discretely presented component unit. Those financial 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County as of December 31, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Mahanomen County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2009, on our consideration of Mahanomen County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 9, 2009

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008
(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, 2008. Since this information is designed to focus on the current year and past year's activities, resulting changes, and known facts, it should be read in conjunction with Mahnomen County's financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$26,274,559, of which Mahnomen County has invested \$21,021,630 in capital assets, net of related debt, and \$1,884,159 is restricted to specific purposes/uses by the County.
- The net cost of Mahnomen County's governmental activities for the year ended December 31, 2008, was \$4,431,065. General property tax revenues and other revenue sources funded those costs.
- Mahnomen County's governmental funds' fund balances decreased by \$1,675,010.

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 Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Mahnomen County's fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how the County financed services in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant/major funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

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

These two statements consider all of Mahnomen County's current year revenues and expenses regardless of when the County receives the revenue or pays the expenditure. These two statements report Mahnomen County's net assets and changes in them. You can think of the County's net assets as the difference between assets and liabilities. This is one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the general economic conditions of the state and County, to assess the overall health of Mahnomen County.

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

- Governmental activities - Mahnomen County reports its basic services in the “Governmental Activities” column of these reports. The activities reported by the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Mahnomen County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.
- Component unit - The County includes a separate legal entity in its report. This entity is the Mahnomen Health Center. Although legally separate, this component unit is important because the County is financially accountable for it.

Fund Financial Statements

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

Governmental Funds

The County’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Mahnomen County reports these funds in its financial statements using an accounting method called modified accrual accounting. This accounting method measures cash and other financial assets that the County can readily convert to cash. The County’s governmental fund statements provide a detailed short-term view of the County’s general government operations and the basic services it provides. Governmental fund information helps determine whether financial resources are available that the County can spend in the near future to finance various programs within the County. Mahnomen County has described the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

Reporting the County's Fiduciary Responsibilities

Mahnomen County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries based on the trust arrangement. The County reports all of its fiduciary activities in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

Mahnomen County's combined net assets for the year ended December 31, 2008, were \$26,274,559. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets

	Governmental Activities	
	2008	2007 (Restated)
Assets		
Current and other assets	\$ 7,825,989	\$ 6,808,539
Capital assets	21,035,492	21,671,878
Total Assets	<u>\$ 28,861,481</u>	<u>\$ 28,480,417</u>
Liabilities		
Long-term debt outstanding	\$ 1,933,183	\$ 2,021,626
Other liabilities	653,739	570,117
Total Liabilities	<u>\$ 2,586,922</u>	<u>\$ 2,591,743</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 21,021,630	\$ 21,625,164
Restricted	1,884,159	602,153
Unrestricted	3,368,770	3,661,357
Total Net Assets	<u>\$ 26,274,559</u>	<u>\$ 25,888,674</u>

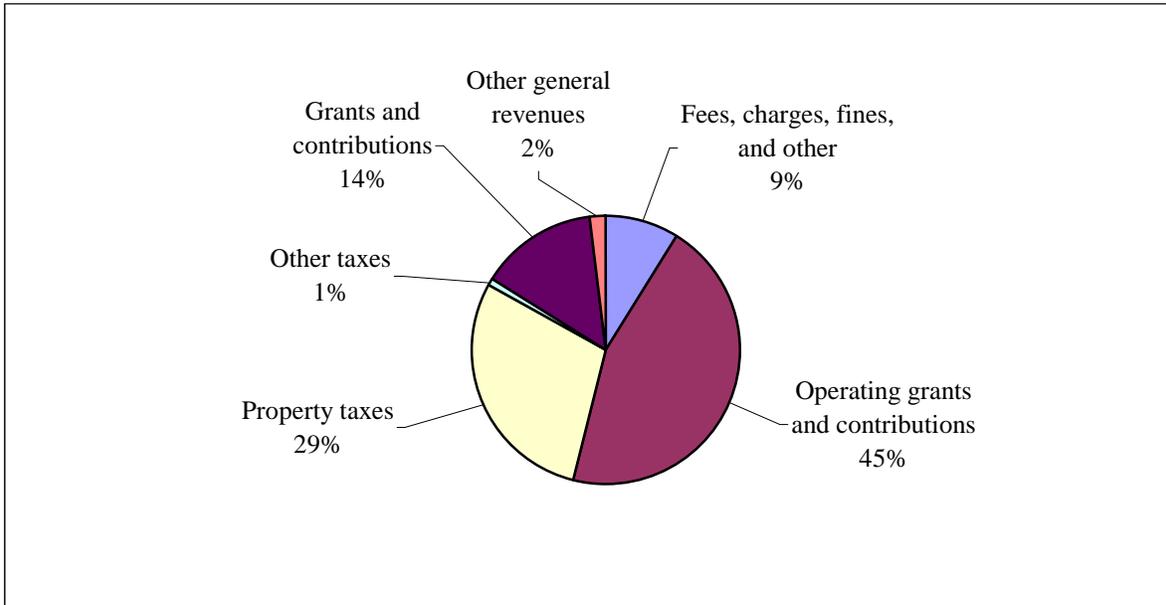
Unrestricted net assets totaling \$3,368,770 are available to Mahnomen County to finance day-to-day operations.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2008	2007 (Restated)
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 931,977	\$ 821,171
Operating grants and contributions	4,758,245	4,631,257
Capital grants and contributions	4,587	300,227
General revenues		
Property taxes	3,057,247	2,775,361
Other taxes	79,187	69,367
Grants and contributions	1,522,117	1,132,571
Other general revenues	158,399	225,737
Total Revenues	\$ 10,511,759	\$ 9,955,691
Expenditures		
Program expenses		
General government	\$ 2,059,470	\$ 1,771,444
Public safety	2,250,053	2,072,290
Highways and streets	2,359,179	3,894,371
Sanitation	238,385	232,383
Human services	2,692,725	2,504,846
Health	62,982	62,982
Culture and recreation	121,340	106,965
Conservation of natural resources	213,398	211,518
Economic development	42,823	71,692
Interest	85,519	33,789
Total Expenses	\$ 10,125,874	\$ 10,962,280
Change in Net Assets	\$ 385,885	\$ (1,006,589)
Net Assets - Beginning	25,888,674	26,895,263
Net Assets - Ending	\$ 26,274,559	\$ 25,888,674

Mahnomen County's total revenues for the year ended December 31, 2008, were \$10,511,759. The total cost of County programs and services for the year ended December 31, 2008, was \$10,125,874. The net assets for governmental activities increased by \$385,885. The following pie chart depicts those revenues in seven categories.

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



Governmental Activities

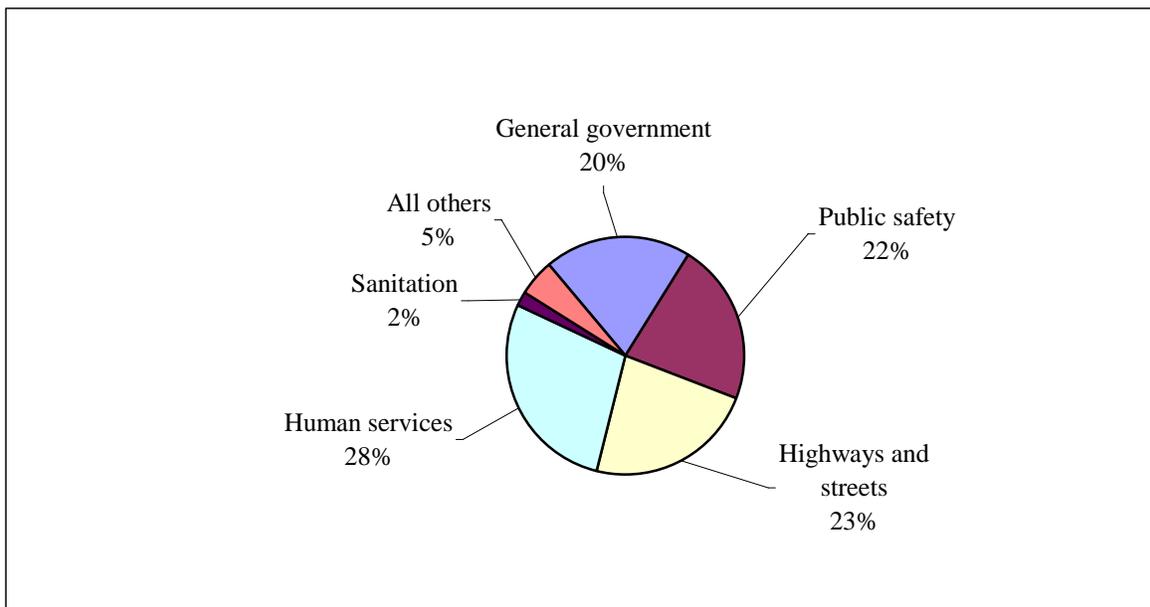
Mahnomen County's costs for all governmental activities for the year ended December 31, 2008, were \$10,125,874 as shown on the Statement of Activities. The net cost of services was ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, 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**

	Total Cost of Services 2008	Net Cost of Services 2008
Program expenses		
General government	\$ 2,059,470	\$ 1,794,353
Public safety	2,250,053	1,840,202
Highways and streets	2,359,179	(5,672)
Human services	2,692,725	775,049
Sanitation	238,385	113,204
All others	526,062	(86,071)
	<hr/>	<hr/>
Totals	\$ 10,125,874	\$ 4,431,065

Governmental Activities' Expenses



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 \$4,085,634, which is below last year's total combined fund balance of \$5,760,644. This decrease of \$1,675,010 represents a 29.08 percent total decrease. Included in this year's total fund balance is the County's General Fund balance of \$1,487,983. The General Fund's change in fund balance (a decrease of \$608,945 from 2007) represented a 29.04 percent decrease in the General Fund balance. Most of the General Fund's decrease was due to the decreases in revenues and increases of expenditures. The Road and Bridge Special Revenue Fund balance decreased by \$26,438, or 2.99 percent, and the Social Services Special Revenue Fund increased by \$142,343, or 25.42 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 2008, 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 18, 2007, 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 \$139,760. The total actual expenditures in the County's General Fund exceeded the budgeted expenditures by \$190,716. The General Fund balance decreased by a total of \$608,945.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, Mahnomen County had \$21,035,492 invested in a broad range of capital assets including land, construction in progress, buildings, highways and streets, and equipment (see Table 4). This amount represents a net decrease (including additions and deductions) of \$636,386, or 2.94 percent, from last year.

