

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MAHNOMEN COUNTY**  
**MAHNOMEN, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2011**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**Year Ended December 31, 2011**



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

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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MAHNOMEN, MINNESOTA**

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

ORGANIZATION SCHEDULE  
DECEMBER 31, 2011

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	James Kochmann	January 2013
2nd District	Jerry Dahl	January 2015
3rd District	Everett Kjelbertson <sup>1</sup>	January 2013
4th District	Karen Ahmann <sup>2</sup>	January 2015
5th District	David Geray	January 2015
<b>Officials</b>		
<b>Elected</b>		
Attorney	Darlene Rivera	January 2015
Auditor	Frank Thompson	January 2015
County Recorder	Susan Bendickson	January 2015
Registrar of Titles	Susan Bendickson	January 2015
Sheriff	Douglas Krier	January 2015
Treasurer	Brenda Lundon	January 2015
<b>Appointed</b>		
Assessor	Les Finseth	December 2012
Court Administrator	Lori Wiebolt	Indefinite
Highway Engineer	Jonathan Large	May 2013
Veterans Service Officer	John Rosenberger	Indefinite
Medical Examiner	Dr. Mary Ann Sens	Indefinite
Solid Waste Officer	Mark Diekman	Indefinite
<b>Social Services Board</b>		
Chair	Karen Ahmann	January 2015
Vice Chair	David Geray	January 2015
Secretary	Theresa McCollum	July 2012
Member	Jerry Dahl	January 2015
Member	Colleen Blattenbauer	July 2013
Member	James Kochmann	January 2013
Member	Everett Kjelbertson	January 2013
Director	Cindy Marihart	Indefinite

<sup>1</sup>Chair

<sup>2</sup>Vice 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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mahnomen County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mahnomen Health Center, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mahnomen Health Center, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.10., Mahnomen County has implemented Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2012, 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, 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 17, 2012

*/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, 2011  
(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, 2011. 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 \$31,642,505 of which Mahnomen County has invested \$25,679,028 in capital assets, net of related debt, and \$2,478,454 is restricted to specific purposes/uses by the County.
- The net costs (expenses) of Mahnomen County's governmental activities for the year ended December 31, 2011, was \$4,355,003. General property tax revenues and other revenue sources funded those costs.
- Mahnomen County's governmental funds' fund balances increased by \$343,506.

**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.

<b>Management’s Discussion and Analysis</b> (Required Supplementary Information)
---

<b>Government-Wide Financial Statements</b>	<b>Fund Financial Statements</b>
<b>Notes to the Financial Statements</b>	

<b>Required Supplementary Information</b> (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 Mahanomen County into two kinds of activities:

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

### **Fund Financial Statements**

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

### **Governmental Funds**

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

Mahanomen County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries, based on the trust arrangement. The County reports all of its fiduciary activities in a separate Statement of Fiduciary Net 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, 2011, were \$31,642,505. The analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the County's governmental activities.

**Table 1  
Net Assets**

	Governmental Activities	
	2011	2010
<b>Assets</b>		
Current and other assets	\$ 8,478,202	\$ 8,344,815
Capital assets	25,773,288	24,812,562
<b>Total Assets</b>	<b>\$ 34,251,490</b>	<b>\$ 33,157,377</b>
<b>Liabilities</b>		
Long-term debt outstanding	\$ 2,092,506	\$ 2,145,723
Other liabilities	516,479	451,269
<b>Total Liabilities</b>	<b>\$ 2,608,985</b>	<b>\$ 2,596,992</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 25,679,028	\$ 24,921,191
Restricted	2,478,454	1,878,119
Unrestricted	3,485,023	3,761,075
<b>Total Net Assets</b>	<b>\$ 31,642,505</b>	<b>\$ 30,560,385</b>

Unrestricted net assets totaling \$3,485,023 are available to Mahnomen County to finance day-to-day operations.

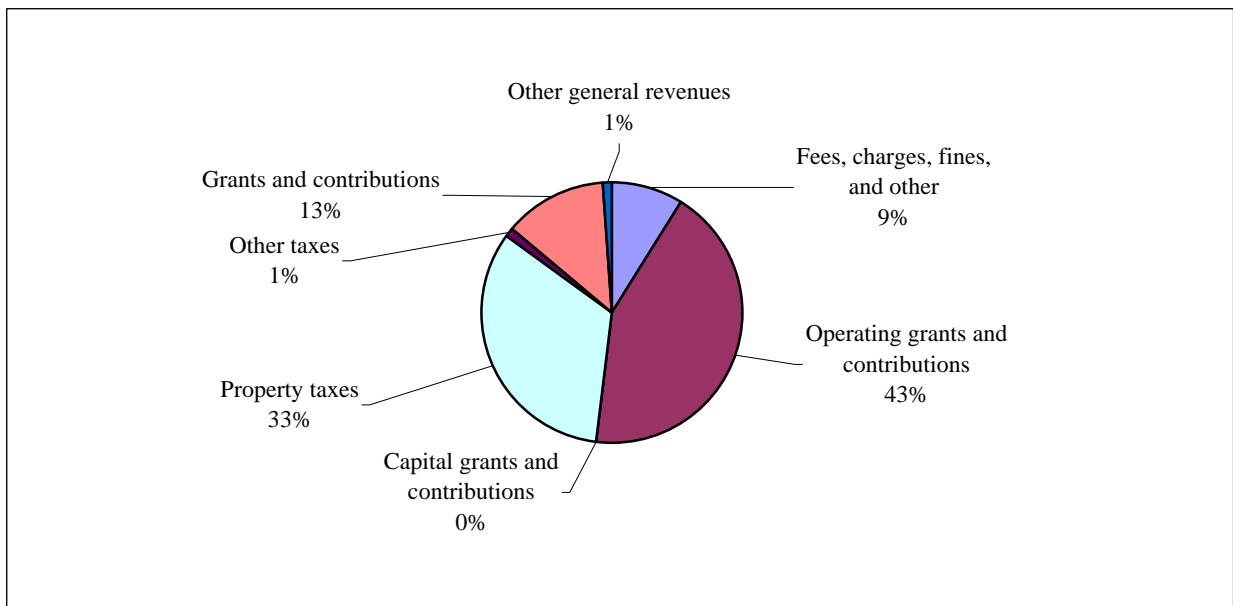
**Table 2  
Change in Net Assets**

	Governmental Activities	
	2011	2010
<b>Revenues</b>		
Program revenues		
Fees, charges, fines, and other	\$ 1,015,336	\$ 1,019,901
Operating grants and contributions	4,818,418	4,829,271
Capital grants and contributions	27,391	21,267
General revenues		
Property taxes	3,771,658	3,503,858
Other taxes	82,040	70,371
Grants and contributions	1,448,656	1,665,345
Other general revenues	134,769	78,283
<b>Total Revenues</b>	<b>\$ 11,298,268</b>	<b>\$ 11,188,296</b>

	Governmental Activities	
	2011	2010
Expenditures		
Program expenses		
General government	\$ 1,884,586	\$ 1,717,401
Public safety	2,419,908	2,428,215
Highways and streets	2,489,747	2,239,719
Sanitation	265,496	257,614
Human services	2,444,600	2,415,025
Health	111,103	62,982
Culture and recreation	161,938	119,095
Conservation of natural resources	176,637	209,820
Economic development	202,889	-
Interest	59,244	65,259
Total Expenses	\$ 10,216,148	\$ 9,515,130
Change in Net Assets	\$ 1,082,120	\$ 1,673,166
Net Assets - Beginning	30,560,385	28,887,219
Net Assets - Ending	\$ 31,642,505	\$ 30,560,385

Mahnomen County's total revenues for the year ended December 31, 2011, were \$11,298,268. The total cost of County programs and services for the year ended December 31, 2011, was \$10,216,148. The net assets for governmental activities increased by \$1,082,120. The following pie chart depicts those revenues in seven categories.

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



## Governmental Activities

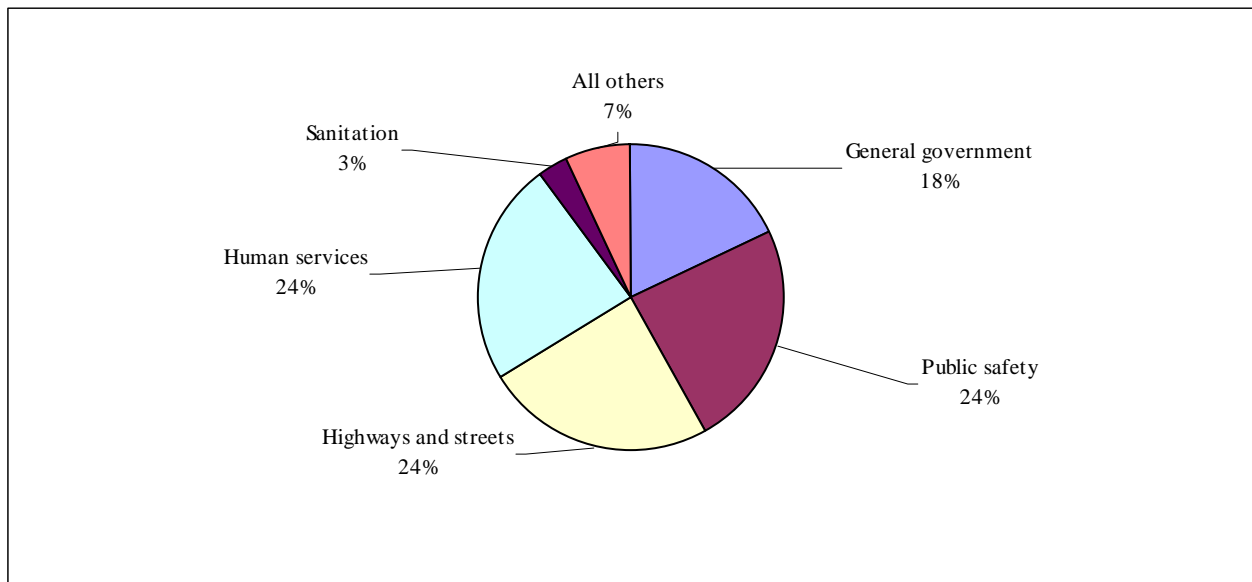
Mahnomen County's costs for all governmental activities for the year ended December 31, 2011, were \$10,216,148, as shown on the Statement of Activities. The net cost of services was ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, 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 2011	Net Cost of Services 2011
Program expenses		
General government	\$ 1,884,586	\$ 1,615,632
Public safety	2,419,908	1,919,072
Highways and streets	2,489,747	(216,448)
Human services	2,444,600	575,128
Sanitation	265,496	86,817
All others	711,811	374,802
Totals	<u>\$ 10,216,148</u>	<u>\$ 4,355,003</u>

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



## The County's Funds

As Mahnomen County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$5,646,054, which is above last year's total combined fund balance of \$5,302,548. This increase of \$343,506 represents a 6.48 percent total increase. Included in this year's total fund balance is the County's General Fund balance of \$2,558,252. The General Fund's change in fund balance (an increase of \$241,080 from 2010) represented a 10.41 percent increase in the General Fund balance. The General Fund's increase was due to excess revenues over expenditures of \$234,268 plus the transfer in of \$6,812. The Road and Bridge Special Revenue Fund balance decreased by \$197,505, or 15.99 percent, and the Social Services Special Revenue Fund was increased by \$345,818, or 46.92 percent.

## General Fund Budgetary Highlights

The Mahnomen County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2011, 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 Thursday, December 23, 2010, 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 \$2,149. The total actual expenditures in the County's General Fund were under the budgeted expenditures by \$259,909. The General Fund balance increased by a total of \$241,080.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2011, Mahnomen County had \$25,773,288 invested in a broad range of capital assets including land, buildings, highways and streets, and equipment (see Table 4). This amount represents a net increase (including additions and deductions) of \$960,726, or 3.88 percent, over last year.

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

	2011	2010
Land	\$ 534,639	\$ 534,639
Construction in progress	-	2,965,361
Land improvements	38,280	6,360
Buildings and improvements	769,152	750,886
Machinery, furniture, and equipment	963,077	771,490
Infrastructure	23,468,140	19,783,826
Totals	<u>\$ 25,773,288</u>	<u>\$ 24,812,562</u>

(Unaudited)

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Mahnomen County’s fiscal year 2011 capital budget plans did not call for any other major expenditures outside of the normal equipment, vehicles, and road construction projects. More detailed information about the County’s capital assets can be found in Note 3.A.3. to the Mahnomen County financial statements.

**Debt**

As of December 31, 2011, Mahnomen County had \$1,330,000 in bonds outstanding, compared with \$1,530,000 as of December 31, 2010, a decrease of 15.04 percent as shown in Table 5.

**Table 5  
Outstanding Debt at Year-End**

	2011	2010
Bonds payable - general obligation bonds	\$ 380,000	\$ 470,000
Bonds payable - revenue bonds	950,000	1,060,000
<b>Total</b>	<b>\$ 1,330,000</b>	<b>\$ 1,530,000</b>

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

Mahnomen County’s general obligation bonds are non-rated. The state limits the amount of net debt that the counties can issue to three percent (Minn. Stat. § 475.53) of the market value of all taxable property in the county. Mahnomen County’s outstanding 2011 net debt is below this \$15,256,836 state-imposed limit.

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

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The County’s elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for governmental activities.

- The State of Minnesota continues further addressing its serious budget deficit issues. This may have a significant impact on future Mahnomen County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce or eliminate these revenues, implement levy limits, or pass on costs to the County, it would have a significant impact on next year’s budget.



- Mahnomen County's average net tax capacity rates have remained relatively consistent. 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 2011 averaged 7.6 percent. The County's unemployment rate for 2010 averaged 8.1 percent according to the Minnesota Department of Employment and Economic Development.
- The Minnesota state demographer's census data has estimated Mahnomen County's 2011 population at 5,441 residents, which is an increase of 0.52 percent from the estimated 2010 population estimate of 5,413.
- The 2012 net property tax levies are established as of the time of this printing.
- Planning and financing for facility needs and the possibility of a new jail/law enforcement center project are continuing to be monitored by the County Board.
- Union contracts and employment-related issues will affect the 2013 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.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<b>Primary Government Governmental Activities</b>	<b>Mahnomen Health Center Component Unit</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and pooled investments	\$ 5,238,943	\$ 562,664
Departmental cash	102,935	-
Taxes receivable		
Current - net	86,322	-
Prior - net	67,378	-
Special assessments receivable		
Current - net	12,072	-
Prior - net	7,120	-
Noncurrent - net	45,989	-
Accounts receivable - net	23,538	1,155,811
Accrued interest receivable	7,759	-
Due from other governments	1,867,036	-
Inventories	82,783	105,598
Prepaid items	-	149,739
<b>Noncurrent assets</b>		
Advance to other governments	631,226	-
Long-term receivables	88,425	603,045
Contract for deed	205,628	-
Investment in joint venture	-	277,598
Held by trustee for debt service	-	152,036
Deferred charges	11,048	20,006
Restricted due from other governments - temporary	-	41,428
<b>Capital assets</b>		
Non-depreciable	534,639	99,634
Depreciable - net of accumulated depreciation	25,238,649	3,900,004
<b>Total Assets</b>	<b>\$ 34,251,490</b>	<b>\$ 7,067,563</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

	<b>Primary Government Governmental Activities</b>	<b>Mahnomen Health Center Component Unit</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 137,471	\$ 357,922
Salaries payable	178,087	157,844
Compensated absences/vacation/sick payable - current	-	149,124
Contracts payable	81,359	-
Due to other governments	94,751	-
Customer deposits	1,000	-
Accrued interest payable	23,811	18,208
Unearned revenue	-	55,169
Residents' personal funds	-	9,648
Long-term liabilities		
Due within one year	345,399	127,435
Due in more than one year	1,747,107	835,331
	<b>\$ 2,608,985</b>	<b>\$ 1,710,681</b>
<b><u>Net Assets</u></b>		
Invested in capital assets - net of related debt	\$ 25,679,028	\$ 3,036,872
Restricted for		
Hospital operations	-	41,428
General government	101,958	-
Public safety	180,517	-
Highways and streets	1,283,691	-
Sanitation	38,315	-
Culture and recreation	87,659	-
Conservation of natural resources	437,224	-
Debt service	348,590	-
Held in trust for other purposes	500	-
Unrestricted	3,485,023	2,278,582
	<b>\$ 31,642,505</b>	<b>\$ 5,356,882</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Functions/Programs</u>	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 1,884,586	\$ 149,585
Public safety	2,419,908	98,073
Highways and streets	2,489,747	127,474
Sanitation	265,496	106,100
Human services	2,444,600	377,588
Health	111,103	48,432
Culture and recreation	161,938	-
Conservation of natural resources	176,637	50,391
Economic development	202,889	57,693
Interest	59,244	-
<b>Total Primary Government</b>	<b>\$ 10,216,148</b>	<b>\$ 1,015,336</b>
<b>Component unit</b>		
Mahnomen Health Center	<b>\$ 7,723,554</b>	<b>\$ 7,349,219</b>

**General Revenues**

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

**Total general revenues**

**Change in net assets**

**Net Assets - Beginning**

**Net Assets - Ending**



**EXHIBIT 2**

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Mahnomen Health Center Component Unit</u>
\$ 119,369	\$ -	\$ (1,615,632)	
402,763	-	(1,919,072)	
2,551,330	27,391	216,448	
72,579	-	(86,817)	
1,491,884	-	(575,128)	
3,000	-	(59,671)	
125,822	-	(36,116)	
28,823	-	(97,423)	
22,848	-	(122,348)	
-	-	(59,244)	
<u>\$ 4,818,418</u>	<u>\$ 27,391</u>	<u>\$ (4,355,003)</u>	
<u>\$ 138,061</u>	<u>\$ 12,002</u>		<u>\$ (224,272)</u>
		\$ 3,771,658	\$ -
		-	54,134
		2,439	-
		1,448,656	-
		79,601	-
		43,912	8,980
		90,857	-
		<u>\$ 5,437,123</u>	<u>\$ 63,114</u>
		\$ 1,082,120	\$ (161,158)
		<u>30,560,385</u>	<u>5,518,040</u>
		<u>\$ 31,642,505</u>	<u>\$ 5,356,882</u>

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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, 2011**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><u>Assets</u></b>					
<b>Current assets</b>					
Cash and pooled investments	\$ 2,240,118	\$ 953,658	\$ 1,073,615	\$ 886,516	\$ 5,153,907
Petty cash and change funds	1,700	-	-	-	1,700
Undistributed cash in agency funds - taxes and other	53,898	9,162	15,876	4,400	83,336
Departmental cash	102,935	-	-	-	102,935
Taxes receivable					
Current - net	56,001	10,353	18,221	1,747	86,322
Prior - net	43,537	8,542	13,678	1,621	67,378
Special assessments					
Current - net	-	272	-	11,800	12,072
Prior - net	-	-	-	7,120	7,120
Noncurrent - net	-	5,489	-	40,500	45,989
Accounts receivable	13,362	-	8,436	1,740	23,538
Accrued interest receivable	7,741	-	-	18	7,759
Due from other funds	6,995	2,675	-	-	9,670
Due from other governments	207,743	1,507,419	149,232	2,642	1,867,036
Inventories	-	82,783	-	-	82,783
<b>Noncurrent assets</b>					
Contract for deed	205,628	-	-	-	205,628
Long-term receivables	-	-	-	88,425	88,425
<b>Total Assets</b>	<b>\$ 2,939,658</b>	<b>\$ 2,580,353</b>	<b>\$ 1,279,058</b>	<b>\$ 1,046,529</b>	<b>\$ 7,845,598</b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 45,562	\$ 18,657	\$ 67,318	\$ 5,934	\$ 137,471
Salaries payable	99,268	17,028	59,914	1,877	178,087
Compensated absences/vacation/ sick payable - current	983	-	-	-	983
Contracts payable	-	81,359	-	-	81,359
Due to other funds	403	183	11,461	8,767	20,814
Due to other governments	43,384	497	24,941	14,785	83,607
Customer deposits	-	1,000	-	-	1,000
Deferred revenue - unavailable	191,806	1,418,834	32,514	53,069	1,696,223
<b>Total Liabilities</b>	<b>\$ 381,406</b>	<b>\$ 1,537,558</b>	<b>\$ 196,148</b>	<b>\$ 84,432</b>	<b>\$ 2,199,544</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>(Continued)</b>					
<b>Fund Balances</b>					
Nonspendable					
Inventories	\$ -	\$ 82,783	\$ -	\$ -	\$ 82,783
Contract for deed	205,628	-	-	-	205,628
Restricted for					
Debt service	-	-	-	348,590	348,590
Recorder's technology equipment	44,800	-	-	-	44,800
E-911	173,514	-	-	-	173,514
Recorder's compliance	50,707	-	-	-	50,707
HAVA	6,451	-	-	-	6,451
Boat and water safety	1,530	-	-	-	1,530
Extension youth grant	395	-	-	-	395
SCORE	-	-	-	38,315	38,315
Highway projects	-	95,133	-	-	95,133
Gravel pit restoration	-	19,770	-	-	19,770
Ditch maintenance and construction	-	-	-	279,405	279,405
DARE	473	-	-	-	473
Missing heirs	500	-	-	-	500
Timber development	157,424	-	-	-	157,424
Parks and recreation	87,659	-	-	-	87,659
Committed to					
Sheriff's contingencies	5,000	-	-	-	5,000
Assigned to					
Highways and streets	-	845,109	-	-	845,109
Human services	-	-	1,082,910	-	1,082,910
Solid waste	-	-	-	184,517	184,517
Drug eradication	1,475	-	-	-	1,475
County development	2,692	-	-	-	2,692
Extension programming funds	139	-	-	-	139
Hospital reserve	-	-	-	111,270	111,270
Unassigned	1,819,865	-	-	-	1,819,865
<b>Total Fund Balances</b>	<b>\$ 2,558,252</b>	<b>\$ 1,042,795</b>	<b>\$ 1,082,910</b>	<b>\$ 962,097</b>	<b>\$ 5,646,054</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,939,658</b>	<b>\$ 2,580,353</b>	<b>\$ 1,279,058</b>	<b>\$ 1,046,529</b>	<b>\$ 7,845,598</b>



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>5,646,054</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		25,773,288
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	\$ 807,916	
Repayments on advance	<u>(176,690)</u>	631,226
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,696,223
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	\$ (380,000)	
Revenue bonds	(950,000)	
Capital leases	(94,260)	
Accrued interest payable	(23,811)	
Compensated absences	(174,585)	
Net OPEB liability	(492,678)	
Deferred debt issuance charges	<u>11,048</u>	<u>(2,104,286)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>31,642,505</u></b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT 5*