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

	2008	2007 (Restated)
Land	\$ 492,207	\$ 468,063
Construction in progress	827,230	655,806
Land improvements	8,596	2,103
Buildings and improvements	742,507	754,869
Machinery, furniture, and equipment	581,007	658,222
Infrastructure	18,383,945	19,132,815
Totals	<u>\$ 21,035,492</u>	<u>\$ 21,671,878</u>

Mahnomen County's fiscal year 2008 capital budget plans did not call for any 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 2.A.3. to the Mahnomen County financial statements.

Debt

As of December 31, 2008, Mahnomen County had \$1,747,500 in bonds outstanding, compared with \$1,806,000 as of December 31, 2007, a decrease of 3.24 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	2008	2007
Bonds payable - general obligation bonds	\$ 487,500	\$ 546,000
Bonds payable - revenue bonds	1,260,000	1,260,000
Total	<u>\$ 1,747,500</u>	<u>\$ 1,806,000</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 not included in the net 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 net debt is below this \$11,109,426 state-imposed limit.

The Mahnomen Health Center (MHC), through Mahnomen County, issued \$1,260,000 in Gross Revenue Hospital Facilities Bonds in December 2007. It should be noted that the MHC is scheduled to make the payments for this bond.

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 2008 budget, tax rates, and fees that will be charged for governmental activities.

- It now appears that the State of Minnesota will be 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 these revenues, in conjunction with levy limits and pass-on costs to the County, it would have a significant impact on next year's budget.
- Mahnomen County's average net tax capacity rates have remained relatively consistent over the years, but still remain very high, even though the overall net tax levy has continued to increase. Mahnomen County has a vulnerable tax base. Throughout 2008, the County had an ongoing concern with the possible change in the taxability status of the largest business in the County, known as the Shooting Star Casino. In May 2009, the United States District Court ruled that the Shooting Star Casino should be removed from the County's tax rolls. It was ruled that the Casino will not be required to pay its 2006, 2007, and 2008 tax payments. However, the County was successful in obtaining special state legislative permanent ongoing funding in 2008 for the loss of Casino taxes. The County also has a good seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.
- Mahnomen County's unemployment rate for 2007 averaged 6.7 percent. The County's unemployment rate for 2008 averaged 7.4 percent according to the Department of Employment and Economic Development.

- The 2009 net property tax levies are not yet 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 2009 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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 3,920,121	\$ 620,422
Petty cash and change funds	2,700	-
Departmental cash	64,779	-
Taxes receivable		
Current - net	75,781	-
Prior - net	39,927	-
Special assessments receivable		
Current - net	6,204	-
Noncurrent - net	45,500	-
Accounts receivable - net	34,583	1,413,782
Accrued interest receivable	27,622	-
Due from other governments	2,113,323	-
Inventories	144,521	84,594
Prepaid items	-	113,358
Advance to other governments	1,111,532	-
Contract for deed	239,396	-
Investment in joint venture	-	162,752
Other long-term investments	-	414,616
Held by trustee for debt service	-	133,297
Deferred financing costs	-	29,996
Restricted due from other governments - temporary	-	51,282
Capital assets		
Non-depreciable	1,319,437	1,610,740
Depreciable - net of accumulated depreciation	19,716,055	2,880,114
Total Assets	\$ 28,861,481	\$ 7,514,953

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 240,768	\$ 411,022
Salaries payable	170,407	191,258
Compensated absences/vacation/sick payable - current	-	154,203
Contracts payable	24,651	55,435
Due to other governments	183,408	-
Accrued interest payable	34,505	24,150
Residents' personal funds	-	13,888
Special assessments debt payable - current	-	2,667
Revenue bonds payable - current	-	95,000
Capital leases payable - current	-	5,082
Long-term liabilities		
Special assessments debt payable - noncurrent	-	1,184,989
Due within one year	280,038	-
Due in more than one year	1,653,145	-
	\$ 2,586,922	\$ 2,137,694
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 21,021,630	\$ 3,203,116
Restricted for		
Hospital operations	-	51,282
General government	64,016	-
Public safety	147,983	-
Highways and streets	1,630,639	-
Sanitation	39,685	-
Economic development	1,836	-
Unrestricted	3,368,770	2,122,861
	\$ 26,274,559	\$ 5,377,259

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 2,059,470	\$ 146,406
Public safety	2,250,053	170,571
Highways and streets	2,359,179	116,438
Sanitation	238,385	111,431
Human services	2,692,725	312,122
Health	62,982	-
Culture and recreation	121,340	-
Conservation of natural resources	213,398	66,989
Economic development	42,823	8,020
Interest	85,519	-
	\$ 10,125,874	\$ 931,977
Total Primary Government	\$ 10,125,874	\$ 931,977
Component unit		
Mahnomen Health Center	\$ 7,239,163	\$ 6,722,247

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning, as restated in Note 1.E.

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Mahnomen Health Center Component Unit
\$ 118,711	\$ -	\$ (1,794,353)	
239,280	-	(1,840,202)	
2,243,826	4,587	5,672	
13,750	-	(113,204)	
1,605,554	-	(775,049)	
55,000	-	(7,982)	
94,334	-	(27,006)	
35,646	-	(110,763)	
352,144	-	317,341	
-	-	(85,519)	
\$ 4,758,245	\$ 4,587	\$ (4,431,065)	
\$ 63,686	\$ 115,000		\$ (338,230)
		\$ 3,057,247	\$ -
		-	54,486
		2,622	-
		1,619	-
		1,522,117	-
		74,946	-
		134,137	70,738
		24,262	-
		\$ 4,816,950	\$ 125,224
		\$ 385,885	\$ (213,006)
		25,888,674	5,590,265
		\$ 26,274,559	\$ 5,377,259

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 1,367,855	\$ 657,745	\$ 734,568	\$ 1,068,715	\$ 3,828,883
Petty cash and change funds	2,700	-	-	-	2,700
Undistributed cash in agency funds (taxes and other)	57,771	10,387	16,936	6,144	91,238
Departmental cash	64,779	-	-	-	64,779
Taxes receivable					
Current - net	48,300	9,278	16,417	1,786	75,781
Prior - net	27,011	4,722	6,976	1,218	39,927
Special assessments					
Current - net	-	932	-	5,272	6,204
Noncurrent - net	-	5,000	-	40,500	45,500
Accounts receivable	14,768	1,839	17,638	338	34,583
Accrued interest receivable	27,504	-	-	118	27,622
Due from other funds	13,404	1,589	20,491	-	35,484
Due from other governments	358,275	1,612,326	138,454	4,268	2,113,323
Inventories	-	144,521	-	-	144,521
Contract for deed	239,396	-	-	-	239,396
Total Assets	\$ 2,221,763	\$ 2,448,339	\$ 951,480	\$ 1,128,359	\$ 6,749,941

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 145,808	\$ 24,771	\$ 54,149	\$ 16,040	\$ 240,768
Salaries payable	95,244	22,192	51,186	1,785	170,407
Contracts payable	24,651	-	-	-	24,651
Due to other funds	20,680	-	1,742	13,062	35,484
Due to other governments	59,274	1,608	107,684	14,842	183,408
Deferred revenue - unavailable	388,123	1,541,655	34,482	45,329	2,009,589
Total Liabilities	\$ 733,780	\$ 1,590,226	\$ 249,243	\$ 91,058	\$ 2,664,307
Fund Balances					
Reserved for					
Encumbrances	\$ 1,836	\$ -	\$ -	\$ -	\$ 1,836
Inventories	-	144,521	-	-	144,521
Contract for deed	239,396	-	-	-	239,396
Sheriff's contingency	1,719	-	-	-	1,719
HAVA	13,999	-	-	-	13,999
Highway projects	-	97,013	-	-	97,013
Gravel pit restoration	-	15,187	-	-	15,187
SCORE	-	-	-	39,685	39,685
Missing heirs	500	-	-	-	500
Recorder's compliance fund	21,063	-	-	-	21,063
Recorder's equipment purchases	28,954	-	-	-	28,954
Enhanced 911	144,464	-	-	-	144,464
Boat and water	1,800	-	-	-	1,800
Unreserved, designated for					
Drug eradication	1,475	-	-	-	1,475
County development	2,692	-	-	-	2,692
Timber development	151,117	-	-	-	151,117
Parks and recreation	83,395	-	-	-	83,395
Extension youth grant	1,114	-	-	-	1,114
Extension programming funds	139	-	-	-	139
Unreserved, undesignated	794,320	601,392	702,237	-	2,097,949
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	739,269	739,269
Debt service funds	-	-	-	258,347	258,347
Total Fund Balances	\$ 1,487,983	\$ 858,113	\$ 702,237	\$ 1,037,301	\$ 4,085,634
Total Liabilities and Fund Balances	\$ 2,221,763	\$ 2,448,339	\$ 951,480	\$ 1,128,359	\$ 6,749,941

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

Page 19

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	4,085,634
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		21,035,492
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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	\$ 1,260,000	
Repayments on advance	<u>(148,468)</u>	1,111,532

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,009,589
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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	\$ (487,500)	
Revenue bonds	(1,260,000)	
Capital leases	(13,862)	
Accrued interest payable	(34,505)	
Compensated absences	<u>(171,821)</u>	<u>(1,967,688)</u>

Net Assets of Governmental Activities (Exhibit 1)	\$	<u>26,274,559</u>
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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 1,949,539	\$ 369,405
Special assessments	-	18,902
Licenses and permits	8,921	-
Intergovernmental	1,941,598	1,086,688
Charges for services	287,406	102,058
Fines and forfeits	16,797	-
Gifts and contributions	797	-
Investment earnings	98,267	-
Miscellaneous	39,620	9,549
	\$ 4,342,945	\$ 1,586,602
Expenditures		
Current		
General government	\$ 2,024,630	\$ -
Public safety	2,235,194	-
Highways and streets	-	1,484,905
Sanitation	-	-
Human services	37	-
Health	62,982	-
Culture and recreation	121,340	-
Conservation of natural resources	160,010	-
Economic development	228,714	-
Intergovernmental		
Highways and streets	-	106,656
Health	-	-
Debt service		
Principal	30,061	2,792
Interest	1,159	946
	\$ 4,864,127	\$ 1,595,299
Excess of Revenues Over (Under) Expenditures	\$ (521,182)	\$ (8,697)
Other Financing Sources (Uses)		
Transfers in	\$ 12,237	\$ -
Transfers out	(100,000)	-
	\$ (87,763)	\$ -
Net Change in Fund Balance	\$ (608,945)	\$ (8,697)
Fund Balance - January 1	2,096,928	884,551
Increase (decrease) in reserved for inventories	-	(17,741)
	\$ 1,487,983	\$ 858,113
Fund Balance - December 31	\$ 1,487,983	\$ 858,113

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

EXHIBIT 5

<u>Social Services</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 649,619	\$ -	\$ 71,387	\$ 3,039,950
-	-	143,338	162,240
-	-	-	8,921
1,749,814	-	234,441	5,012,541
99,881	-	5,750	495,095
-	-	-	16,797
-	-	-	797
-	-	20,410	118,677
212,241	-	25,253	286,663
<u>\$ 2,711,555</u>	<u>\$ -</u>	<u>\$ 500,579</u>	<u>\$ 9,141,681</u>
\$ -	\$ -	\$ -	\$ 2,024,630
-	-	-	2,235,194
-	-	-	1,484,905
-	-	235,786	235,786
2,669,212	-	-	2,669,249
-	-	-	62,982
-	-	-	121,340
-	-	53,852	213,862
-	-	-	228,714
-	-	-	106,656
-	1,260,000	-	1,260,000
-	-	58,500	91,353
-	-	62,174	64,279
<u>\$ 2,669,212</u>	<u>\$ 1,260,000</u>	<u>\$ 410,312</u>	<u>\$ 10,798,950</u>
<u>\$ 42,343</u>	<u>\$ (1,260,000)</u>	<u>\$ 90,267</u>	<u>\$ (1,657,269)</u>
\$ 100,000	\$ -	\$ -	\$ 112,237
-	-	(12,237)	(112,237)
<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ (12,237)</u>	<u>\$ -</u>
<u>\$ 142,343</u>	<u>\$ (1,260,000)</u>	<u>\$ 78,030</u>	<u>\$ (1,657,269)</u>
559,894	1,260,000	959,271	5,760,644
-	-	-	(17,741)
<u>\$ 702,237</u>	<u>\$ -</u>	<u>\$ 1,037,301</u>	<u>\$ 4,085,634</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,657,269)

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	\$ 2,009,589	
Deferred revenue - January 1	(491,043)	1,518,546

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	\$ 473,496	
Net book value of assets disposed of	(151,411)	
Current year depreciation	(958,471)	(636,386)

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets.

Principal repayments		
General obligation bonds	\$ 58,500	
Capital lease	32,853	91,353

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	\$ (21,240)	
Change in compensated absences	(2,910)	
Change in inventories	(17,741)	
Change in advance to other governments	1,111,532	1,069,641

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 385,885

FIDUCIARY FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 7

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

	Family Services Collaborative Investment Trust	Agency Funds
<u>Assets</u>		
Cash and pooled investments	\$ 150,644	\$ 70,927
Receivables		
Accounts	-	10,218
Interest	143	-
Total Assets	\$ 150,787	\$ 81,145
<u>Liabilities</u>		
Due to other governments	-	\$ 81,145
<u>Net Assets</u>		
Net assets held in trust for pool participants	\$ 150,787	

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

EXHIBIT 8

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

<u>Additions</u>	
Contributions from participants	\$ 147,781
Investment earnings	
Interest	<u>2,101</u>
Total Additions	\$ 149,882
<u>Deductions</u>	
Distributions to participants	<u>94,069</u>
Change in net assets	\$ 55,813
Net Assets - January 1	<u>94,974</u>
Net Assets - December 31	<u>\$ 150,787</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Mahnomen County was established December 27, 1906, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Mahnomen County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

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

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

Joint Ventures

The County participates in joint ventures, jointly-governed organizations, and a related organization, which are described in Notes 5.B., 5.C., and 5.D., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

The Mahnomen Health Center Capital Projects Fund is used to account for the proceeds from \$1,260,000 in Gross Revenue Hospital Facilities Bonds issued in December 2007.

**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, 2008, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2008 were \$136,238.

2. External Investment Pools

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

Cash and pooled investments	
Held for internal pool participants (County funds)	\$ 4,058,527
Held for external pool participants (Interagency Collaborative)	<u>150,644</u>
Total	<u>\$ 4,209,171</u>

3. Receivables and Payables

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

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

4. Advance to Other Governments

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

In 2008, an advance of \$1,260,000 was made to the Mahnomen Health Center to cover capital expenditures to remodel its facilities. During 2008, the Mahnomen Health Center repaid \$148,468. The balance of \$1,111,532 as of December 31, 2008, will be repaid in monthly installments through 2018. The County will use these payments to cover the principal and interest due on \$1,260,000 Gross Revenue Hospital Facilities Bonds issued for the purpose of funding the Mahnomen Health Center remodeling project.

5. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Inventories and Prepaid Items (Continued)

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

6. Restricted Assets

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

7. Capital Assets

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Capital Assets (Continued)

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.

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

8. 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.

9. 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)

10. Long-Term Obligations

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

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

11. Fund Equity

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

12. 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**

1. Summary of Significant Accounting Policies (Continued)

E. Prior Period Adjustment

In prior years, the capital improvements to the airport were not reported. This resulted in an understatement of construction in progress of \$581,995 as of December 31, 2007.

Net Assets - December 31, 2007, as previously reported	\$	25,306,679
Prior period adjustment		581,995
Net Assets - January 1, 2008, as restated	\$	25,888,674

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments	\$	3,920,121
Petty cash and change funds		2,700
Departmental cash		64,779
Statement of fiduciary net assets		
Cash and pooled investments		
Investment trust fund		150,644
Agency funds		70,927
Total Cash and Investments	\$	4,209,171

a. Deposits

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. 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, 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 minimizes 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, 2008, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. 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**

2. 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 selects only primary government security dealers that report daily to the New York Federal Reserve Bank, unless a comprehensive credit analysis reveals that other firms are adequately financed to conduct business. Only institutions and dealers located in the State of Minnesota are used for investing County funds.

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**

2. 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, 2008, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Freddie Mac	Aaa	Moody's	12.89%	03/15/2018	\$ 199,754
Negotiable certificates of deposit	N/R		N/A		1,446,841
Cash with broker	N/R		N/A		(97,000)
Total investments					\$ 1,549,595
Deposits					2,656,876
Petty cash and change funds					2,700
Total Cash and Investments					\$ 4,209,171

N/A - Not Applicable; N/R - Not Rated

2. Receivables

Receivables as of December 31, 2008, 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	\$ 115,708	\$ -
Special assessments	51,704	-
Accounts	34,583	-
Interest	27,622	-
Due from other governments	2,113,323	-
Contract for deed	239,396	228,705
Total Governmental Activities	\$ 2,582,336	\$ 228,705

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance (Note 1.E.)	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 468,063	\$ 24,144	\$ -	\$ 492,207
Construction in progress	655,806	235,262	63,838	827,230
Total capital assets not depreciated	\$ 1,123,869	\$ 259,406	\$ 63,838	\$ 1,319,437
Capital assets depreciated				
Land improvements	\$ 18,415	\$ 13,595	\$ -	\$ 32,010
Buildings	2,759,738	174,534	151,411	2,782,861
Machinery, furniture, and equipment	1,896,522	89,799	53,391	1,932,930
Infrastructure	27,859,859	-	-	27,859,859
Total capital assets depreciated	\$ 32,534,534	\$ 277,928	\$ 204,802	\$ 32,607,660
Less: accumulated depreciation for				
Land improvements	\$ 16,312	\$ 7,102	\$ -	\$ 23,414
Buildings	2,004,869	35,485	-	2,040,354
Machinery, furniture, and equipment	1,238,300	167,014	53,391	1,351,923
Infrastructure	8,727,044	748,870	-	9,475,914
Total accumulated depreciation	\$ 11,986,525	\$ 958,471	\$ 53,391	\$ 12,891,605
Total capital assets depreciated, net	\$ 20,548,009	\$ (680,543)	\$ 151,411	\$ 19,716,055
Governmental Activities Capital Assets, Net	\$ 21,671,878	\$ (421,137)	\$ 215,249	\$ 21,035,492

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

Governmental Activities	
General government	\$ 30,674
Public safety	77,358
Highways and streets, including depreciation of infrastructure assets	800,491
Sanitation	2,221
Human services	27,017
Economic development	20,710
Total Depreciation Expense - Governmental Activities	\$ 958,471