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 2,463,311	\$ 447,878	\$ 788,783	\$ 75,762	\$ 3,775,734
Special assessments	-	5,203	-	142,281	147,484
Licenses and permits	9,525	-	-	-	9,525
Intergovernmental	2,172,447	2,673,994	1,539,712	252,998	6,639,151
Charges for services	221,071	90,209	165,334	12,645	489,259
Fines and forfeits	13,376	-	-	-	13,376
Gifts and contributions	1,214	-	-	-	1,214
Investment earnings	43,418	-	-	292	43,710
Miscellaneous	171,788	62,621	212,254	9,449	456,112
<b>Total Revenues</b>	<b>\$ 5,096,150</b>	<b>\$ 3,279,905</b>	<b>\$ 2,706,083</b>	<b>\$ 493,427</b>	<b>\$ 11,575,565</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 1,913,043	\$ -	\$ -	\$ -	\$ 1,913,043
Public safety	2,378,608	-	-	-	2,378,608
Highways and streets	-	3,350,863	-	-	3,350,863
Sanitation	-	-	-	257,415	257,415
Human services	-	-	2,360,265	-	2,360,265
Health	111,103	-	-	-	111,103
Culture and recreation	161,938	-	-	-	161,938
Conservation of natural resources	154,485	-	-	22,222	176,707
Economic development	126,870	-	-	-	126,870
<b>Intergovernmental</b>					
Highways and streets	-	123,661	-	-	123,661
<b>Debt service</b>					
Principal	11,513	2,766	-	200,000	214,279
Interest	4,296	120	-	57,510	61,926
Administrative (fiscal) charges	26	-	-	351	377
<b>Total Expenditures</b>	<b>\$ 4,861,882</b>	<b>\$ 3,477,410</b>	<b>\$ 2,360,265</b>	<b>\$ 537,498</b>	<b>\$ 11,237,055</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 234,268</b>	<b>\$ (197,505)</b>	<b>\$ 345,818</b>	<b>\$ (44,071)</b>	<b>\$ 338,510</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT 5  
(Continued)*

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 6,812	\$ -	\$ -	\$ -	\$ 6,812
Transfers out	-	-	-	(6,812)	(6,812)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 6,812</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,812)</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 241,080</b>	<b>\$ (197,505)</b>	<b>\$ 345,818</b>	<b>\$ (50,883)</b>	<b>\$ 338,510</b>
<b>Fund Balance - January 1</b>	<b>2,317,172</b>	<b>1,235,304</b>	<b>737,092</b>	<b>1,012,980</b>	<b>5,302,548</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>4,996</b>	<b>-</b>	<b>-</b>	<b>4,996</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,558,252</b>	<b>\$ 1,042,795</b>	<b>\$ 1,082,910</b>	<b>\$ 962,097</b>	<b>\$ 5,646,054</b>

**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, 2011**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 338,510**

Amounts reported for governmental activities in the statement of activities are different because:

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

Deferred revenue - December 31	\$ 1,696,223	
Deferred revenue - January 1	<u>(1,796,830)</u>	(100,607)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, the net book value of assets disposed of is expensed, while not reported in the fund statements.

Expenditures for general capital assets and infrastructure	\$ 2,173,058	
Current year depreciation	<u>(1,212,332)</u>	960,726

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

Principal repayments		
General obligation bonds	\$ 90,000	
Revenue bonds	110,000	
Capital lease	<u>14,279</u>	214,279

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

***EXHIBIT 6  
(Continued)***

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

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$	3,059	
Amortization of deferred debt issuance costs		(2,074)	
Change in compensated absences		12,446	
Change in net OPEB liability		(172,525)	
Change in inventories		4,996	
Change in advance to other governments		<u>(176,690)</u>	<u>(330,788)</u>
<b>Change in Net Assets of Governmental Activities (Exhibit 2)</b>			<b><u>\$ 1,082,120</u></b>

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**FIDUCIARY FUNDS**

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2011**

	<b>Family Services Collaborative Investment Trust Fund</b>	<b>Agency Funds</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 200,598	\$ 54,827
Receivables		
Accounts	-	766
Interest	87	-
Due from other funds	11,144	-
<b>Total Assets</b>	<b>\$ 211,829</b>	<b>\$ 55,593</b>
<b><u>Liabilities</u></b>		
Due to other governments	-	<b>\$ 55,593</b>
<b><u>Net Assets</u></b>		
Net assets held in trust for pool participants	<b>\$ 211,829</b>	

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FAMILY SERVICES COLLABORATIVE INVESTMENT TRUST FIDUCIARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u><b>Additions</b></u>	
Contributions from participants	\$ 115,495
Investment earnings	
Interest	<u>860</u>
<b>Total Additions</b>	<b>\$ 116,355</b>
<u><b>Deductions</b></u>	
Distributions to participants	<u>112,088</u>
<b>Change in net assets</b>	<b>\$ 4,267</b>
<b>Net Assets - January 1</b>	<u>207,562</u>
<b>Net Assets - December 31</b>	<b><u><u>\$ 211,829</u></u></b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the 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**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

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

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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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**

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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, 2011, 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 2011 were \$43,912.

2. External Investment Pools

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

Cash and pooled investments	
Held for internal pool participants (County funds)	\$ 5,396,705
Held for external pool participants (Interagency Collaborative)	<u>200,598</u>
Total	<u>\$ 5,597,303</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**

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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 2011, the Mahnomen Health Center repaid \$176,690. The balance of \$631,226 as of December 31, 2011, 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**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Inventories and Prepaid Items (Continued)

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

6. Capital Assets

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the current period, the County did not have any capitalized interest.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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

7. Compensated Absences

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

8. Deferred Revenue

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Classifications of Fund Balance

In 2011, Mahnomen County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund types.

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Classifications of Fund Balance (Continued)

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

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

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

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

11. Minimum Fund Balance

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

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

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

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.

13. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications, which did not require a restatement of net assets or fund balance, were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2011:

	Expenditures	Budget	Excess
Road and Bridge Special Revenue Fund	\$ 3,477,410	\$ 3,367,511	\$ 109,899
Nursing Home Revenue Bonds Debt Service Fund	101,631	78,998	22,633

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets		
Governmental activities		
Cash and pooled investments		\$ 5,238,943
Departmental cash		102,935
Statement of fiduciary net assets		
Cash and pooled investments		
Investment trust fund		200,598
Agency funds		54,827
Total Cash and Investments		\$ 5,597,303

a. Deposits

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County’s policy is to minimize its exposure to custodial credit risk by requiring all deposits to be insured or collateralized in accordance with Minn. Stat. § 118A.03. As of December 31, 2011, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's policy is to diversify use of investment instruments to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions, or maturities.



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy is to minimize custodial credit risk by limiting investments to the types of securities permitted by Minn. Stat. ch. 118A and by obtaining broker certification forms and documentation of perfected security interest in pledged collateral from authorized financial institutions, brokers/dealers, and intermediaries or advisors. As of December 31, 2011, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposits and investment balances at December 31, 2011, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Mortgage Corporation	Aaa	Moody's		10/05/2018	\$ 300,387
Federal Home Loan Mortgage Corporation	Aaa	Moody's		12/29/2021	<u>300,084</u>
Total Federal Home Loan Mortgage Corporation			41.39%		<u>\$ 600,471</u>
Federal Home Loan Bank	Aaa	Moody's		07/27/2018	\$ 300,021
Federal Home Loan Bank	Aaa	Moody's		11/23/2018	200,088
Federal Home Loan Bank	Aaa	Moody's		09/09/2021	250,047
Federal Home Loan Bank	Aaa	Moody's		09/09/2021	<u>100,019</u>
Total Federal Home Loan Bank			58.61%		<u>\$ 850,175</u>
Total investments					\$ 1,450,646
Deposits					4,144,957
Petty cash and change funds					<u>1,700</u>
Total Cash and Investments					<u>\$ 5,597,303</u>

N/A - Not Applicable

N/R - Not Rated

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, 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	\$ 153,700	\$ -
Special assessments	65,181	-
Accounts	23,538	-
Interest	7,759	-
Due from other governments	1,867,036	-
Contract for deed	205,628	195,621
Long-term receivable	88,425	66,600
Total Governmental Activities	\$ 2,411,267	\$ 262,221

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 534,639	\$ -	\$ -	\$ 534,639
Construction in progress	2,965,361	33,467	2,998,828	-
Total capital assets not depreciated	\$ 3,500,000	\$ 33,467	\$ 2,998,828	\$ 534,639
Capital assets depreciated				
Land improvements	\$ 32,010	\$ 33,344	\$ -	\$ 65,354
Buildings	2,867,542	61,712	-	2,929,254
Machinery, furniture, and equipment	2,306,082	448,572	285,529	2,469,125
Infrastructure	30,788,154	4,594,791	-	35,382,945
Total capital assets depreciated	\$ 35,993,788	\$ 5,138,419	\$ 285,529	\$ 40,846,678

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	\$ 25,650	\$ 1,424	\$ -	\$ 27,074
Buildings	2,116,656	43,446	-	2,160,102
Machinery, furniture, and equipment	1,534,592	256,985	285,529	1,506,048
Infrastructure	11,004,328	910,477	-	11,914,805
Total accumulated depreciation	<u>\$ 14,681,226</u>	<u>\$ 1,212,332</u>	<u>\$ 285,529</u>	<u>\$ 15,608,029</u>
Total capital assets depreciated, net	<u>\$ 21,312,562</u>	<u>\$ 3,926,087</u>	<u>\$ -</u>	<u>\$ 25,238,649</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 24,812,562</u>	<u>\$ 3,959,554</u>	<u>\$ 2,998,828</u>	<u>\$ 25,773,288</u>

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

Governmental Activities	
General government	\$ 41,276
Public safety	123,754
Highways and streets, including depreciation of infrastructure assets	929,803
Sanitation	421
Human services	20,926
Economic development	96,152
Total Depreciation Expense - Governmental Activities	<u>\$ 1,212,332</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2011, is as follows:

Receivable Fund	Payable Fund	Amount
General	Road and Bridge Special Revenue	\$ 183
	Other governmental	6,812
Total due to General Fund		\$ 6,995
Road and Bridge Special Revenue	General	\$ 403
	Social Services Special Revenue	317
	Other governmental	1,955
Total due to Road and Bridge Special Revenue Fund		\$ 2,675
Investment Trust	Social Services Special Revenue	\$ 11,144
Total Due To/From Other Funds		\$ 20,814

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, 2011, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale Special Revenue Fund	\$ 6,812	Settlement of proceeds
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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 137,471
Salaries	178,087
Contracts	81,359
Due to other governments	83,607
Customer deposits	<u>1,000</u>
Total Payables	<u>\$ 481,524</u>

2. Deferred Revenue

Deferred revenue as of December 31, 2011, for the County's governmental funds and activities are as follows:

	<u>Deferred Unavailable</u>
Governmental funds	
Taxes and special assessments	\$ 155,994
State-shared revenue	103,669
State-aid highway allotments	1,399,264
Charges for services	90
Grants	33,716
Interest on investments	<u>3,490</u>
Total Governmental Funds	<u>\$ 1,696,223</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Other Postemployment Benefits - Retirees

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

As of year-end, the County has six eligible participants. The County finances the plan on a pay-as-you-go basis. During 2011, the County expended \$52,134 for these benefits.

4. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment and facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2011:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2009 copier	2014	Monthly	\$ 273	\$ 15,560	\$ 6,682
2010 service center	2020	Semi-Annually	6,264	100,000	<u>87,578</u>
Total Capital Leases					<u>\$ 94,260</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

Year Ending December 31	Governmental Activities
2012	\$ 15,808
2013	15,810
2014	12,802
2015	12,529
2016	12,528
2017 - 2020	43,636
Total minimum lease payments	\$ 113,113
Less: amount representing interest	(18,853)
Present Value of Minimum Lease Payments	\$ 94,260

5. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2009A G.O. Nursing Home		\$90,000 -	2.00 -		
Revenue Refunding Bonds	2015	\$100,000	3.00	\$ 560,000	\$ 380,000
Revenue bonds					
2007 Gross Revenue		\$110,000 -			
Hospital Facilities Bond	2018	\$155,000	4.60	\$ 1,260,000	\$ 950,000



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 90,000	\$ 9,210	\$ 120,000	\$ 40,940
2013	95,000	6,895	125,000	35,305
2014	95,000	4,330	130,000	29,440
2015	100,000	1,500	135,000	23,345
2016	-	-	140,000	17,020
2017 - 2018	-	-	300,000	14,030
Total	<u>\$ 380,000</u>	<u>\$ 21,935</u>	<u>\$ 950,000</u>	<u>\$ 160,080</u>

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
General obligation bonds	\$ 470,000	\$ -	\$ 90,000	\$ 380,000	\$ 90,000
Revenue bonds	1,060,000	-	110,000	950,000	120,000
Capital leases	108,539	-	14,279	94,260	11,850
Compensated absences	187,031	180,825	193,271	174,585	122,566
Other postemployment benefits	320,153	172,525	-	492,678	-
Total Long-Term Liabilities	<u>\$ 2,145,723</u>	<u>\$ 353,350</u>	<u>\$ 407,550</u>	<u>\$ 2,091,523</u>	<u>\$ 344,416</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Mahnomen County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2011:

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

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 170,901	\$ 184,812	\$ 170,245
Public Employees Police and Fire Fund	84,724	83,466	85,864
Public Employees Correctional Fund	20,932	21,882	21,300

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans (Continued)

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,292	\$ 1,292
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Mahnomen County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2011, there were 95 participants in the plan, including 4 retirees.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

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

ARC	\$ 248,070
Interest on net OPEB obligation	12,806
Adjustment to ARC	<u>(18,514)</u>
Annual OPEB cost (expense)	\$ 242,362
Contributions made	<u>(69,837)</u>
Increase in net OPEB obligation	\$ 172,525
Net OPEB Obligation - Beginning of Year	<u>320,153</u>
Net OPEB Obligation - End of Year	<u>\$ 492,678</u>

**MAHNOMEN COUNTY  
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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

GASB Statement 45 was adopted effective January 1, 2009. Therefore, disclosure of annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal years ending December 31, 2008, and earlier are not applicable. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009, 2010, and 2011 were as follows:

<u>Fiscal Year-End</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2009	\$ 229,556	\$ 56,524	24.6%	\$ 173,032
December 31, 2010	236,477	89,356	37.8	320,153
December 31, 2011	242,362	69,837	28.8	492,678

Funded Status and Funding Progress

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**MAHNOMEN COUNTY  
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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2009, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a four percent investment rate of return (net of investment expenses), which is Mahnomen County's implicit rate of return on the General Fund. The annual health care cost trend is ten percent initially, reduced by decrements to an ultimate rate of five percent over 10 years. Both rates included a four percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 27 years.

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011 and \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.



**MAHNOMEN COUNTY  
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5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Norman-Mahnomen Public Health

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Norman-Mahnomen Public Health (Continued)

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

Norman-Mahnomen Public Health's long-term liabilities were \$5,009 at December 31, 2010 (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 2011 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**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

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

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

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

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

Mahnomen County Interagency Collaborative

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

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

Financing is provided by state and federal grants. During 2011, 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  
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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Minnesota Regional Radio Board

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

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

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

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

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

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

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

C. Jointly-Governed Organizations

Wild Rice Watershed District

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

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

Complete financial information can be obtained from:

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

Minnesota Red River Basin of the North Joint Powers Agreement

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

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

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. Mahnomen County did not contribute to the Joint Powers Agreement for 2011.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

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

Complete financial statements can be obtained from:

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

Minnesota Rural Counties Caucus

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

Agassiz Regional Library

The Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Becker, Clay, Clearwater, Mahnomen, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, which is composed of 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Mahnomen County contributed \$32,875 to the Agassiz Regional Library during 2011.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Mahnomen County expended \$77,009 to the Cooperative.

**MAHNOMEN COUNTY  
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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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

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

Paul Bunyan Task Force

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

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

The Paul Bunyan Task Force has no long-term debt. During 2011, Mahnomen County did not contribute to the Paul Bunyan Task Force. Financing is provided by the profits from forfeitures and seizures pursuant to Minn. Stat. § 609.531. The City of Bemidji, in an agent capacity, reports the cash transactions of the Paul Bunyan Task Force on its financial statements. Complete financial information can be obtained from:

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



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

D. Related Organization

Sand Hill River Watershed District

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

7. Mahnomen Health Center

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

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

Reporting Entity

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

**MAHNOMEN COUNTY  
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7. Mahnomen Health Center

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

Reporting Entity (Continued)

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

Enterprise Fund Accounting

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

Method of Accounting

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

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

Cash and Cash Equivalents

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

Patient and Resident Receivables, Net

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

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

**MAHNOMEN COUNTY  
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7. Mahnomen Health Center

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

Patient and Resident Receivables, Net (Continued)

Management considers historical write-off and recovery information in determining the estimated bad debt provision. At December 31, 2011, the allowance for doubtful accounts was approximately \$311,000. When all collection efforts have been exhausted, the account is written off against the related allowance.

Supplies

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

Capital Assets

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

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

Noncurrent Cash and Investments

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center

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

Investment in Joint Venture

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

Deferred Financing Costs, Net

Deferred financing costs as of December 31, 2011, 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 \$13,392 as of December 31, 2011.

Vacation and Sick

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

Net Assets

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center

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

Net Patient and Resident Service Revenue

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

Charity Care

To fulfill its mission of community service, the Health Center provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue. Charges foregone for charity care were approximately \$5,000 for the year ended December 31, 2011.

Operating Revenues and Expenses

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center

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

Grants and Contributions

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

Advertising Costs

The Health Center expenses advertising costs as they are incurred.

Other Postemployment Benefits

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center (Continued)

B. Net Patient and Resident Service Revenue

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

Medicare

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

Medicaid

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

Blue Cross

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

Nursing Home Medicare

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



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Nursing Home Medicaid

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

Other Payors

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

Revenue from Medicare and Medicaid programs accounted for approximately 40 percent and 22 percent, respectively, of the Health Center's net patient revenue for the year ended December 31, 2011.

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, 2011, net patient service revenue increased approximately \$29,000 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**

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7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Patient and resident service revenue and contractual adjustments for the year ended December 31, 2011, are as follows:

Total patient service revenue	\$ 10,947,736
Contractual adjustments	
Medicare	\$ (1,637,536)
Medicaid	(1,426,109)
Indian Health Service	(184,564)
Other	(370,376)
Provision for bad debts	(235,045)
Total contractual adjustments	\$ (3,853,630)
Net Patient and Resident Service Revenue	\$ 7,094,106

C. Noncurrent Cash and Investments

Deposits

Custodial Credit Risk

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

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center

C. Noncurrent Cash and Investments

Deposits

Custodial Credit Risk (Continued)

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

The Health Center's deposits in banks at December 31, 2011, were covered by federal depository insurance or by collateral held by the Health Center's custodial bank in the Health Center's name.

Interest Rate Risk

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

Noncurrent cash and investments consist of certificates of deposit. The Health Center has no investments as of December 31, 2011. All of the Health Center's deposits are insured or registered in the Health Center's name and held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

D. Accounts Receivable

Patient and resident receivables reported as current assets by the Health Center at December 31, 2011, consist of these amounts:

Receivables from patients and their insurance carriers	\$ 621,015
Receivable from Medicare	372,139
Receivable from Medicaid	<u>410,437</u>
 Total patient and resident receivables	 \$ 1,403,591
 Less: allowance for uncollectible amounts	 <u>(311,000)</u>
 Total Patient and Resident Receivables, Net	 <u>\$ 1,092,591</u>

E. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2011, are as follows:

	Balance December 31, 2010	Additions	Retirements/ Transfers	Balance December 31, 2011
Land	\$ 36,729	\$ 7,500	\$ -	\$ 44,229
Land improvements	281,318	-	-	281,318
Buildings	4,964,917	102,164	33,952	5,101,033
Movable equipment	4,171,363	83,849	69,416	4,324,628
Construction in progress	<u>82,756</u>	<u>76,017</u>	<u>(103,368)</u>	<u>55,405</u>
 Totals at historical cost	 <u>\$ 9,537,083</u>	 <u>\$ 269,530</u>	 <u>\$ -</u>	 <u>\$ 9,806,613</u>
 Less: accumulated depreciation for				
Land improvements	\$ 93,830	\$ 14,485	\$ -	\$ 108,315
Buildings	2,236,114	230,016	-	2,466,130
Movable equipment	<u>2,973,738</u>	<u>258,792</u>	<u>-</u>	<u>3,232,530</u>
 Total accumulated depreciation	 <u>\$ 5,303,682</u>	 <u>\$ 503,293</u>	 <u>\$ -</u>	 <u>\$ 5,806,975</u>
 Capital Assets, Net	 <u>\$ 4,233,401</u>	 <u>\$ (233,763)</u>	 <u>\$ -</u>	 <u>\$ 3,999,638</u>

Construction in progress at December 31, 2011, consists of costs to replace the air handling system. Total estimated cost of the project is approximately \$60,000 and will be funded through internal funds.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

F. Long-Term Debt

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

Movable equipment	\$ 36,195
Less: accumulated depreciation	<u>(24,516)</u>
Total Capital Assets, Net	<u>\$ 11,679</u>

Long-term debt as of December 31, 2011, consists of the following:

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
2007 gross revenue bond <sup>1</sup>	\$ 1,060,000	\$ -	\$ 110,000	\$ 950,000
Capital lease obligations	<u>19,634</u>	<u>-</u>	<u>6,868</u>	<u>12,766</u>
Total long-term debt	<u>\$ 1,079,634</u>	<u>\$ -</u>	<u>\$ 116,868</u>	\$ 962,766
Less: current maturities				<u>(127,435)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 835,331</u>

<sup>1</sup>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, 2011:

Year Ending December 31	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2012	\$ 120,000	\$ 40,940	\$ 7,435	\$ 713
2013	125,000	35,305	1,805	363
2014	130,000	29,440	1,955	213
2015	135,000	23,345	1,571	53
2016	140,000	17,020	-	-
Thereafter	<u>300,000</u>	<u>14,030</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 950,000</u>	<u>\$ 160,080</u>	<u>\$ 12,766</u>	<u>\$ 1,342</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center (Continued)

G. Investment in Joint Venture

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

CMDI provides the equipment for CT scans for the Health Center's patients. The Health Center billed and collected the revenue for these services to patients and paid CMDI \$248,400 in 2011 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2011, amounted to \$19,200. At December 31, 2011, the Health Center owned 0.68 percent of CMDI.