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. 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, 2008, is as follows:

Receivable Fund	Payable Fund	Amount
General	Social Services	\$ 1,167
	Other governmental	12,237
Total due to General Fund		\$ 13,404
Road and Bridge	General	\$ 189
	Social Services	575
	Other governmental	825
Total due to Road and Bridge Fund		\$ 1,589
Social Services	General	\$ 20,491
Total Due To/From Other Funds		\$ 35,484

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, 2008, consisted of the following:

Transfer to General Fund from Forfeited Tax Sale Special Revenue Fund	\$ 12,237	Settlement of proceeds
Transfer to Social Services Special Revenue Fund from General Fund	100,000	Operating
Total Transfers Between Funds	\$ 112,237	

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2008, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 240,768
Salaries	170,407
Contracts	24,651
Due to other governments	183,408
Accrued interest payable	<u>34,505</u>
Total Payables	<u>\$ 653,739</u>

2. Deferred Revenue

Deferred revenue as of December 31, 2008, for the County's governmental funds and activities are as follows:

	<u>Deferred Unavailable</u>
Governmental funds	
Taxes and special assessments	\$ 137,061
State-shared revenue	82,836
State-aid highway allotments	1,522,925
Charges for services	2,506
Grants	244,123
Interest on investments	<u>20,138</u>
Total Governmental Funds	<u>\$ 2,009,589</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction Commitments

The government has active construction projects as of December 31, 2008. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
General Fund	\$ 246,512	\$ 256,745
Roads and bridges	81,186	3,639
Total Governmental Activities	\$ 327,698	\$ 260,384

4. Other Postemployment Benefits - Retirees

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

As of year-end, the County has five eligible participants. The County finances the plan on a pay-as-you-go basis. During 2008, the County expended \$28,117 for these benefits.

5. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. 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, 2008:

Lease	Maturity	Installment	Payment Amount	Original	Balance
2005 AS400	2008	Monthly	\$ 1,043	\$ 34,985	\$ -
2005 Phone System	2010	Monthly	249	12,820	3,820
2006 Network Server	2009	Monthly	1,396	46,217	1,390
2006 Copier	2011	Monthly	288	14,544	8,652
Total Capital Leases					\$ 13,862

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

5. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2008, were as follows:

Year Ending December 31	Governmental Activities
2009	\$ 7,554
2010	4,449
2011	3,164
Total minimum lease payments	\$ 15,167
Less: amount representing interest	(1,305)
Present Value of Minimum Lease Payments	\$ 13,862

6. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
General obligation bonds					
1999 G.O. Nursing Home		\$75,000 -	2.75 -		
Revenue Bonds	2015	\$105,000	5.2175	\$ 1,100,000	\$ 625,000
Less: City of Mahnomen's share					(137,500)
Total General Obligation Bonds					\$ 487,500
Revenue bonds					
2007 Gross Revenue		\$95,000 -			
Hospital Facilities Bond	2018	\$155,000	4.60	\$ 1,260,000	\$ 1,260,000

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 75,000	\$ 30,025	\$ 95,000	\$ 55,775
2010	80,000	26,138	105,000	51,175
2011	85,000	21,910	110,000	46,230
2012	90,000	17,425	120,000	40,940
2013	95,000	12,684	125,000	35,305
2014 - 2018	200,000	10,507	705,000	83,835
Total	\$ 625,000	\$ 118,689	\$ 1,260,000	\$ 313,260
Less: City of Mahnomen's share	(137,500)	(26,112)		
Total	\$ 487,500	\$ 92,577		

8. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities					
General obligation bonds	\$ 546,000	\$ -	\$ 58,500	\$ 487,500	\$ 58,500
Revenue bonds	1,260,000	-	-	1,260,000	95,000
Capital leases	46,715	-	32,853	13,862	6,798
Compensated absences	168,911	171,802	168,892	171,821	119,740
Total Long-Term Liabilities	\$ 2,021,626	\$ 171,802	\$ 260,245	\$ 1,933,183	\$ 280,038

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. 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 Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

Funding Policy

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

	2008	2009
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

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

	2008	2007	2006
Public Employees Retirement Fund	\$ 163,314	\$ 150,435	\$ 142,816
Public Employees Police and Fire Fund	72,588	61,484	53,531
Public Employees Correctional Fund	20,289	17,928	17,997

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

B. Defined Contribution Plan

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5.0 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 940	\$ 940
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

4. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Risk Management (Continued)

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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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.

5. 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.

On March 28, 2006, Mahnomen County was notified by the Bureau of Indian Affairs that its largest taxpayer, the Shooting Star Casino, had been approved for tax-exempt status. This could translate into a potential reduction of \$456,000 a year, or approximately 15 percent of the total property tax revenue for the County. On April 26, 2006, the County filed a notice of appeal to reverse the decision to grant tax-exempt status to the Shooting Star Casino. Property taxes for the Shooting Star Casino have not been paid for 2006, 2007 and 2008; however, in July 2006, Mahnomen County received \$450,000 from the State of Minnesota to offset the tax revenue loss for 2006. On May 30, 2007, the omnibus tax bill, including a permanent

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities (Continued)

annual aid appropriation of \$450,000 to Mahnomen County, was vetoed by the Governor. On March 7, 2008, Laws 2006, Chapter 259, Article 11, Section 3, was amended by Laws 2008, Chapter 154, Article 1, Section 4, to provide property tax reimbursement payments in the amount of \$450,000 to Mahnomen County in July 2008 and each subsequent year. On July 3, 2008, Mahnomen County was notified that its appeal to reverse the decision to grant tax-exempt status to the Shooting Star Casino was denied.

On January 24, 2007, the County received a letter from the White Earth Tribe stating the property taxes paid for the Shooting Star Casino were made in protest and in contrast to federal law. On February 26, 2007, the County received a petition/objection to the real property tax and, on March 23, 2007, received a notice of filing of order seeking repayment of taxes paid for the Shooting Star Casino for years 1993 through 2005.

On March 24, 2009, a Federal Judge ruled that the Shooting Star Casino is not subject to property taxes. The Judge further dismissed the White Earth Band's claim for damages for all property taxes that have been paid since 1993, citing the 11th Amendment to the U.S. Constitution that gives states immunity from lawsuits filed in federal court. Any monetary damages would have affected the State of Minnesota, which receives a portion of any taxes collected by the County.

B. Joint Ventures

Norman-Mahnomen Community Health Board

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Norman-Mahnomen Community Health Board (Continued)

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

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 Community Health Board's long-term liabilities were \$26,311 at December 31, 2007 (most recent available information). Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Mahnomen County's contribution for 2008 was \$62,982.

Complete financial information can be obtained from:

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

Joint County Natural Resources Board

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. 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**

5. 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. Mahnomen County Human Services is the fiscal agent of the MCIC. During 2008, 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**

5. 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 City of Moorhead and Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties.

The purpose of the Northwest 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**

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

C. Jointly-Governed Organizations

Wild Rice Watershed District

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

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

Complete financial information can be obtained from:

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

Minnesota Red River Basin of the North Joint Powers Agreement

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

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

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. Mahnomen County did not contribute to the Joint Powers Agreement for 2008.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. 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 \$27,006 to the Agassiz Regional Library during 2008.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Mahnomen County expended \$56,874 to the Cooperative.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. 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.

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.

E. Subsequent Event

Refunding of Debt

On February 10, 2009, Mahnomen County issued General Obligation Nursing Home Revenue Refunding Bonds, Series 2009A, in the amount of \$560,000, with interest rates of 2.00 percent to 3.00 percent, to refund the \$1,100,000 General Obligation Nursing Home Revenue Bonds, Series 1999, dated August 1, 1999, maturing after February 1, 2015. The balance of the outstanding maturities to be refunded is \$625,000, and interest rates are 4.90 percent to 5.125 percent.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. 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

Mahnomen Health Center (the Organization) consists of a hospital, nursing home, and clinic located in Mahnomen, Minnesota. The Organization 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 Organization is governed under a Joint Powers Agreement between the County and City. For the year ending December 31, 2008, the County owned 78 percent of the Organization, while the City owned 22 percent of the Organization. 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 Organization. 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.

For financial reporting purposes, the Organization has included all funds, organizations, agencies, boards, commissions, and authorities. The Organization 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 Organization are such that the exclusion would cause the Organization's financial situation to be misleading or incomplete. The Governmental Accounting Standards Board (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 Organization to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Organization. The Organization does not have a component unit which meets GASB criteria.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Enterprise Fund Accounting

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

Method of Accounting

The Organization 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.

Risk Management

The Organization 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

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, 2008, the allowance for doubtful accounts was approximately \$403,000. 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**

6. 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 that are required for obligations classified as current liabilities are reported as current assets.

Investment in Joint Venture

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

Deferred Financing Costs, Net

Deferred financing costs as of December 31, 2008, of \$33,298 will be amortized over the period the obligation is outstanding, using the effective interest rate method, which approximates to the straight-line method. Accumulated amortization and amortization expense was \$3,302 as of December 31, 2008.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Vacation and Sick

The Organization'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 Organization. The liability for compensated absences is included with accrued vacation and sick leave in the accompanying balance sheets.

Net Assets

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

Net Patient and Resident Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization 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**

6. 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 Organization 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 Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue. Charges forgone for charity care were approximately \$10,000 for the year ended December 31, 2008.

Operating Revenues and Expenses

The Organization's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services--the Organization'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 Organization receives grants from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized as revenue when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts unrestricted or restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants receivable are reported in the statement of net assets at net realizable value.

Advertising Costs

The Organization expenses advertising costs as they are incurred.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the overall net assets of the Organization.