Summarized financial information from the financial statements of CMDI at December 31, 2011, and for the year then ended, is presented below:

Total Assets	<u>\$ 51,393,217</u>
Total Liabilities	\$ 10,336,896
Members' equity	
Retained earnings	<u>41,056,321</u>
Total Liabilities and Members' Equity	<u>\$ 51,393,217</u>
Total Operating Revenue	<u>\$ 42,755,902</u>
Net Income	<u>\$ 20,068,574</u>

H. Defined Benefit Pension Plan

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center

H. Defined Benefit Pension Plan (Continued)

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

Funding Policy

Plan members are required to contribute 6.25 percent of the annual covered salary, and the Health Center is required to contribute at an actuarially determined rate. The Health Center's current rate is 7.25 percent of annual covered payroll. The contribution requirements of plan members and the Health Center are established and may be amended by state statute. The Health Center's contributions, equal to the required contributions, to the General Employees Retirement Fund for the year ended December 31, 2011, were \$205,461. The Health Center's contributions were equal to the contractually required contributions for each year as set by state statute.

I. Concentrations of Credit Risk

The Health Center grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2011, was as follows:

Medicare	21%
Blue Cross	7
Medicaid	23
Commercial insurance	14
Other third-party payors, patients, and residents	<u>35</u>
Total	<u>100%</u>

J. Restricted Expendable Net Assets

Restricted, expendable net assets are available for the following purposes as of December 31, 2011:

Expendable for operations	<u>\$ 41,428</u>
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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center (Continued)

K. Related-Party Transactions

In 2009, the County issued \$560,000 of General Obligation Nursing Home Refunding Bonds, Series 2009A, to currently refund the General Obligation Nursing Home Reserve Bonds, Series 1999. This current refunding was undertaken to reduce the total debt service payments over the next six years by \$34,689 and resulted in an economic gain of \$31,519. The refunded bonds were retired in March 2009. The County made a principal payment of \$550,000 and an interest payment of \$20,629 for the year ended December 31, 2009, related to the Series 1999 bonds. The County made a principal payment of \$90,000 for the year ended December 31, 2011, and made an interest payment of \$11,280 related to the Series 2009A bonds for the year ended December 31, 2011.

L. Management Service Agreement

The Health Center has a management service agreement with Sanford Health (formerly Meritcare), a nonprofit corporation (Manager). The Manager has the full authority to implement and fulfill the policy decisions of the Hospital Board. Total management fee expense for the year ended December 31, 2011, was \$188,549. Accounts payable to Sanford Health for these services at December 31, 2011, were \$27,550.

M. Commitments and Contingencies

Malpractice Claims

The Health Center's malpractice insurance is a claims-made policy subject to a limit of \$1.5 million per claim and an annual aggregate limit of \$5.0 million. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

Litigation, Claims, and Other Disputes

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



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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7. Mahnomen Health Center

M. 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**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,644,888	\$ 2,644,888	\$ 2,463,311	\$ (181,577)
Licenses and permits	5,950	5,950	9,525	3,575
Intergovernmental	2,124,717	2,124,717	2,172,447	47,730
Charges for services	184,643	184,643	221,071	36,428
Fines and forfeits	14,000	14,000	13,376	(624)
Gifts and contributions	1,000	1,000	1,214	214
Investment earnings	60,450	60,450	43,418	(17,032)
Miscellaneous	62,651	62,651	171,788	109,137
<b>Total Revenues</b>	<b>\$ 5,098,299</b>	<b>\$ 5,098,299</b>	<b>\$ 5,096,150</b>	<b>\$ (2,149)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 196,936	\$ 196,936	\$ 171,936	\$ 25,000
Courts	20,000	20,000	41,909	(21,909)
County auditor	230,388	230,388	227,600	2,788
License bureau	80,833	80,833	71,266	9,567
County treasurer	140,838	140,838	113,426	27,412
County assessor	155,123	155,123	147,539	7,584
Elections	4,475	4,475	6,707	(2,232)
Accounting and auditing	55,000	55,000	68,191	(13,191)
Data processing	177,054	177,054	151,401	25,653
Attorney	398,096	398,096	376,504	21,592
Contracted legal services	50,000	50,000	5,952	44,048
Law library	17,000	17,000	7,354	9,646
Recorder	107,090	107,090	97,781	9,309
Planning and zoning	25,270	25,270	25,636	(366)
Buildings and plant	217,820	217,820	228,526	(10,706)
Veterans service officer	23,995	23,995	23,595	400
Unallocated	175,650	175,650	147,720	27,930
<b>Total general government</b>	<b>\$ 2,075,568</b>	<b>\$ 2,075,568</b>	<b>\$ 1,913,043</b>	<b>\$ 162,525</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 2,016,023	\$ 2,016,023	\$ 2,022,477	\$ (6,454)
Boat and water safety	2,574	2,574	1,953	621
Emergency services	30,525	30,525	75,190	(44,665)
Coroner	14,500	14,500	11,871	2,629
E-911 system	75,928	75,928	54,138	21,790
Victim assistance	64,057	64,057	68,527	(4,470)
Probation and parole	132,964	132,964	133,923	(959)
County safety program	13,757	13,757	7,688	6,069
Snowmobile safety	9,545	9,545	2,841	6,704
<b>Total public safety</b>	<b>\$ 2,359,873</b>	<b>\$ 2,359,873</b>	<b>\$ 2,378,608</b>	<b>\$ (18,735)</b>
<b>Health</b>				
Nursing service	\$ 62,982	\$ 62,982	\$ 62,982	\$ -
Health	-	-	407	(407)
Health Center	-	-	47,714	(47,714)
<b>Total health</b>	<b>\$ 62,982</b>	<b>\$ 62,982</b>	<b>\$ 111,103</b>	<b>\$ (48,121)</b>
<b>Culture and recreation</b>				
Parks	\$ 200	\$ 200	\$ -	\$ 200
County/regional library	32,875	32,875	32,875	-
Snowmobile trails	92,700	92,700	129,063	(36,363)
<b>Total culture and recreation</b>	<b>\$ 125,775</b>	<b>\$ 125,775</b>	<b>\$ 161,938</b>	<b>\$ (36,163)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 73,356	\$ 73,356	\$ 72,959	\$ 397
Soil and water conservation	52,912	52,912	53,058	(146)
Agricultural inspections	10,024	10,024	5,528	4,496
Agricultural society/County fair	5,500	5,500	5,500	-
Predator control	500	500	446	54
Water planning	16,728	16,728	16,994	(266)
<b>Total conservation of natural resources</b>	<b>\$ 159,020</b>	<b>\$ 159,020</b>	<b>\$ 154,485</b>	<b>\$ 4,535</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT A-1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Economic development</b>				
Housing authority	\$ -	\$ -	\$ 44,991	\$ (44,991)
Airport	326,073	326,073	81,879	244,194
<b>Total economic development</b>	<b>\$ 326,073</b>	<b>\$ 326,073</b>	<b>\$ 126,870</b>	<b>\$ 199,203</b>
<b>Debt service</b>				
Principal	\$ 8,300	\$ 8,300	\$ 11,513	\$ (3,213)
Interest	4,200	4,200	4,296	(96)
Administrative (fiscal) changes	-	-	26	(26)
<b>Total debt service</b>	<b>\$ 12,500</b>	<b>\$ 12,500</b>	<b>\$ 15,835</b>	<b>\$ (3,335)</b>
<b>Total Expenditures</b>	<b>\$ 5,121,791</b>	<b>\$ 5,121,791</b>	<b>\$ 4,861,882</b>	<b>\$ 259,909</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ (23,492)	\$ (23,492)	\$ 234,268	\$ 257,760
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	6,812	6,812
<b>Net Change in Fund Balance</b>	<b>\$ (23,492)</b>	<b>\$ (23,492)</b>	<b>\$ 241,080</b>	<b>\$ 264,572</b>
<b>Fund Balance - January 1</b>	<b>2,317,172</b>	<b>2,317,172</b>	<b>2,317,172</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,293,680</b>	<b>\$ 2,293,680</b>	<b>\$ 2,558,252</b>	<b>\$ 264,572</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 487,161	\$ 487,161	\$ 447,878	\$ (39,283)
Special assessments	5,000	5,000	5,203	203
Intergovernmental	2,413,685	2,413,685	2,673,994	260,309
Charges for services	50,000	50,000	90,209	40,209
Miscellaneous	-	-	62,621	62,621
<b>Total Revenues</b>	<b>\$ 2,955,846</b>	<b>\$ 2,955,846</b>	<b>\$ 3,279,905</b>	<b>\$ 324,059</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 358,263	\$ 358,263	\$ 196,025	\$ 162,238
Maintenance	803,594	803,594	1,167,907	(364,313)
Construction	1,806,829	1,806,829	1,729,101	77,728
Equipment maintenance and shop	231,375	231,375	212,832	18,543
Materials and services for resale	53,445	53,445	44,998	8,447
<b>Total highways and streets</b>	<b>\$ 3,253,506</b>	<b>\$ 3,253,506</b>	<b>\$ 3,350,863</b>	<b>\$ (97,357)</b>
<b>Intergovernmental</b>	<b>\$ 114,005</b>	<b>\$ 114,005</b>	<b>\$ 123,661</b>	<b>\$ (9,656)</b>
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 2,766	\$ (2,766)
Interest	-	-	120	(120)
<b>Total debt service</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,886</b>	<b>\$ (2,886)</b>
<b>Total Expenditures</b>	<b>\$ 3,367,511</b>	<b>\$ 3,367,511</b>	<b>\$ 3,477,410</b>	<b>\$ (109,899)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (411,665)</b>	<b>\$ (411,665)</b>	<b>\$ (197,505)</b>	<b>\$ 214,160</b>
<b>Fund Balance - January 1</b>	<b>1,235,304</b>	<b>1,235,304</b>	<b>1,235,304</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>4,996</b>	<b>4,996</b>
<b>Fund Balance - December 31</b>	<b>\$ 823,639</b>	<b>\$ 823,639</b>	<b>\$ 1,042,795</b>	<b>\$ 219,156</b>



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 857,451	\$ 857,451	\$ 788,783	\$ (68,668)
Intergovernmental	1,419,592	1,419,592	1,539,712	120,120
Charges for services	172,895	172,895	165,334	(7,561)
Miscellaneous	28,000	28,000	212,254	184,254
<b>Total Revenues</b>	<b>\$ 2,477,938</b>	<b>\$ 2,477,938</b>	<b>\$ 2,706,083</b>	<b>\$ 228,145</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 912,643	\$ 912,643	\$ 830,609	\$ 82,034
Social services	1,390,295	1,390,295	1,319,539	70,756
Transportation	175,000	175,000	210,117	(35,117)
<b>Total Expenditures</b>	<b>\$ 2,477,938</b>	<b>\$ 2,477,938</b>	<b>\$ 2,360,265</b>	<b>\$ 117,673</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 345,818</b>	<b>\$ 345,818</b>
<b>Fund Balance - January 1</b>	<b>737,092</b>	<b>737,092</b>	<b>737,092</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 737,092</b>	<b>\$ 737,092</b>	<b>\$ 1,082,910</b>	<b>\$ 345,818</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

***EXHIBIT A-4***

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$1,914,577	\$1,914,577	0.0%	\$3,323,915	57.6%

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no budgetary amendments.

2. Excess of Expenditures Over Budget

The following is a summary of individual major funds that had expenditures in excess of budget for the year ended December 31, 2011.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Road and Bridge Special Revenue Fund	\$ 3,477,410	\$ 3,367,511	\$ 109,899

3. Other Postemployment Benefits Funded Status

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

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

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**SUPPLEMENTARY INFORMATION**

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

**SPECIAL REVENUE FUNDS**

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

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

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

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

**DEBT SERVICE FUNDS**

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

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

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT B-1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2011**

	<u>Special Revenue (Exhibit B-3)</u>	<u>Debt Service (Exhibit B-5)</u>	<u>Total (Exhibit 3)</u>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 628,749	\$ 257,767	\$ 886,516
Undistributed cash in agency funds	2,877	1,523	4,400
Taxes receivable			
Current - net	-	1,747	1,747
Prior - net	36	1,585	1,621
Special assessments receivable			
Current - net	11,800	-	11,800
Prior - net	7,120	-	7,120
Noncurrent - net	40,500	-	40,500
Accounts receivable	1,740	-	1,740
Accrued interest receivable	-	18	18
Due from other governments	2,642	-	2,642
<b>Noncurrent assets</b>			
Long-term receivables	-	88,425	88,425
<b>Total Assets</b>	<b><u>\$ 695,464</u></b>	<b><u>\$ 351,065</u></b>	<b><u>\$ 1,046,529</u></b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 5,934	\$ -	\$ 5,934
Salaries payable	1,877	-	1,877
Due to other funds	8,767	-	8,767
Due to other governments	14,785	-	14,785
Deferred revenue - unavailable	50,594	2,475	53,069
<b>Total Liabilities</b>	<b><u>\$ 81,957</u></b>	<b><u>\$ 2,475</u></b>	<b><u>\$ 84,432</u></b>
<b>Fund Balances</b>			
Restricted for			
Debt service	\$ -	\$ 348,590	\$ 348,590
SCORE	38,315	-	38,315
Ditch maintenance and construction	279,405	-	279,405
Assigned to			
Solid waste	184,517	-	184,517
Hospital reserve	111,270	-	111,270
<b>Total Fund Balances</b>	<b><u>\$ 613,507</u></b>	<b><u>\$ 348,590</u></b>	<b><u>\$ 962,097</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 695,464</u></b>	<b><u>\$ 351,065</u></b>	<b><u>\$ 1,046,529</u></b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Special Revenue (Exhibit B-4)</b>	<b>Debt Service (Exhibit B-6)</b>	<b>Total (Exhibit 5)</b>
<b>Revenues</b>			
Taxes	\$ 118	\$ 75,644	\$ 75,762
Special assessments	142,281	-	142,281
Intergovernmental	72,579	180,419	252,998
Charges for services	12,645	-	12,645
Investment earnings	-	292	292
Miscellaneous	9,449	-	9,449
	<b>\$ 237,072</b>	<b>\$ 256,355</b>	<b>\$ 493,427</b>
<b>Expenditures</b>			
<b>Current</b>			
Sanitation	\$ 257,415	\$ -	\$ 257,415
Conservation of natural resources	22,222	-	22,222
<b>Debt service</b>			
Principal	-	200,000	200,000
Interest	-	57,510	57,510
Administrative - fiscal charges	-	351	351
	<b>\$ 279,637</b>	<b>\$ 257,861</b>	<b>\$ 537,498</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (42,565)</b>	<b>\$ (1,506)</b>	<b>\$ (44,071)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers out	(6,812)	-	(6,812)
<b>Net Change in Fund Balance</b>	<b>\$ (49,377)</b>	<b>\$ (1,506)</b>	<b>\$ (50,883)</b>
<b>Fund Balance - January 1</b>	<b>662,884</b>	<b>350,096</b>	<b>1,012,980</b>
<b>Fund Balance - December 31</b>	<b>\$ 613,507</b>	<b>\$ 348,590</b>	<b>\$ 962,097</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-3*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
DECEMBER 31, 2011**

	<u>Solid Waste</u>	<u>Ditch</u>	<u>Hospital Reserve</u>	<u>Forfeited Tax Sale</u>	<u>Total (Exhibit B-1)</u>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 233,762	\$ 273,937	\$ 111,268	\$ 9,782	\$ 628,749
Undistributed cash in agency funds	2,105	772	-	-	2,877
Taxes receivable					
Prior - net	-	-	36	-	36
Special assessments receivable					
Current - net	5,483	6,317	-	-	11,800
Prior - net	7,088	32	-	-	7,120
Noncurrent - net	-	40,500	-	-	40,500
Accounts receivable	1,740	-	-	-	1,740
Due from other governments	2,642	-	-	-	2,642
<b>Total Assets</b>	<b>\$ 252,820</b>	<b>\$ 321,558</b>	<b>\$ 111,304</b>	<b>\$ 9,782</b>	<b>\$ 695,464</b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 5,934	\$ -	\$ -	\$ -	\$ 5,934
Salaries payable	1,877	-	-	-	1,877
Due to other funds	800	1,155	-	6,812	8,767
Due to other governments	11,719	96	-	2,970	14,785
Deferred revenue - unavailable	9,658	40,902	34	-	50,594
<b>Total Liabilities</b>	<b>\$ 29,988</b>	<b>\$ 42,153</b>	<b>\$ 34</b>	<b>\$ 9,782</b>	<b>\$ 81,957</b>
<b>Fund Balances</b>					
Restricted for					
SCORE	\$ 38,315	\$ -	\$ -	\$ -	\$ 38,315
Ditch maintenance and construction	-	279,405	-	-	279,405
Assigned to					
Solid waste	184,517	-	-	-	184,517
Hospital reserve	-	-	111,270	-	111,270
<b>Total Fund Balances</b>	<b>\$ 222,832</b>	<b>\$ 279,405</b>	<b>\$ 111,270</b>	<b>\$ -</b>	<b>\$ 613,507</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 252,820</b>	<b>\$ 321,558</b>	<b>\$ 111,304</b>	<b>\$ 9,782</b>	<b>\$ 695,464</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-4*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Solid Waste</u>	<u>Ditch</u>	<u>Hospital Reserve</u>	<u>Forfeited Tax Sale</u>	<u>Total (Exhibit B-2)</u>
<b>Revenues</b>					
Taxes	\$ 113	\$ -	\$ 5	\$ -	\$ 118
Special assessments	103,042	39,239	-	-	142,281
Intergovernmental	72,579	-	-	-	72,579
Charges for services	12,645	-	-	-	12,645
Miscellaneous	100	-	-	9,349	9,449
<b>Total Revenues</b>	<b>\$ 188,479</b>	<b>\$ 39,239</b>	<b>\$ 5</b>	<b>\$ 9,349</b>	<b>\$ 237,072</b>
<b>Expenditures</b>					
<b>Current</b>					
Sanitation	\$ 257,415	\$ -	\$ -	\$ -	\$ 257,415
Conservation of natural resources	-	19,685	-	2,537	22,222
<b>Total Expenditures</b>	<b>\$ 257,415</b>	<b>\$ 19,685</b>	<b>\$ -</b>	<b>\$ 2,537</b>	<b>\$ 279,637</b>
<b>Excess of Revenues Over (Under)</b>					
<b>Expenditures</b>	<b>\$ (68,936)</b>	<b>\$ 19,554</b>	<b>\$ 5</b>	<b>\$ 6,812</b>	<b>\$ (42,565)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers out	-	-	-	(6,812)	(6,812)
<b>Net Change in Fund Balance</b>	<b>\$ (68,936)</b>	<b>\$ 19,554</b>	<b>\$ 5</b>	<b>\$ -</b>	<b>\$ (49,377)</b>
<b>Fund Balance - January 1</b>	<b>291,768</b>	<b>259,851</b>	<b>111,265</b>	<b>-</b>	<b>662,884</b>
<b>Fund Balance - December 31</b>	<b>\$ 222,832</b>	<b>\$ 279,405</b>	<b>\$ 111,270</b>	<b>\$ -</b>	<b>\$ 613,507</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-5*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DEBT SERVICE FUNDS  
DECEMBER 31, 2011**

	<b>Nursing Home Revenue Bonds</b>	<b>Mahnomen Health Center Bonds</b>	<b>Total (Exhibit B-1)</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 105,821	\$ 151,946	\$ 257,767
Undistributed cash in agency funds	1,523	-	1,523
Taxes receivable			
Current - net	1,747	-	1,747
Prior - net	1,585	-	1,585
Accrued interest receivable	-	18	18
<b>Noncurrent assets</b>			
Long-term receivables	88,425	-	88,425
<b>Total Assets</b>	<b>\$ 199,101</b>	<b>\$ 151,964</b>	<b>\$ 351,065</b>
 <b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Deferred revenue - unavailable	\$ 2,475	\$ -	\$ 2,475
<b>Fund Balances</b>			
Restricted for			
Debt service	196,626	151,964	348,590
<b>Total Liabilities and Fund Balances</b>	<b>\$ 199,101</b>	<b>\$ 151,964</b>	<b>\$ 351,065</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-6*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
DEBT SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Nursing Home Revenue Bonds</b>	<b>Mahnomen Health Center Bonds</b>	<b>Total (Exhibit B-2)</b>
<b>Revenues</b>			
Taxes	\$ 75,644	\$ -	\$ 75,644
Intergovernmental	3,729	176,690	180,419
Investment earnings	-	292	292
	<b>\$ 79,373</b>	<b>\$ 176,982</b>	<b>\$ 256,355</b>
<b>Expenditures</b>			
<b>Debt service</b>			
Principal	\$ 90,000	\$ 110,000	\$ 200,000
Interest	11,280	46,230	57,510
Administrative - fiscal charges	351	-	351
	<b>\$ 101,631</b>	<b>\$ 156,230</b>	<b>\$ 257,861</b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures</b>	<b>\$ (22,258)</b>	<b>\$ 20,752</b>	<b>\$ (1,506)</b>
<b>Fund Balance - January 1</b>	<b>218,884</b>	<b>131,212</b>	<b>350,096</b>
<b>Fund Balance - December 31</b>	<b>\$ 196,626</b>	<b>\$ 151,964</b>	<b>\$ 348,590</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-7*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 113	\$ 113
Special assessments	100,000	100,000	103,042	3,042
Intergovernmental	69,938	69,938	72,579	2,641
Charges for services	5,000	5,000	12,645	7,645
Miscellaneous	100	100	100	-
	<u>175,038</u>	<u>175,038</u>	<u>188,479</u>	<u>13,441</u>
<b>Total Revenues</b>	<b>\$ 175,038</b>	<b>\$ 175,038</b>	<b>\$ 188,479</b>	<b>\$ 13,441</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	265,760	265,760	257,415	8,345
	<u>265,760</u>	<u>265,760</u>	<u>257,415</u>	<u>8,345</u>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (90,722)</b>	<b>\$ (90,722)</b>	<b>\$ (68,936)</b>	<b>\$ 21,786</b>
<b>Fund Balance - January 1</b>	<b>291,768</b>	<b>291,768</b>	<b>291,768</b>	<b>-</b>
	<u>291,768</u>	<u>291,768</u>	<u>291,768</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<b>\$ 201,046</b>	<b>\$ 201,046</b>	<b>\$ 222,832</b>	<b>\$ 21,786</b>
	<u>201,046</u>	<u>201,046</u>	<u>222,832</u>	<u>21,786</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-8*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 40,500	\$ 40,500	\$ 39,239	\$ (1,261)
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Drainage ditches	40,500	40,500	19,685	20,815
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ 19,554	\$ 19,554
<b>Fund Balance - January 1</b>	<u>259,851</u>	<u>259,851</u>	<u>259,851</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 259,851</u>	<u>\$ 259,851</u>	<u>\$ 279,405</u>	<u>\$ 19,554</u>