B. Net Patient and Resident Service Revenue

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

Medicare

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

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.

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

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, 2008, net patient service revenue increased approximately \$50,000, 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**

6. 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, 2008, is as follows:

Total patient service revenue	\$ 9,499,056
Contractual adjustments	
Medicare	\$ (1,374,065)
Medicaid	(841,861)
Indian Health Service	(69,674)
Other	(343,218)
Provision for bad debts	(329,293)
Total contractual adjustments	\$ (2,958,111)
Net Patient and Resident Service Revenue	\$ 6,540,945

C. Noncurrent Cash and Investments

Deposits

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

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

Minnesota statutes require that all the Organization'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.

Authorized collateral includes certain U.S. government securities, state or local government obligations, and other securities authorized by Minn. Stat. § 118.A.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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

C. Noncurrent Cash and Investments

Deposits (Continued)

The Organization's deposits in banks at December 31, 2008, were covered by federal depository insurance or by collateral held by the Organization's custodial bank in the Organization's name.

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

Noncurrent Cash and Investments

The Organization has no investments as of December 31, 2008. All of the Organization's deposits are insured or registered in the Organization's name and held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

D. Accounts Receivable

Patient and resident receivables reported as current assets by the Organization at December 31, 2008, consist of these amounts:

Receivables from patients and their insurance carriers	\$ 952,232
Receivable from Medicare	414,447
Receivable from Medicaid	<u>426,741</u>
Total patient and resident receivables	\$ 1,793,420
Less: allowance for uncollectible amounts	<u>(403,000)</u>
Total Patient and Resident Receivables, Net	<u>\$ 1,390,420</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

E. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2008, are as follows:

	Balance December 31, 2007	Additions	Retirements/ Transfers	Balance December 31, 2008
Land	\$ 36,729	\$ -	\$ -	\$ 36,729
Land improvements	86,126	18,869	-	104,995
Buildings	4,697,044	147,928	-	4,844,972
Movable equipment	2,098,040	198,037	-	2,296,077
Construction in progress	117,517	1,456,494	-	1,574,011
Totals at historical cost	\$ 7,035,456	\$ 1,821,328	\$ -	\$ 8,856,784
Less: accumulated depreciation for				
Land improvements	\$ 62,635	\$ 2,391	\$ -	\$ 65,026
Buildings	2,357,759	164,398	-	2,522,157
Movable equipment	1,596,195	182,552	-	1,778,747
Total accumulated depreciation	\$ 4,016,589	\$ 349,341	\$ -	\$ 4,365,930
Capital Assets, Net	\$ 3,018,867	\$ 1,471,987	\$ -	\$ 4,490,854

Construction in progress at December 31, 2008, consists of costs to remodel the existing emergency room space. Total cost of the project is estimated at \$1,600,000 and will be funded through the new debt issuance (see Note 6.F.) and internal funds. Capitalized interest expense was \$59,731 as of December 31, 2008. The project was completed during early fiscal year 2009.

F. Long-Term Debt

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

Movable equipment	\$ 27,295
Less: accumulated depreciation	<u>(6,369)</u>
Total Capital Assets, Net	\$ <u>20,926</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

F. Long-Term Debt (Continued)

Long-term debt as of December 31, 2008, consists of the following:

	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008
1990 Special Assessments	\$ 8,020	\$ -	\$ 2,470	\$ 5,550
2007 Gross Revenue Bond	1,260,000	-	-	1,260,000
Capital Lease Obligations	26,916	-	4,728	22,188
Total long-term debt	\$ 1,294,936	\$ -	\$ 7,198	\$ 1,287,738
Less: current maturities				(102,749)
Total Long-Term Debt, Net of Current Maturities				\$ 1,184,989

1990 Special Assessments: Due in annual installments through 2010. The assessment does not bear interest.

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

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

Year Ending December 31	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2009	\$ 97,667	\$ 55,775	\$ 5,082	\$ 1,442
2010	107,883	51,175	5,463	1,061
2011	110,000	46,230	5,873	651
2012	120,000	40,940	5,770	211
2013	125,000	35,305	-	-
Thereafter	705,000	83,835	-	-
Total	\$ 1,265,550	\$ 313,260	\$ 22,188	\$ 3,365

G. Investment in Joint Venture

The Organization and other hospitals (all of which are unrelated parties to the Organization) 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

G. Investment in Joint Venture (Continued)

CMDI provides the equipment for CT scans for the Organization patients. The Organization billed and collected the revenue for these services to patients and paid CMDI \$173,700 in 2008 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2008, amounted to \$21,600. At December 31, 2008, the Organization owned 0.51 percent of CMDI.

Summarized financial information from the financial statements of CMDI at December 31, 2008, and for the year then ended, is presented below:

Total Assets	\$ 43,366,695
Total Liabilities	\$ 11,270,930
Members' equity Retained earnings	<u>32,095,765</u>
Total Liabilities and Members' Equity	<u>\$ 43,366,395</u>
Total Operating Revenue	<u>\$ 37,328,242</u>
Net Income	<u>\$ 17,546,057</u>

H. Defined Benefit Pension Plan

The Organization contributes to the Public Employees Retirement Fund (PERF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERF 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 3.A. for information on the plan description and funding policy.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. 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 6.0 percent of the annual covered salary and the Organization is required to contribute at an actuarially determined rate. The Organization's current rate is 6.4 percent of annual covered payroll. The contribution requirements of plan members and the Organization are established and may be amended by state statute. The Organization's contributions, equal to the required contributions, to PERF for the year ended December 31, 2008, were \$214,543. The Organization's contribution was equal to the contractually required contributions for each year as set by state statute.

I. Concentrations of Credit Risk

The Organization 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, 2008, was as follows:

Medicare	32%
Blue Cross	6
Medicaid	29
Commercial insurance	5
Other third-party payors, patients, and residents	<u>28</u>
Total	<u>100%</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

J. Restricted Expendable Net Assets

Restricted, expendable net assets are available for the following purposes as of December 31, 2008:

Expendable for operations	\$ 51,282
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K. Related-Party Transactions

In August 1999, the County issued \$1,100,000 of General Obligation Nursing Home Revenue Bonds, Series 1999, to finance improvements to the Nursing Home portion of the Organization. The bonds 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 \$75,000 for the year ended December 31, 2008, and made an interest payment of \$33,662 related to the Series 1999 Bonds.

L. Commitments and Contingencies

Malpractice Claims

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

Litigation, Claims, and Other Disputes

The Organization 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 Organization.

Recent Pronouncements

GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, will be effective for the fiscal year ending December 31, 2009. The Organization has not determined as of December 31, 2008, the financial impact related to the adoption of this standard.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

L. Commitments and Contingencies (Continued)

Other

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

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,374,688	\$ 2,374,688	\$ 1,949,539	\$ (425,149)
Licenses and permits	5,750	5,750	8,921	3,171
Intergovernmental	1,596,921	1,596,921	1,941,598	344,677
Charges for services	284,446	284,446	287,406	2,960
Fines and forfeits	16,000	16,000	16,797	797
Gifts and contributions	-	-	797	797
Investment earnings	100,300	100,300	98,267	(2,033)
Miscellaneous	104,600	104,600	39,620	(64,980)
Total Revenues	\$ 4,482,705	\$ 4,482,705	\$ 4,342,945	\$ (139,760)
Expenditures				
Current				
General government				
Commissioners	\$ 173,087	\$ 173,087	\$ 167,918	\$ 5,169
Courts	14,000	14,000	22,084	(8,084)
County auditor	218,358	218,358	202,400	15,958
License bureau	68,133	68,133	70,630	(2,497)
County treasurer	126,288	126,288	120,941	5,347
County assessor	139,856	139,856	135,317	4,539
Elections	39,900	39,900	33,283	6,617
Accounting and auditing	55,000	55,000	59,718	(4,718)
Data processing	176,389	176,389	134,165	42,224
Attorney	346,510	346,510	316,134	30,376
Contracted legal services	75,000	75,000	336,909	(261,909)
Law library	17,000	17,000	12,791	4,209
Recorder	102,121	102,121	90,641	11,480
Planning and zoning	23,894	23,894	23,720	174
Buildings and plant	182,080	182,080	186,934	(4,854)
Veterans service officer	26,351	26,351	21,422	4,929
Unallocated	161,950	161,950	89,623	72,327
Total general government	\$ 1,945,917	\$ 1,945,917	\$ 2,024,630	\$ (78,713)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1
(Continued)

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

	<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	\$ 1,908,581	\$ 1,908,581	\$ 1,968,523	\$ (59,942)
Boat and water safety	975	975	460	515
Emergency services	16,517	16,517	23,051	(6,534)
Coroner	2,000	2,000	5,505	(3,505)
E-911 system	64,000	64,000	49,085	14,915
Victim assistance	62,743	62,743	62,479	264
Probation and parole	136,288	136,288	101,388	34,900
County safety program	13,843	13,843	9,898	3,945
Weed and seed	-	-	12,734	(12,734)
Snowmobile safety	1,700	1,700	2,071	(371)
Total public safety	\$ 2,206,647	\$ 2,206,647	\$ 2,235,194	\$ (28,547)
Human services				
Social services	\$ -	\$ -	\$ 37	\$ (37)
Health				
Nursing service	\$ 63,000	\$ 63,000	\$ 62,982	\$ 18
Culture and recreation				
County/regional library	\$ 27,006	\$ 27,006	\$ 27,006	\$ -
Snowmobile trails	65,000	65,000	94,334	(29,334)
Total culture and recreation	\$ 92,006	\$ 92,006	\$ 121,340	\$ (29,334)
Conservation of natural resources				
County extension	\$ 73,397	\$ 73,397	\$ 69,179	\$ 4,218
Soil and water conservation	54,939	54,939	54,818	121
Agricultural inspections	9,101	9,101	8,373	728
Agricultural society/County fair	8,500	8,500	5,500	3,000
Predator control	1,000	1,000	260	740
Water planning	21,880	21,880	21,880	-
Total conservation of natural resources	\$ 168,817	\$ 168,817	\$ 160,010	\$ 8,807

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1
(Continued)

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

	<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	\$ -	\$ -	\$ 675	\$ (675)
Airports	197,024	197,024	228,039	(31,015)
Total economic development	\$ 197,024	\$ 197,024	\$ 228,714	\$ (31,690)
Debt service				
Principal	\$ -	\$ -	\$ 30,061	\$ (30,061)
Interest	-	-	1,159	(1,159)
Total debt service	\$ -	\$ -	\$ 31,220	\$ (31,220)
Total Expenditures	\$ 4,673,411	\$ 4,673,411	\$ 4,864,127	\$ (190,716)
Excess of Revenues Over (Under)				
Expenditures	\$ (190,706)	\$ (190,706)	\$ (521,182)	\$ (330,476)
Other Financing Sources (Uses)				
Transfers in	\$ 1,000	\$ 1,000	\$ 12,237	\$ 11,237
Transfers out	(1,000)	(1,000)	(100,000)	(99,000)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (87,763)	\$ (87,763)
Net Change in Fund Balance	\$ (190,706)	\$ (190,706)	\$ (608,945)	\$ (418,239)
Fund Balance - January 1	2,096,928	2,096,928	2,096,928	-
Fund Balance - December 31	\$ 1,906,222	\$ 1,906,222	\$ 1,487,983	\$ (418,239)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 495,000	\$ 495,000	\$ 369,405	\$ (125,595)
Special assessments	20,000	20,000	18,902	(1,098)
Intergovernmental	2,121,933	2,121,933	1,086,688	(1,035,245)
Charges for services	120,000	120,000	102,058	(17,942)
Miscellaneous	-	-	9,549	9,549
Total Revenues	\$ 2,756,933	\$ 2,756,933	\$ 1,586,602	\$ (1,170,331)
Expenditures				
Current				
Highways and streets				
Administration	\$ 338,840	\$ 338,840	\$ 249,189	\$ 89,651
Maintenance	706,737	706,737	749,309	(42,572)
Construction	1,238,431	1,238,431	210,101	1,028,330
Equipment maintenance and shop	231,699	231,699	214,233	17,466
Materials and services for resale	123,382	123,382	62,073	61,309
Total highways and streets	\$ 2,639,089	\$ 2,639,089	\$ 1,484,905	\$ 1,154,184
Intergovernmental				
Highways and streets	\$ -	\$ -	\$ 106,656	\$ (106,656)
Debt service				
Principal	\$ -	\$ -	\$ 2,792	\$ (2,792)
Interest	-	-	946	(946)
Total debt service	\$ -	\$ -	\$ 3,738	\$ (3,738)
Total Expenditures	\$ 2,639,089	\$ 2,639,089	\$ 1,595,299	\$ 1,043,790
Excess of Revenues Over (Under) Expenditures	\$ 117,844	\$ 117,844	\$ (8,697)	\$ (126,541)
Fund Balance - January 1	884,551	884,551	884,551	-
Increase (decrease) in reserved for inventories	-	-	(17,741)	(17,741)
Fund Balance - December 31	\$ 1,002,395	\$ 1,002,395	\$ 858,113	\$ (144,282)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 805,149	\$ 805,149	\$ 649,619	\$ (155,530)
Intergovernmental	1,528,162	1,528,162	1,749,814	221,652
Charges for services	95,692	95,692	99,881	4,189
Miscellaneous	30,000	30,000	212,241	182,241
Total Revenues	\$ 2,459,003	\$ 2,459,003	\$ 2,711,555	\$ 252,552
Expenditures				
Current				
Human services				
Income maintenance	\$ 788,893	\$ 788,893	\$ 935,378	\$ (146,485)
Social services	1,663,110	1,663,110	1,552,485	110,625
Transportation	157,000	157,000	181,349	(24,349)
Total Expenditures	\$ 2,609,003	\$ 2,609,003	\$ 2,669,212	\$ (60,209)
Excess of Revenues Over (Under) Expenditures	\$ (150,000)	\$ (150,000)	\$ 42,343	\$ 192,343
Other Financing Sources (Uses)				
Transfers in	-	-	100,000	100,000
Change in Fund Balance	\$ (150,000)	\$ (150,000)	\$ 142,343	\$ 292,343
Fund Balance - January 1	559,894	559,894	559,894	-
Fund Balance - December 31	\$ 409,894	\$ 409,894	\$ 702,237	\$ 292,343

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

1. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. Encumbrance accounting is employed in governmental funds.

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

2. Excess of Expenditures Over Budget

The following is a summary of individual major funds which had expenditures in excess of budget for the year ended December 31, 2008.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 4,864,127	\$ 4,673,411	\$ 190,716
Social Services Special Revenue Fund	2,669,212	2,609,003	60,209

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SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

DEBT SERVICE FUNDS

The Hospital Steam Line Fund accounts for the retirement of an energy loan used to finance construction of a steam line between the Hospital and the school.

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

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement A-1

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

	Special Revenue (Statement B-1)	Debt Service (Statement C-1)	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 816,938	\$ 251,777	\$ 1,068,715
Undistributed cash in agency funds	3,856	2,288	6,144
Taxes receivable			
Current - net	-	1,786	1,786
Prior - net	130	1,088	1,218
Special assessments receivable			
Current - net	5,272	-	5,272
Noncurrent - net	40,500	-	40,500
Accounts receivable	338	-	338
Accrued interest receivable	-	118	118
Due from other governments	716	3,552	4,268
	\$ 867,750	\$ 260,609	\$ 1,128,359
Total Assets	\$ 867,750	\$ 260,609	\$ 1,128,359
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 16,040	\$ -	\$ 16,040
Salaries payable	1,785	-	1,785
Due to other funds	13,062	-	13,062
Due to other governments	14,842	-	14,842
Deferred revenue - unavailable	43,067	2,262	45,329
	\$ 88,796	\$ 2,262	\$ 91,058
Total Liabilities	\$ 88,796	\$ 2,262	\$ 91,058
 Fund Balances			
Reserved for SCORE	\$ 39,685	\$ -	\$ 39,685
Unreserved			
Designated for debt service	-	258,347	258,347
Undesignated	739,269	-	739,269
	\$ 778,954	\$ 258,347	\$ 1,037,301
Total Fund Balances	\$ 778,954	\$ 258,347	\$ 1,037,301
Total Liabilities and Fund Balances	\$ 867,750	\$ 260,609	\$ 1,128,359

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement A-2

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

	<u>Special Revenue (Statement B-2)</u>	<u>Debt Service (Statement C-2)</u>	<u>Total (Exhibit 5)</u>
Revenues			
Taxes	\$ 130	\$ 71,257	\$ 71,387
Special assessments	143,338	-	143,338
Intergovernmental	68,786	165,655	234,441
Charges for services	5,750	-	5,750
Investment earnings	-	20,410	20,410
Miscellaneous	25,253	-	25,253
Total Revenues	<u>\$ 243,257</u>	<u>\$ 257,322</u>	<u>\$ 500,579</u>
Expenditures			
Current			
Sanitation	\$ 235,786	\$ -	\$ 235,786
Conservation of natural resources	53,852	-	53,852
Debt service			
Principal	-	58,500	58,500
Interest	-	62,174	62,174
Total Expenditures	<u>\$ 289,638</u>	<u>\$ 120,674</u>	<u>\$ 410,312</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (46,381)</u>	<u>\$ 136,648</u>	<u>\$ 90,267</u>
Other Financing Sources (Uses)			
Transfers out	(12,237)	-	(12,237)
Net Change in Fund Balance	<u>\$ (58,618)</u>	<u>\$ 136,648</u>	<u>\$ 78,030</u>
Fund Balance - January 1	<u>837,572</u>	<u>121,699</u>	<u>959,271</u>
Fund Balance - December 31	<u><u>\$ 778,954</u></u>	<u><u>\$ 258,347</u></u>	<u><u>\$ 1,037,301</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement B-1

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

	Solid Waste	Ditch	Hospital	Forfeited Tax Sale	Total (Statement A-1)
<u>Assets</u>					
Cash and pooled investments	\$ 448,831	\$ 239,361	\$ 111,165	\$ 17,581	\$ 816,938
Undistributed cash in agency funds	3,402	438	16	-	3,856
Taxes receivable					
Prior - net	-	-	130	-	130
Special assessments receivable					
Current - net	5,035	237	-	-	5,272
Noncurrent - net	-	40,500	-	-	40,500
Accounts receivable	338	-	-	-	338
Due from other governments	-	716	-	-	716
	\$ 457,606	\$ 281,252	\$ 111,311	\$ 17,581	\$ 867,750
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 15,130	\$ 910	\$ -	\$ -	\$ 16,040
Salaries payable	1,785	-	-	-	1,785
Due to other funds	595	230	-	12,237	13,062
Due to other governments	9,276	222	-	5,344	14,842
Deferred revenue - unavailable	2,329	40,639	99	-	43,067
	\$ 29,115	\$ 42,001	\$ 99	\$ 17,581	\$ 88,796
Fund Balances					
Reserved for SCORE	\$ 39,685	\$ -	\$ -	\$ -	\$ 39,685
Unreserved					
Undesignated	388,806	239,251	111,212	-	739,269
	\$ 428,491	\$ 239,251	\$ 111,212	\$ -	\$ 778,954
Total Liabilities and Fund Balances	\$ 457,606	\$ 281,252	\$ 111,311	\$ 17,581	\$ 867,750

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement B-2

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

	Solid Waste	Ditch	Hospital	Forfeited Tax Sale	Total (Statement A-2)
Revenues					
Taxes	\$ 48	\$ -	\$ 82	\$ -	\$ 130
Special assessments	103,309	40,029	-	-	143,338
Intergovernmental	68,750	-	36	-	68,786
Charges for services	5,750	-	-	-	5,750
Miscellaneous	2,910	-	-	22,343	25,253
	\$ 180,767	\$ 40,029	\$ 118	\$ 22,343	\$ 243,257
Expenditures					
Current					
Sanitation	\$ 235,786	\$ -	\$ -	\$ -	\$ 235,786
Conservation of natural resources	-	43,746	-	10,106	53,852
	\$ 235,786	\$ 43,746	\$ -	\$ 10,106	\$ 289,638
Excess of Revenues Over (Under)					
Expenditures	\$ (55,019)	\$ (3,717)	\$ 118	\$ 12,237	\$ (46,381)
Other Financing Sources (Uses)					
Transfers out	-	-	-	(12,237)	(12,237)
	\$ (55,019)	\$ (3,717)	\$ 118	\$ -	\$ (58,618)
Fund Balance - January 1	483,510	242,968	111,094	-	837,572
Fund Balance - December 31	\$ 428,491	\$ 239,251	\$ 111,212	\$ -	\$ 778,954

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement C-1

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

	Hospital Steam Line	Nursing Home Revenue Bonds	Mahnomen Health Center	Total (Statement A-1)
<u>Assets</u>				
Cash and pooled investments	\$ 14,831	\$ 103,767	\$ 133,179	\$ 251,777
Undistributed cash in agency funds	-	2,288	-	2,288
Taxes receivable				
Current - net	-	1,786	-	1,786
Prior - net	-	1,088	-	1,088
Accrued interest receivable	-	-	118	118
Due from other governments	-	3,552	-	3,552
	\$ 14,831	\$ 112,481	\$ 133,297	\$ 260,609
<u>Liabilities and Fund Balances</u>				
Liabilities				
Deferred revenue - unavailable	\$ -	\$ 2,262	\$ -	\$ 2,262
Fund Balances				
Unreserved				
Designated for debt service	14,831	110,219	133,297	258,347
	\$ 14,831	\$ 112,481	\$ 133,297	\$ 260,609

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement C-2

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

	<u>Hospital Steam Line</u>	<u>Nursing Home Revenue Bonds</u>	<u>Mahnomen Health Center</u>	<u>Total (Statement A-2)</u>
Revenues				
Taxes	\$ 1	\$ 71,256	\$ -	\$ 71,257
Intergovernmental	-	17,187	148,468	165,655
Investment earnings	-	-	20,410	20,410
Total Revenues	\$ 1	\$ 88,443	\$ 168,878	\$ 257,322
Expenditures				
Debt service				
Principal	\$ -	\$ 58,500	\$ -	\$ 58,500
Interest	-	26,593	35,581	62,174
Total Expenditures	\$ -	\$ 85,093	\$ 35,581	\$ 120,674
Excess of Revenues Over (Under) Expenditures	\$ 1	\$ 3,350	\$ 133,297	\$ 136,648
Fund Balance - January 1	14,830	106,869	-	121,699
Fund Balance - December 31	\$ 14,831	\$ 110,219	\$ 133,297	\$ 258,347

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 48	\$ 48
Special assessments	100,000	100,000	103,309	3,309
Intergovernmental	61,348	61,348	68,750	7,402
Charges for services	3,000	3,000	5,750	2,750
Miscellaneous	100	100	2,910	2,810
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 164,448	\$ 164,448	\$ 180,767	\$ 16,319
Expenditures				
Current				
Sanitation				
Solid waste	233,340	233,340	235,786	(2,446)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Excess of Revenues Over (Under)				
Expenditures	\$ (68,892)	\$ (68,892)	\$ (55,019)	\$ 13,873
Fund Balance - January 1	483,510	483,510	483,510	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 414,618	\$ 414,618	\$ 428,491	\$ 13,873
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 5

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 40,000	\$ 40,000	\$ 40,029	\$ 29
Expenditures				
Current				
Conservation of natural resources				
Drainage ditches	40,000	40,000	43,746	(3,746)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (3,717)	\$ (3,717)
Fund Balance - January 1	<u>242,968</u>	<u>242,968</u>	<u>242,968</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 242,968</u>	<u>\$ 242,968</u>	<u>\$ 239,251</u>	<u>\$ (3,717)</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
NURSING HOME REVENUE BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 87,594	\$ 87,594	\$ 71,256	\$ (16,338)
Intergovernmental	-	-	17,187	17,187
Total Revenues	\$ 87,594	\$ 87,594	\$ 88,443	\$ 849
Expenditures				
Debt service				
Principal	\$ 58,500	\$ 58,500	\$ 58,500	\$ -
Interest	26,257	26,257	26,593	(336)
Total Expenditures	\$ 84,757	\$ 84,757	\$ 85,093	\$ (336)
Excess of Revenues Over (Under) Expenditures	\$ 2,837	\$ 2,837	\$ 3,350	\$ 513
Fund Balance - January 1	106,869	106,869	106,869	-
Fund Balance - December 31	\$ 109,706	\$ 109,706	\$ 110,219	\$ 513

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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

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

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

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

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

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement D-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>HEADWATERS COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 86,760	\$ 86,760	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 86,760	\$ 86,760	\$ -
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 862,522	\$ 862,522	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 862,522	\$ 862,522	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 666	\$ 270,126	\$ 269,632	\$ 1,160
Accounts receivable	7,766	10,011	7,766	10,011
Total Assets	\$ 8,432	\$ 280,137	\$ 277,398	\$ 11,171
<u>Liabilities</u>				
Due to other governments	\$ 8,432	\$ 280,137	\$ 277,398	\$ 11,171

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*Statement D-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 47,037	\$ 5,253,545	\$ 5,236,494	\$ 64,088
<u>Liabilities</u>				
Due to other governments	\$ 47,037	\$ 5,253,545	\$ 5,236,494	\$ 64,088
 <u>TOWNSHIPS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 858,146	\$ 857,339	\$ 807
Accounts receivable	702	207	702	207
Total Assets	\$ 702	\$ 858,353	\$ 858,041	\$ 1,014
<u>Liabilities</u>				
Due to other governments	\$ 702	\$ 858,353	\$ 858,041	\$ 1,014
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 200,580	\$ 200,580	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 200,580	\$ 200,580	\$ -

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement D-1
(Continued)

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>ADVANCED LIFE SUPPORT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 52,506	\$ 52,480	\$ 26
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 52,506	\$ 52,480	\$ 26
 <u>CAFETERIA PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,991	\$ 12,356	\$ 10,501	\$ 4,846
Accounts receivable	319	-	319	-
Total Assets	\$ 3,310	\$ 12,356	\$ 10,820	\$ 4,846
<u>Liabilities</u>				
Due to other governments	\$ 3,310	\$ 12,356	\$ 10,820	\$ 4,846
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 50,694	\$ 7,596,541	\$ 7,576,308	\$ 70,927
Accounts receivable	8,787	10,218	8,787	10,218
Total Assets	\$ 59,481	\$ 7,606,759	\$ 7,585,095	\$ 81,145
<u>Liabilities</u>				
Due to other governments	\$ 59,481	\$ 7,606,759	\$ 7,585,095	\$ 81,145

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OTHER SCHEDULES

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 7

**SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<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	\$ 2,700
Cash with broker	N/A	N/A	Continuous	(97,000)
Non-interest-bearing checking	Three	N/A	N/A	28,842
Interest-bearing checking	Three	0.30 to 0.50	Continuous	776,745
Passbook savings	Three	0.30	Continuous	173,316
Certificates of deposit	Two	2.50 to 3.20	February 6, 2009, to September 28, 2009	35,000
Money market savings	Five	0.80 to 1.35	Continuous	1,642,973
Certificates of deposit with broker	Fifteen	2.00 to 4.35	April 17, 2009, to October 1, 2010	1,446,841
Federal Home Loan Bank	One	4.00	March 15, 2018	199,754
Total Cash and Pooled Investments				\$ 4,209,171

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 8

**BALANCE SHEET BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2008**

	<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	\$ 11,132	\$ 126,955	\$ 101,274	\$ 239,361
Undistributed cash in agency funds	2	-	436	438
Special assessments receivable				
Current - net	30	-	207	237
Noncurrent - net	3,000	7,500	30,000	40,500
Due from other governments	-	143	573	716
Total Assets	\$ 14,164	\$ 134,598	\$ 132,490	\$ 281,252
<u>Liabilities and Fund Balance</u>				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 910	\$ 910
Due to other funds	-	-	230	230
Due to other governments	74	74	74	222
Deferred revenue - unavailable	2,997	7,500	30,142	40,639
Total Liabilities	\$ 3,071	\$ 7,574	\$ 31,356	\$ 42,001
Fund Balance				
Unreserved				
Undesignated	11,093	127,024	101,134	239,251
Total Liabilities and Fund Balance	\$ 14,164	\$ 134,598	\$ 132,490	\$ 281,252

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 9

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

Shared Revenue

State

Highway users tax	\$	960,104
County program aid		643,305
PERA rate reimbursement		10,234
Disparity reduction aid		66,508
Police aid		61,485
Market value credit		268,403
Market value credit - mobile home		831
Indian casino aid		95,616
Property tax reimbursement - casino		450,000
		450,000

Total Shared Revenue

\$ 2,556,486

Reimbursement for Services

State

Minnesota Department of Human Services	\$	280,595
		280,595

Payments

Local

Other contributions	\$	148,468
Local contributions		13,750
Payments in lieu of taxes		74,946
		74,946

Total Payments

\$ 237,164

Grants

State

Minnesota Department/Board of		
Corrections	\$	19,683
Public Safety		138,226
Transportation		78,955
Natural Resources		95,268
Human Services		424,035
Water and Soil Resources		49,474
Pollution Control Agency		55,000
Peace Officer Standards and Training Board		4,005
		4,005

Total State

\$ 864,646

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**Schedule 9
(Continued)**

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

Grants (Continued)

Federal

Department of	
Agriculture	\$ 85,933
Transportation	215,311
Health and Human Services	763,906
Homeland Security	8,500
	8,500

Total Federal	\$ 1,073,650
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Total State and Federal Grants	\$ 1,938,296
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Total Intergovernmental Revenue	\$ 5,012,541
--	---------------------

Below is a reconciliation between the federal awards granted on the Schedule of Intergovernmental Revenue to the Schedule of Expenditures of Federal Awards, which reports expenditures. Under the modified accrual basis, expenditures may differ from revenues due to timing of reimbursements requested and received.

Total Federal Revenue per Schedule of Intergovernmental Revenue (Schedule 9)		\$ 1,073,650
Airport Improvement Program	CFDA #20.106	199,247
Medical Assistance Program	CFDA #93.778	6,000
		6,000
Total Federal Awards per Schedule of Expenditures of Federal Awards (Schedule 11)		\$ 1,278,897

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 10

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Mahnomen County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Mahnomen County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Mahnomen County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Mahnomen County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Airport Improvement Program	CFDA #20.106
Temporary Assistance for Needy Families	CFDA #93.558
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Mahnomen County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Segregation of Duties

Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of 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.

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

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

Client's Response:

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

06-1 Payroll Procedures

The County has procedures in place for supervisors to review and approve the time and leave records of each employee within their department; however, no system is in place for reviewing and approving time and leave records of supervisors.

Without a review process of supervisors' time and leave records, incorrect time or leave balances may be reported without being detected. Internal control over payroll would be improved by having supervisors submit their time and leave records to someone independent for review and approval prior to processing payroll. Internal control over payroll would further be improved by adding an affidavit to be signed by all employees, including supervisors, stating that the time and leave reported is true and correct.

We recommend the County implement a system for reviewing and approving the time and leave records of supervisors similar to the system in place for their employees. In addition, we recommend all employees, including supervisors, sign an affidavit that the claim is true and correct.

Client's Response:

The County Board is aware and understands the issue. However, the County does not currently have a cost-effective procedure for the taxpayers of the County in place to resolve this. The County is also under financial constraints which limits its ability to offer a solution. The County has also implemented an internal control on the employees' time sheets by requiring each employee to sign an affidavit that their reported time and leave are true and correct. The County Board will continue to seek solutions.

06-2 Preparation of Financial Statements

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

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

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was

caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

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

Client's Response:

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

06-3 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls.

During our audit, we proposed numerous adjustments that resulted in significant changes to the County's financial statements. The County provides a modified accrual general ledger, GASB34 audit list, and other supporting schedules necessary for preparing fund level and government-wide financial statements.

- Adjustments were made to the General Fund to set up an additional receivable of \$227,162 for the Airport Improvement Program and to defer revenue for receivables not collected within the revenue recognition period of \$227,162 for the Airport Improvement Program and \$82,836 for Indian Casino Aid.

- Adjustments were made to the Road and Bridge Special Revenue Fund to correct errors made in client reversal entries. The errors caused some asset, liability, and revenue accounts to be materially overstated, resulting in a \$450,583 overstatement of fund balance. The Road and Bridge Special Revenue Fund was also adjusted to reflect town road revenue and expenditures of \$106,656.
- An adjustment was made to the Social Services Special Revenue Fund to decrease both revenue and expenditures for \$98,827 to offset the Local Collaborative Time Study activity. An adjustment was made to decrease revenue for the Targeted Case Management Contingency Grant and set up a liability in the amount of \$43,596 for the amounts to be repaid to the state in two installments due February 2010 and February 2011. An adjustment was made to reclassify \$59,463 from accounts payable to properly reflect the amounts due to other governments and due to other funds. Adjustments were made to recognize and reverse prior audit entries not made by the client, but needed to reflect the prior year's activity in the beginning fund balance.
- A prior period adjustment was made to the government-wide financial statements to recognize construction in progress of \$581,995 for expenditures incurred for the airport project that had not been included in capital assets.

In addition to the adjustments noted above, several material reclassifications were made to correct classification errors resulting from incorrect accounts being grouped in the GASB34 audit list, which summarizes accounts used in the preparation of the working trial balances. Some of the grouping changes resulted from a recent DHS bulletin changing the classifications of certain federal revenues. Audit adjustments were also necessary to adjust modified accrual financial statements to the full accrual basis for the government-wide financial statements.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the County establish internal procedures to ensure entries to trial balances for financial statement purposes be made on the County's Integrated Financial System.

Client's Response:

The County is working on establishing further internal control procedures to assure that audit adjustments are reviewed and approved by appropriate staff.

ITEM ARISING THIS YEAR

08-1 **Documenting and Monitoring Internal Controls**

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

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

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

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

Client's Response:

The County has established an Internal Control/Fraud Risk Assessment Committee under the guidance of the OSA in order to review and document areas of risk and to implement procedures and policies used to minimize potential risks.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

08-2 Communication Tower Contract

On July 15, 2008, the County Board approved advertising for bids for the construction of a communication tower. Requests for bids were published in the Mahnomen Pioneer on September 11, 2008, and September 18, 2008, stating "Bids will be accepted until September 24, 2008, at 4:30 p.m. at which time bids will be opened at the Mahnomen County Sheriff's Office." Board minutes following the September 24, 2008, date indicate there was discussion on the communication tower project; however, we could not locate Board action documenting the awarding of the contract. We were also unable to locate documentation that the County considered obtaining the contractor's bonds for performance or payment. A contract was signed between the bidder, Mid States Wireless, and Chief Deputy Paul Brehm on November 20, 2008, in the amount of \$254,909.

Minn. Stat. § 375.18, subd. 2, provides the County Board the authority to manage the property, funds, and business of the County. Minn. Stat. § 375.21, subd. 1, provides the procedures and conditions for contracts with the County Board, which includes a requirement for a faithful performance bond. Minn. Stat. § 574.26, subd. 2, provides that a contract with a public entity is not valid unless the contractor gives a performance bond and a payment bond unless the project falls within the exceptions allowed under Minn. Stat. §§ 574.263 and 574.264 or if the amount of the contract is \$75,000 or less. The exceptions do not apply in this case.

To ensure compliance with Minn. Stat. §§ 375.21 and 574.26 on all future contracts, we recommend the County require all bids be presented to the County Board for awarding of the contracts.

Client's Response:

The County Board and the Sheriff's Office, noted through their Board minutes action, had every intention to construct a new communications tower. There was an honest oversight in the protocol used during the contract award. The County will be more prudent in its future contract award efforts.

PREVIOUSLY REPORTED ITEM RESOLVED

Collateral Pledged to Secure Deposits (06-4)

At December 31, 2007, deposits with First National Bank of Mahnommen exceeded the amount of federal deposit insurance and collateral pledged by \$486,284.

Resolution

At December 31, 2008, deposits with First National Bank of Mahnommen were fully protected by federal deposit insurance and collateral pledged. During 2008, Congress temporarily increased the FDIC coverage providing substantially more insurance on those deposits.

B. **OTHER ITEM FOR CONSIDERATION**

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage

pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

The Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the Mahnomen County Board will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Mahnomen County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Mahnomen County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Mahnomen County Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Mahnomen County Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the Mahnomen County Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to Mahnomen County for the year ended December 31, 2009.

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REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioners
Mahnommen County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnommen County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 9, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Mahnommen Health Center, a discretely presented component unit, as described in our report on Mahnommen County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-4, 06-1 through 06-3, and 08-1 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-3 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Mahnomen County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 08-2.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 9, 2009

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REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioners
Mahnomen County

Compliance

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

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

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

Internal Control Over Compliance

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Mahanomen County's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahanomen County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 9, 2009. We did not audit the financial statements of the Mahanomen Health Center, a discretely presented component unit. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the County's basic financial statements. The

accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 9, 2009

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 11

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

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 for Food Stamp Program	10.561	\$ <u>85,933</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Airport Improvement Program	20.106	\$ 346,180
Formula Grants for Other Than Urbanized Areas	20.509	60,711
Interagency hazardous materials	20.703	2,207
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	3,443
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>2,017</u>
Total U.S. Department of Transportation		\$ <u>414,558</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families Title IV-B-2	93.556	\$ 3,551
Temporary Assistance for Needy Families (TANF)	93.558	156,561
Child Support Enforcement	93.563	188,949
Refugee and Entrance Assistance Grant	93.566	205
Child Care Cluster		
Child Care Development Block Grant	93.575	4,686
Child Care Mandatory and Matching Funds	93.596	786
Foster Care Title IV-E	93.658	88,484
Social Services Block Grant Title XX	93.667	80,046
Chafee Foster Care Independent Living	93.674	2,411
State Children's Insurance Program	93.767	199
Medical Assistance Program	93.778	220,599
Community Mental Health Block Grant	93.958	<u>23,429</u>
Total U.S. Department of Health and Human Services		\$ <u>769,906</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Homeland Security Grant Program	97.067	<u>8,500</u>
Total Federal Awards		\$ <u><u>1,278,897</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***Schedule 11
(Continued)***

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

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Mahnomen County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Under the modified accrual basis, expenditures may differ from revenues due to timing of reimbursements requested and received.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. During 2008, the County did not pass any federal money to subrecipients.