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-9*

**BUDGETARY COMPARISON SCHEDULE  
NURSING HOME REVENUE BONDS DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 82,212	\$ 82,212	\$ 75,644	\$ (6,568)
Intergovernmental	-	-	3,729	3,729
<b>Total Revenues</b>	<b>\$ 82,212</b>	<b>\$ 82,212</b>	<b>\$ 79,373</b>	<b>\$ (2,839)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 70,200	\$ 70,200	\$ 90,000	\$ (19,800)
Interest	8,798	8,798	11,280	(2,482)
Administrative - fiscal charges	-	-	351	(351)
<b>Total Expenditures</b>	<b>\$ 78,998</b>	<b>\$ 78,998</b>	<b>\$ 101,631</b>	<b>\$ (22,633)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 3,214</b>	<b>\$ 3,214</b>	<b>\$ (22,258)</b>	<b>\$ (25,472)</b>
<b>Fund Balance - January 1</b>	<b>218,884</b>	<b>218,884</b>	<b>218,884</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 222,098</b>	<b>\$ 222,098</b>	<b>\$ 196,626</b>	<b>\$ (25,472)</b>

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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

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

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

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

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

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

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>HEADWATERS COMMISSION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 11,524	\$ 11,524	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 11,524	\$ 11,524	\$ -
 <b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 913,114	\$ 913,114	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 913,114	\$ 913,114	\$ -
 <b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,084	\$ 336,875	\$ 336,911	\$ 1,048
Accounts receivable	989	5,234	5,457	766
<b>Total Assets</b>	<b>\$ 2,073</b>	<b>\$ 342,109</b>	<b>\$ 342,368</b>	<b>\$ 1,814</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 2,073	\$ 342,109	\$ 342,368	\$ 1,814

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 60,911</u>	<u>\$ 6,256,714</u>	<u>\$ 6,271,179</u>	<u>\$ 46,446</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 60,911</u>	<u>\$ 6,256,714</u>	<u>\$ 6,271,179</u>	<u>\$ 46,446</u>
 <b><u>TOWNSHIPS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 2,355</u>	<u>\$ 876,960</u>	<u>\$ 875,358</u>	<u>\$ 3,957</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ 2,355</u>	<u>\$ 876,960</u>	<u>\$ 875,358</u>	<u>\$ 3,957</u>
 <b><u>WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ -</u>	<u>\$ 282,969</u>	<u>\$ 282,969</u>	<u>\$ -</u>
<b><u>Liabilities</u></b>				
Due to other governments	<u>\$ -</u>	<u>\$ 282,969</u>	<u>\$ 282,969</u>	<u>\$ -</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>ADVANCED LIFE SUPPORT</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 52,254	\$ 52,254	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 52,254	\$ 52,254	\$ -
 <b><u>CAFETERIA PLAN</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 3,238	\$ 6,735	\$ 6,597	\$ 3,376
<b><u>Liabilities</u></b>				
Due to other governments	\$ 3,238	\$ 6,735	\$ 6,597	\$ 3,376
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 67,588	\$ 8,737,145	\$ 8,749,906	\$ 54,827
Accounts receivable	989	5,234	5,457	766
<b>Total Assets</b>	<b>\$ 68,577</b>	<b>\$ 8,742,379</b>	<b>\$ 8,755,363</b>	<b>\$ 55,593</b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 68,577	\$ 8,742,379	\$ 8,755,363	\$ 55,593

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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

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

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major programs are:

Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for Temporary Assistance for Needy Families State Program - ARRA	CFDA #93.714
Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778

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

Mahnomen County qualified as low-risk auditee? **No**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 96-4 Segregation of Duties

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

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

**Context:** This is not unusual in operations the size of Mahanomen County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

**Cause:** The size of Mahanomen County and its staffing limits the internal control that management can design and implement into the organization.

**Recommendation:** We recommend Mahanomen County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

*While understanding that implementation of "Segregation of Duties" is not a cost effective practice for the taxpayers of the County, the Department Heads are aware of the incompatible duties and will continue to be mindful and to monitor the operations of their respective offices to ensure that cash, reporting, receivables and other items are maintained currently and correctly. The Auditor's and Treasurer's Office 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.*

08-1 Documenting and Monitoring Internal Controls

**Criteria:** Management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

**Condition:** Mahanomen County maintains narratives to document the controls in place over its significant transaction cycles; however, there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure.

**Context:** Local governments tend to establish controls but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time. Mahanomen County has started addressing this issue with the establishment of a committee to assess risks, review controls in place to reduce those risks, and make suggestions for improvements in policies and procedures as necessary; however, it is still in the early stages of the process at the time of this report.

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

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

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

Client's Response:

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

10-2 Departmental Control Procedures

**Criteria:** Bank statements should be routinely reconciled with the cash balances recorded in the books of the account. Deposits should match amounts collected and receipted. Checks should be restrictively endorsed at the time of collection. A periodic inventory of the Sheriff's Department evidence room will ensure that all recorded items are still in custody. A system should be in place to ensure expenditures reported for grant reimbursements have not been funded from another source.

**Condition:** During our audit of the Sheriff's and License Center Departments, we noted several weaknesses in departmental control procedures. They are as follows:

- Bank reconciliations are not maintained current and/or have unexplained differences for the Sheriff's and License Center Departments.
- The License Center did not take into consideration a voided receipt and remitted \$4.50 more in DNR fee receipts to the County than it collected in May 2011.
- During our cash count in the Sheriff's Department, we noted that two of the four checks on hand were not restrictively endorsed. One of the checks was for \$100; the other one was for \$2,535.
- The Sheriff's Department does not maintain a detailed listing or do a periodic inventory of the items held in the evidence room. In 2011, the Sheriff noted that they have cleaned out the evidence room and are in the process of establishing a system to monitor evidence inventory.

- The Sheriff's Department used the same 2010 invoice to report expenditures for equipment purchases as eligible E-911 grant expenditures and as expenditures for a federal grant reimbursement under CFDA No. 11.555 that was passed through the Headwaters Regional Development Commission in 2011. The total invoice amount of \$8,145 was reported as E-911 expenditures, and \$6,516 of the items included on the invoice was also reported to the Headwaters Regional Development Commission. Eligible grant expenditures can be funded from only one source.

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

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

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

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

The Office of the State Auditor has a Statement of Position 2007-1010 which discusses the importance of internal controls. It can be found on our website, [http://www.auditor.state.mn.us/other/Statements/importanceic\\_0703\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/importanceic_0703_statement.pdf), along with other useful information, and may offer additional guidance.

Client's Response:

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

## PREVIOUSLY REPORTED ITEMS RESOLVED

### **Preparation of Financial Statements (06-2)**

The County needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

#### **Resolution**

The County provides a general ledger, accruals, a GASB 34 Audit List, and other supporting schedules necessary for preparing fund level and government-wide financial statements. The County has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

### **Audit Adjustment (06-3)**

During the 2010 audit, we identified an adjustment in the General Fund to reclassify \$280,976 of miscellaneous revenue from the sale of a radio tower incorrectly posted to the general ledger as intergovernmental revenue - state grants.

#### **Resolution**

No material audit adjustments were necessary during the 2011 audit.

### **Preparation of the Schedule of Expenditures of Federal Awards (10-1)**

The County needed to improve its system of identifying federal award information to facilitate preparation of the Schedule of Expenditures of Federal Awards (SEFA).

#### **Resolution**

The County has improved its system of identifying federal award information to provide sufficient information for the preparation of the SEFA.

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

### ITEMS ARISING THIS YEAR

#### 11-1 Review Over Eligibility Intake Function

**Programs:** Temporary Assistance for Needy Families Cluster (TANF Cluster) (CFDA No. 93.558 and No. 93.714) and Medical Assistance (MA) (CFDA No. 93.778)

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

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

**Questioned Costs:** None.

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

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

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

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

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Shelly Brunner*

Corrective Action Planned:

*To conduct random case reviews and document the reviews.*

Anticipated Completion Date:

*September 2012*

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

**Programs:** Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), Child Support Enforcement (CFDA No. 93.563), and Medical Assistance (MA) (CFDA No. 93.778)

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

**Condition:** During our testing of controls over TANF, Child Support Enforcement, and MA, we noted no documented review process of reporting.

**Questioned Costs:** None.

**Context:** A County employee enters ACCESS expenditures in the State MN-ITS system, at least monthly, to claim reimbursement. Although the information entered into the MN-ITS system is generated from a list of bills approved by the Director and the Board, there is no documentation of a Director review to ensure the system reconciles to that approved list of bills. The DHS 2550 and 2556 reports provide a signature space for the preparer and a signature space for the County Financial Official or Human Services Director. The Fiscal Officer has been signing the reports in both places, with the exception of quarter one and quarter two of DHS 2556.

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

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

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

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Janell Soyring*

Corrective Action Planned:

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

Anticipated Completion Date:

*August 31, 2012*



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

**Programs:** Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), Child Support Enforcement (CFDA No. 93.563), and Medical Assistance (MA) (CFDA No. 93.778)

**Criteria:** The Minnesota Department of Human Services (DHS) provides guidance on the completion of the Income Maintenance DHS 2550 and Social Services DHS 2556 reports through various bulletins. DHS bulletin no. 10-32-15 provides guidance on the preparation and submission of reports and requires the Social Services DHS 2556 report be submitted within 20 days after quarter's end. Instructions for preparing the quarterly DHS 2550 reports are included in DHS bulletin no. 11-32-02, which provides that costs reported in Section A of DHS 2550 are the "direct costs associated with staff that are required to participate in the Income Maintenance Random Moment Time Study (IMRMS)." DHS bulletin no. 11-32-07 provides the IMRMS Operational Procedures which require that the IMRMS Coordinator in the County identify Income Maintenance employees as participants in the IMRMS time study and update the IMRMS employee data base quarterly. The coordinators must print out copies of the employee data base each quarter, retain a copy for their file, and provide a copy for the Fiscal Supervisor. This will ensure that the participant list is readily available for verification and will assist the Fiscal Officer when completing the quarterly Income Maintenance cost report.

**Condition:** During our review of the Income Maintenance DHS 2550 and Social Services DHS 2556 reporting, the following items were noted:

- Three of the Social Services DHS 2556 quarterly reports were not submitted timely.
- For three of the four quarterly Income Maintenance DHS 2550 reports, Income Maintenance employees were reported in the IMRMS Section A that were not reported to DHS as being included in the IMRMS. Only employees participating in the IMRMS should be reported in this section.
- The IMRMS Coordinator for Mahnommen County Human Services does not print and retain copies of the employee data base each quarter to document support for employees participating in the IMRMS.

**Questioned Costs:** None.

**Context:** The amount of federal administrative reimbursements through DHS for several programs is determined based on the reporting done through the quarterly Income Maintenance DHS 2550 and Social Services DHS 2556 reports.

**Effect:** Untimely reporting may cause delays in receiving federal administrative reimbursements. Reporting employees not approved for the IMRMS in the IMRMS Section A part of the quarterly Income Maintenance DHS 2550 report results in receiving an incorrect amount of federal administrative aid. Not maintaining documentation to verify employees participating in the IMRMS each quarter could result in classification errors in reporting on the Income Maintenance DHS 2550 report.

**Cause:** The Human Services Fiscal Officer noted that she has many responsibilities, making it difficult to complete everything timely and stay current with all the changes in reporting. There is no supervisor review process in place to ensure the reports are completed timely and correctly following the requirements spelled out in current DHS bulletins.

**Recommendation:** We recommend Mahnomen County submit its Social Services DHS 2556 quarterly reports timely. We further recommend Mahnomen County contact the Minnesota Department of Human Services to discuss the implications and any resolution of reporting employees in the IMRMS Section A part of the Income Maintenance DHS 2550 report that were not reported to DHS as being included in the IMRMS. Finally, we recommend the County print and retain copies of the IMRMS employee data base each quarter.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*The Human Services Fiscal Officer, Janell Soyring*

Corrective Action Planned:

*The reports will be turned in timely and the IMRMS worker list will be printed off quarterly. Workers not on the IMRMS will be removed from the 610 department code effective August 15, 2012.*

Anticipated Completion Date:

*August 15, 2012*

#### 11-4 Central Services Cost Allocation Plan

**Programs:** Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558), Child Support Enforcement (CFDA No. 93.563), and Medical Assistance (MA) (CFDA No. 93.778)

**Criteria:** Indirect costs allocated through the Central Services Cost Allocation Plan should be allowable costs in accordance with OMB Circular A-87. The costs and allocation bases reported in the Central Services Cost Allocation Plan should reconcile with County records.

**Condition:** During our testing of the Central Services Cost Allocation Plan, we were able to tie the indirect costs reported in the County's 2009 Account Activity Report and verify those costs as allowable costs in accordance with OMB Circular A-87; however, we could not verify the correctness of the allocation base information of the Auditor's Office accounting service because documentation of the source of that allocation base information was not retained. The accounting service allocation is based on the number of checks written. Using the County's Account Activity Report downloads, we noted significant differences in the check counts for 3 of the 20 allocations tested within the Auditor's Department. Allocations tested in two other departments were verified.

**Questioned Costs:** None.

**Context:** For Mahanomen County, the Cost Allocation Plan is primarily used for the recovery of indirect costs expended on behalf of programs of the U.S. Department of Health and Human Services including Temporary Assistance for Needy Families, Child Support Enforcement, and Medical Assistance. Mahanomen County hires the Government Management Group to compile information and produce a Cost Allocation Plan. The County Auditor certifies that the costs in the plan are allowable and allocable and that the indirect costs have not been claimed as direct costs, but does not review the report for accuracy.

**Effect:** We were unable to verify the correctness of the Auditor's Office accounting service allocation base information because documentation of the source of that allocation base information was not retained.

**Cause:** Source documentation was not retained by the Government Management Group or the County. The only potential source available was the Account Activity Report downloads, which did not agree with the number of checks used for the allocation base in the report.

**Recommendation:** The source documentation of data used to determine the allocation base should be retained.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Frank Thompson, County Auditor*

Corrective Action Planned:

*The County Auditor will review at random, the Government Management Group (GMG) accounting services allocation base information and retain the source documentation. The County's account activity downloads will also be further reviewed for accuracy.*

Anticipated Completion Date:

*October 1, 2012*

PREVIOUSLY REPORTED ITEM RESOLVED

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

During our testing of administrative aid for the Child Support Enforcement (CFDA No. 93.563) and Medical Assistance Program (CFDA No. 93.778) grants, we noted numerous errors in the amounts and categories of expenditures reported to the Minnesota Department of Human Services on the quarterly DHS 2550 and DHS 2556 reports. The errors resulted in reporting some expenditures in the wrong categories and net underreporting of IM expenses in the amount of \$24,665 for the first quarter, net underreporting of Income Maintenance expenses in the amount of \$201 for the second quarter, underreporting of IM expenditures in the amount of \$1,392 for the third quarter, as well as a net underreporting of SSTS expenditures of \$3,195 for the first quarter.

**Resolution**

The Human Services Fiscal Officer did not submit amended reports to the Minnesota Department of Human Services. The one-year time limit for filing amended reports has passed, so the County has missed out on its opportunity to potentially receive additional administrative aid funds related to the amounts underreported on the 2010 quarterly DHS 2550 and DHS 2556 reports.

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### MINNESOTA LEGAL COMPLIANCE

##### PREVIOUSLY REPORTED ITEM RESOLVED

###### **Contract Compliance (10-4)**

Mahnomen County paid Federal Signal Corporation, an out-of-state vendor, \$181,997 for the purchase and installation of weather alert signals. Documentation of Board approval of the contract with Federal Signal Corporation could not be located in the official minutes. Federal Signal Corporation was selected based on two quotes. This transaction was not in compliance with Minn. Stat. §§ 471.345, 375.21, 290.9705, and 270C.66.

###### **Resolution**

All contracts tested for 2011 are in compliance with Minn. Stat. §§ 471.345, 375.21, 290.9705, and 270C.66.

## **OTHER SCHEDULES**

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**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT D-1*

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
<b>Cash and Pooled Investments</b>				
Cash on hand	N/A	N/A	N/A	\$ 1,700
Interest-bearing checking	Six	0.05 to 0.40	Continuous	1,622,375
Passbook savings	One	0.10	Continuous	161,586
Certificates of deposit	Four	0.45 to 1.10	February 6, 2012 to October 13, 2012	88,242
Money market savings	Four	0.20 to 0.50	Continuous	2,272,754
Federal Home Loan Mortgage Corporation	Two	1.50	October 5, 2018 to December 29, 2021	600,471
Federal Home Loan Bank	Four	1.25 to 2.00	July 27, 2018 to September 9, 2021	850,175
<b>Total Cash and Pooled Investments</b>				<b><u>\$ 5,597,303</u></b>



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT D-2*

**BALANCE SHEET BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2011**

	<u>County Ditch No. 3</u>	<u>Joint Ditch No. 55</u>	<u>County Ditch No. 91-91A</u>	<u>Total</u>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 17,760	\$ 135,603	\$ 120,574	\$ 273,937
Undistributed cash in agency funds	123	-	649	772
Special assessments receivable				
Current - net	24	-	6,293	6,317
Prior - net	6	-	26	32
Noncurrent - net	3,000	7,500	30,000	40,500
<b>Total Assets</b>	<b>\$ 20,913</b>	<b>\$ 143,103</b>	<b>\$ 157,542</b>	<b>\$ 321,558</b>
<b><u>Liabilities and Fund Balance</u></b>				
<b>Liabilities</b>				
Due to other funds	\$ -	\$ 84	\$ 1,071	\$ 1,155
Due to other governments	-	96	-	96
Deferred revenue - unavailable	2,996	7,500	30,406	40,902
<b>Total Liabilities</b>	<b>\$ 2,996</b>	<b>\$ 7,680</b>	<b>\$ 31,477</b>	<b>\$ 42,153</b>
<b>Fund Balance</b>				
Restricted				
Restricted for ditches	17,917	135,423	126,065	279,405
<b>Total Liabilities and Fund Balance</b>	<b>\$ 20,913</b>	<b>\$ 143,103</b>	<b>\$ 157,542</b>	<b>\$ 321,558</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT D-3**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Shared Revenue**

**State**

Highway users tax	\$	2,610,292
County program aid		632,982
PERA rate reimbursement		10,235
Disparity reduction aid		63,937
Police aid		81,489
Market value credit		176,267
Market value credit - mobile home		606
Indian casino aid		101,775
Property tax reimbursement - casino		450,000
		450,000

**Total shared revenue**

**\$ 4,127,583**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	206,802
		206,802

**Payments**

**Local**

Other contributions	\$	187,650
Local contributions		16,629
Payments in lieu of taxes		79,601
		79,601

**Total payments**

**\$ 283,880**

**Grants**

**State**

Minnesota Department/Board of		
Health	\$	3,000
Human Services		409,662
Veterans Affairs		1,892
Public Safety		125,528
Corrections		12,007
Natural Resources		131,312
Water and Soil Resources		51,124
Transportation		99,273
Secretary of State		540
Peace Officer Standards and Training Board		4,923
Pollution Control Agency		55,950
		55,950

**Total state**

**\$ 895,211**

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT D-3  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 86,429
Commerce	66,765
Justice	49,277
Transportation	127,896
Health and Human Services	734,318
Homeland Security	60,990

**Total federal** **\$ 1,125,675**

**Total state and federal grants** **\$ 2,020,886**

**Total Intergovernmental Revenue** **\$ 6,639,151**

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT D-4**

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants the Supplemental Nutrition Assistance Program (SNAP)	10.561	<b>\$ 86,429</b>
<b>U.S. Department of Commerce</b>		
Passed Through Minnesota Department of Public Safety and Headwaters Regional Development Commission Public Safety Interoperable Communications Grant Program	11.555	<b>\$ 66,765</b>
<b>U.S. Department of Justice</b>		
Direct Grant Public Safety Partnership and Community Policing Grants - ARRA	16.710	<b>\$ 49,277</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 18,984
Formula Grants for Other Than Urbanized Areas	20.509	53,900
		<b>\$ 72,884</b>
<b>Total U.S. Department of Transportation</b>		
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 27
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families (TANF)	93.558	160,907
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	7,757
Child Support Enforcement	93.563	160,233
Child Care and Development Cluster Child Care and Development Block Grant	93.575	2,289
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2,078
Stephanie Tubbs Jones Child Welfare Service Program	93.645	425
Foster Care - Title IV-E Cluster Foster Care - Title IV-E	93.658	55,640
Foster Care - Title IV-E - ARRA	93.658	1,217
Social Services Block Grant	93.667	79,434
Chafee Foster Care Independence Program	93.674	2,385
Children's Health Insurance Program	93.767	59
Medical Assistance Program	93.778	260,257
Block Grants for Community Mental Health Services	93.958	1,610
		<b>\$ 734,318</b>
<b>Total U.S. Department of Health and Human Services</b>		

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

***EXHIBIT D-4  
(Continued)***

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety and Northwest Regional Development Commission Homeland Security Grant Program	97.067	\$ 50,447
Passed Through Minnesota Department of Public Safety and Headwaters Regional Development Commission Homeland Security Grant Program	97.067	<u>5,623</u>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ <u>56,070</u></b>
<b>Total Federal Awards</b>		<b>\$ <u><u>1,065,743</u></u></b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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

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1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Mahnomen County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Mahnomen County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Mahnomen County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Temporary Assistance for Needy Families Cluster	\$	168,664
Child Care and Development Fund Cluster		4,367
Foster Care Title IV-E Cluster		56,857

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

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5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,125,675
Grants received more than 60 days after year-end, deferred in 2011	
Airport Improvement Program	24,328
Formula Grants for Other than Urbanized Areas	9,388
Grants deferred in 2010, recognized as revenue in 2011	
Airport Improvement Program	(72,136)
Formula Grants for Other than Urbanized Areas	(16,592)
Emergency Management Performance Grants	<u>(4,920)</u>
 Expenditures Per Schedule of Expenditures of Federal Awards	 <u>\$ 1,065,743</u>

6. Subrecipients

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

7. American Recovery and Reinvestment Act

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





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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  
Mahnomen County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 17, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Mahnomen Health Center, a discretely presented component unit, as described in our report on Mahnomen County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-4, 08-1, and 10-2, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

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

#### Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except we did not test for compliance in tax increment financing because Mahnomen County has no tax increment financing.

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

Mahnomen County's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 17, 2012

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REBECCA OTTO  
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# STATE OF MINNESOTA

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

Board of County Commissioners  
Mahnomen County

#### Compliance

We have audited Mahnomen County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Mahnomen County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Mahanomen County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and is described in the accompanying Schedule of Findings and Questioned Costs as item 11-3.

### Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies, as described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 through 11-4. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Mahanomen County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans 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 and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 17, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR