

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Year Ended December 31, 2004



**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
DECEMBER 31, 2004

		<u>Term Expires</u>
Elected		
Commissioners		
Chair	Wallace Eid	District I January 2005
Board Member	Jerry Dahl	District II January 2007
Vice Chair	John Peterick	District III January 2005
Board Member	Karen Ahmann	District IV January 2007
Board Member	Charles Pazdernik	District V January 2007
Attorney	Julie Bruggeman	January 2007
Auditor	Frank Thompson	January 2007
County Recorder	Susan Bendickson	January 2007
Registrar of Titles	Susan Bendickson	January 2007
County Sheriff	Bradley Athmann	January 2007
Treasurer	Brenda London	January 2007
Appointed		
Assessor	Les Finseth	December 2005
County Engineer	Jonathan Large	May 2009
Coroner	Ed LaDue, M.D.	Indefinite
Solid Waste Officer	Mark Diekman	Indefinite
Veteran Services Officer	Neil Toso	Indefinite
Social Services		
Board		
Chair	John Peterick	January 2005
Vice Chair	Jerry Dahl	January 2007
Secretary	Colleen Blattenbauer	July 2005
Member	Charles Pazdernik	January 2007
Member	Wallace Eid	January 2005
Member	Karen Ahmann	January 2007
Member	Theresa McCollum	July 2006
Director	Cindy Marihart	Indefinite

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

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, 2004, 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, which represent the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mahnomen Health Center, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Mahnomen Health Center were not audited in accordance with *Government Auditing Standards*. 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 the 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 for Mahnomen County as of December 31, 2004, 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 the notes to the financial statements, Mahnomen County adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in format and content of the basic financial statements.

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Mahnomen County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Mahnomen County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 a report dated June 15, 2005, on our consideration of Mahnomen County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report does not include the Mahnomen Health Center which was audited by other auditors.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(Unaudited)**

Introduction

Mahnomen County's Management's Discussion and Analysis (MD&A) provides an overview of County financial activities for the fiscal year ended December 31, 2004. Because fiscal year 2004 represents the first year in which Mahnomen County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34, this discussion and analysis provides only limited comparisons with the previous year. The MD&A is new and will now be presented at the front of each year's audited financial statements. Future reports will include significantly more comparable information. Since this information is designed to focus on the current year's activities, resulting changes, and currently 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 \$22,132,497, of which Mahnomen County has invested \$17,705,613 in capital assets, net of related debt, and \$840,861 is restricted to specific purposes/uses by the County.
- The net cost of Mahnomen County's governmental activities for the year ended December 31, 2004, was \$2,580,276. General property tax revenues and other revenue sources totaling \$3,661,575 funded the County's total net cost of \$2,580,276.
- Mahnomen County's governmental funds' fund balances increased by \$467,192.
- During the year ending December 31, 2004, Mahnomen County did not issue any new general obligation debt.

Overview of the Financial Statements

This discussion and analysis 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 interrelated.

Management’s Discussion and Analysis (New - Required Supplementary Information)

New Government-Wide Financial Statements	Refocused Fund Financial Statements
Notes to the Financial Statements (Changed and Expanded from Prior Year Reporting)	

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

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

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

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

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

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

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

Fund Financial Statements

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

- Governmental funds - The County’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Mahnomen County reports these funds in our 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 there are financial resources available that the County can spend in the near future to finance various programs within the County. Mahnomen County has described the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

Reporting the County’s Fiduciary Responsibilities

Mahnomen County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries, based on the trust arrangement. The County reports 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, 2004, were \$22,132,497. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets

	<u>Governmental Activities 2004</u>
Assets	
Current and other assets	\$ 5,992,878
Capital assets	<u>17,711,401</u>
Total Assets	<u>\$ 23,704,279</u>
Liabilities	
Long-term debt outstanding	\$ 864,990
Other liabilities	<u>706,792</u>
Total Liabilities	<u>\$ 1,571,782</u>
Net Assets	
Invested in capital assets - net of related debt	\$ 17,705,613
Restricted	840,861
Unrestricted	<u>3,586,023</u>
Total Net Assets	<u>\$ 22,132,497</u>

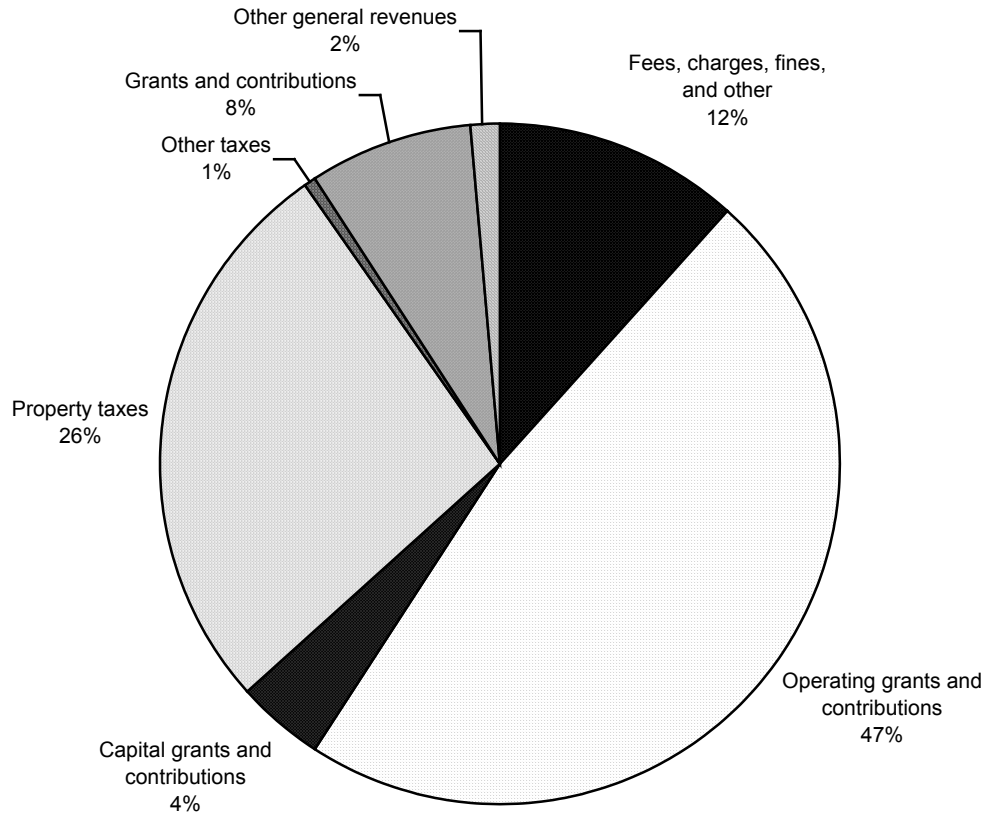
Unrestricted net assets totaling \$3,586,023 are available to Mahnomen County to finance day-to-day operations.

Table 2
Change in Net Assets

	<u>Governmental Activities 2004</u>
Revenues	
Program revenues	
Fees, charges, fines, and other	\$ 1,149,049
Operating grants and contributions	4,745,696
Capital grants and contributions	395,106
General revenues	
Property taxes	2,684,315
Other taxes	70,626
Grants and contributions	756,022
Other general revenues	<u>150,612</u>
Total Revenues	<u>\$ 9,951,426</u>
Expenditures	
Program expenses	
General government	\$ 1,433,283
Public safety	2,386,651
Highways and streets	2,067,438
Sanitation	236,567
Human services	2,128,758
Health	37,763
Culture and recreation	76,074
Conservation of natural resources	216,921
Economic development	249,249
Interest	<u>37,423</u>
Total Expenses	<u>\$ 8,870,127</u>
Change in Net Assets	\$ 1,081,299
Net Assets – Beginning	<u>21,051,198</u>
Net Assets – Ending	<u>\$ 22,132,497</u>

Mahnomen County's total revenues for the year ended December 31, 2004, were \$9,951,426. The total cost of County programs and services for the year ended December 31, 2004, was \$8,870,127. The net assets for governmental activities increased by \$1,081,299. The following pie chart depicts those revenues in seven categories.

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



Governmental Activities

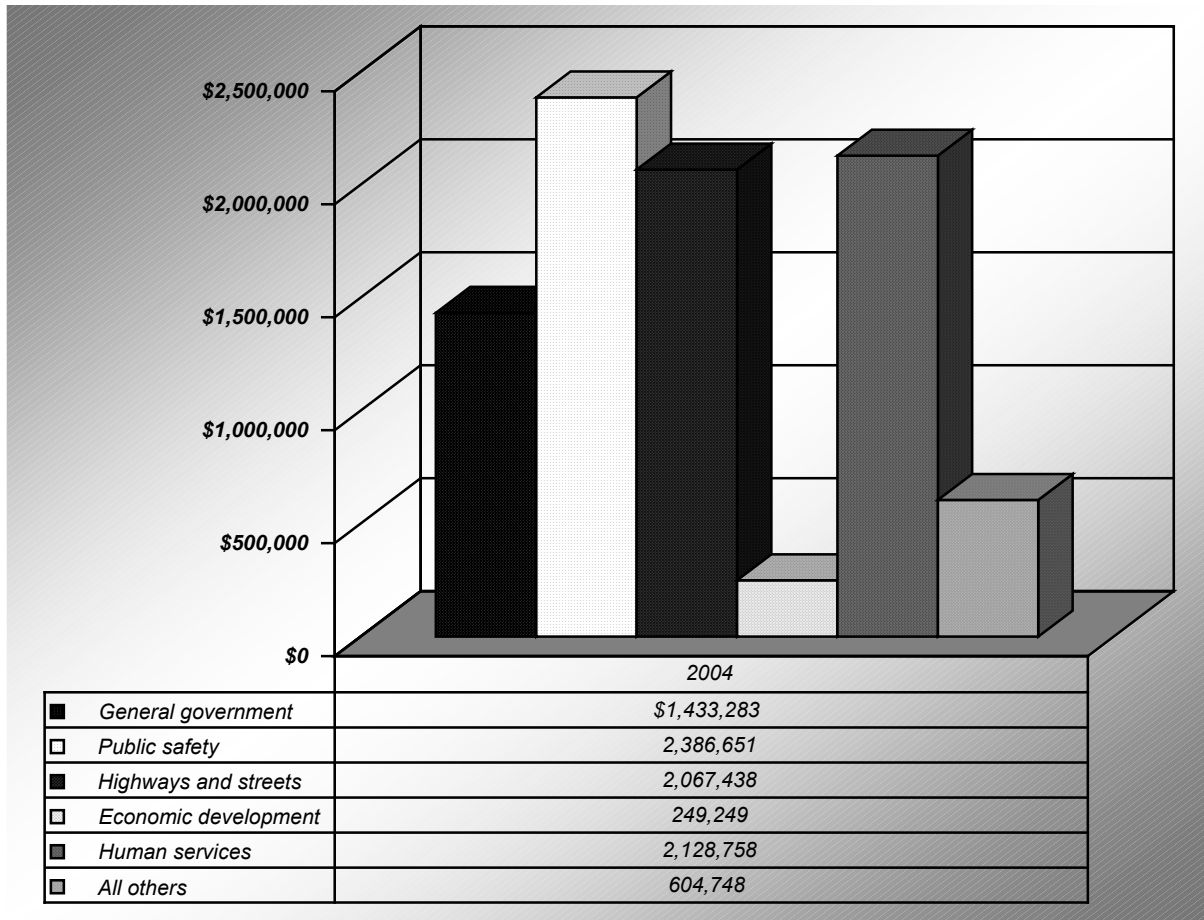
Mahnomen County's costs for all governmental activities for the year ended December 31, 2004, were \$8,870,127, as shown in the Statement of Activities. The net cost of services were ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, 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 2004	Net Cost of Services 2004
	<u> </u>	<u> </u>
Program Expenses		
General government	\$ 1,433,283	\$ 1,218,762
Public safety	2,386,651	1,427,891
Highways and streets	2,067,438	(675,670)
Economic development	249,249	36,474
Human services	2,128,758	591,084
All others	<u>604,748</u>	<u>(18,265)</u>
 Total	 <u>\$ 8,870,127</u>	 <u>\$ 2,580,276</u>

Governmental Activities Expenses



The County's Funds

As Mahanomen County completed the year, its governmental funds as presented in the Balance Sheet reported a combined fund balance of \$4,038,129, which is above last year's total combined fund balance of \$3,570,937. This increase of \$467,192 represents a 13.1 percent total increase. Included in this year's total fund balance is the County's General Revenue Fund balance of \$1,481,070. The General Revenue Fund's change in fund balance (a decrease of \$153,320 from 2003) represented a 9.4 percent decrease in the General Revenue Fund balance. Most of the General Fund's decrease was due to the cut in local performance aid and compounded with prior levy limits in place.

General Fund Budgetary Highlights

The Mahanomen County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2004, the County Board of Commissioners did not make any budgetary amendments/revisions. If the County Board of

Commissioners had made changes to the budget as originally adopted on Tuesday, December 23, 2003, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, or final agreement reached on employee contracts.

In the County's General Fund, the actual revenues exceeded the expected revenues by \$409,509. Total actual expenditures in the County's General Fund exceeded the budgeted expenditures by \$142,692. However, the General Revenue Fund balance decreased by a total of \$153,320. This decline in the fund balance has been a trend since 1999.

Capital Assets and Debt Administration

Capital Assets

At the end of 2004, Mahanomen County had \$17,711,401 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment (see Table 4 below). This amount represents a net increase (including additions and deductions) of \$1,902,954, or 12 percent, over last year.

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

	Governmental Activities	
	2004	2003
Land	\$ 342,915	\$ 327,915
Land improvements	3,366	3,787
Buildings and improvements	673,762	689,781
Machinery, furniture, and equipment	384,296	483,417
Infrastructure	16,307,062	14,303,547
Totals	<u>\$ 17,711,401</u>	<u>\$ 15,808,447</u>

Mahanomen County's fiscal year 2004 capital budget plans did not call for any major expenditures outside of the normal equipment, vehicles, and road construction projects. More detailed information about the County's capital assets can be found in Note 2.A.3. to the Mahanomen County financial statements.

Debt

As of December 31, 2004, Mahanomen County had \$702,000 in bonds outstanding, compared with \$768,800 as of December 31, 2003--a decrease of 8.7 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	2004	2003
Bonds Payable		
General Obligation Bonds	\$ 702,000	\$ 768,800

It is imperative to point out that Table 5 illustrates the County’s share of the total amount due on the bonds. The City of Mahnomen has 22 percent ownership of the Mahnomen Health Center and is responsible for its portion of the bond payments. The City’s share is not included in the totals.

Mahnomen County’s general obligation bonds are non-rated. The state limits the amount of net debt that counties can issue to two percent of the market value of all taxable property in the County. Mahnomen County’s outstanding net debt is below this \$5,310,620 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 2005 budget, tax rates, and fees that will be charged for governmental activities.

- For the past three years, the State of Minnesota has projected a budget deficit. How the State of Minnesota resolves this deficit could have a significant impact on future Mahnomen County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce these revenues, implement levy limits, or pass on costs to the County, it would have a significant impact on next year’s budget.
- Mahnomen County’s net tax capacity rates have not seen significant change even though the overall net tax levy has continued to increase. Mahnomen County has a somewhat vulnerable tax base. There continues to be an ongoing concern of the possible change in the taxability status of one of the largest businesses in the County known as the Shooting Star Casino. 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 2003 averaged 5.7 percent. The County’s unemployment rate for 2004 averaged 5.9 percent.

- The net property tax levies were planned to increase 5.015 percent from 2004.
- Planning and financing for facility needs and the possibility of a new law enforcement center project are continuing to be researched by the County Board.
- Settling union contracts and employment-related issues will affect the 2005 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, 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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 3,895,099	\$ 1,034,044
Petty cash and change funds	2,700	-
Departmental cash	16,489	-
Investments	-	143,103
Taxes receivable		
Current - net	25,304	-
Prior - net	111,302	-
Special assessments receivable		
Current - net	5,756	-
Prior - net	27,320	-
Noncurrent - net	47,500	-
Accounts receivable - net	47,441	742,722
Accrued interest receivable	13,052	-
Due from other governments	1,479,564	-
Prepaid items	-	36,469
Inventories	103,045	50,691
Advances to other organizations	36,136	-
Contract for deed	182,170	-
Restricted assets		
Due from other governments	-	186,096
Capital assets		
Non-depreciable	342,915	36,729
Depreciable - net of accumulated depreciation	17,368,486	2,974,270
Total Assets	\$ 23,704,279	\$ 5,204,124
<u>Liabilities</u>		
Accounts payable	\$ 160,223	\$ 342,161
Salaries payable	123,353	70,079
Contracts payable	131,392	-
Due to other governments	277,114	-
Accrued interest payable	14,710	-
Residents' personal funds	-	9,577
Long-term liabilities		
Due within one year	155,270	121,301
Due in more than one year	709,720	20,754
Total Liabilities	\$ 1,571,782	\$ 563,872
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 17,705,613	\$ 2,967,111
Restricted for public safety	62,115	-
Restricted for highways and streets	743,631	-
Restricted for sanitation	35,115	-
Restricted for capital projects	-	186,098
Unrestricted	3,586,023	1,487,043
Total Net Assets	\$ 22,132,497	\$ 4,640,252

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 1,433,283	\$ 129,090
Public safety	2,386,651	132,306
Highways and streets	2,067,438	132,435
Sanitation	236,567	119,009
Human services	2,128,758	118,243
Health	37,763	-
Culture and recreation	76,074	-
Conservation of natural resources	216,921	331,158
Economic development	249,249	186,808
Interest	37,423	-
Total primary government	\$ 8,870,127	\$ 1,149,049
Component Unit		
Mahnomen Health Center	\$ 5,133,416	\$ 5,258,817
General Revenues		
Property taxes		
Special assessments		
Gravel taxes		
Grants and contributions not restricted to specific programs		
Payments in lieu of tax		
Investment income		
Miscellaneous		
Total general revenues		
Change in Net Assets		
Net Assets - Beginning		
Net Assets - Ending		

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Discretely Presented Component Unit
\$ 85,431	\$ -	\$ (1,218,762)	
826,454	-	(1,427,891)	
2,215,567	395,106	675,670	
66,570	-	(50,988)	
1,419,431	-	(591,084)	
-	-	(37,763)	
16,910	-	(59,164)	
89,366	-	203,603	
25,967	-	(36,474)	
-	-	(37,423)	
\$ 4,745,696	\$ 395,106	\$ (2,580,276)	
\$ 17,805	\$ 59,258		\$ 202,464
		\$ 2,684,315	\$ -
		-	54,544
		7,105	-
		756,022	-
		63,521	-
		78,822	18,170
		71,790	-
		\$ 3,661,575	\$ 72,714
		\$ 1,081,299	\$ 275,178
		21,051,198	4,365,074
		\$ 22,132,497	\$ 4,640,252

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 1,127,264	\$ 411,098
Petty cash and change funds	2,700	-
Undistributed cash in agency funds	29,692	4,792
Departmental cash	16,489	-
Taxes receivable		
Current	14,101	3,261
Prior	68,746	12,781
Special assessments receivable		
Current	-	-
Prior	-	-
Noncurrent	-	-
Accounts receivable	10,597	4,846
Accrued interest receivable	13,052	-
Due from other funds	172,534	2,416
Due from other organizations	258,717	1,033,740
Inventories	-	103,045
Advances to other organizations	36,136	-
Contract for deed	182,170	-
	\$ 1,932,198	\$ 1,575,979
Total Assets	\$ 1,932,198	\$ 1,575,979

EXHIBIT 3

Social Services	Solid Waste	Forfeited Tax Sale	Other Governmental Funds	Total Governmental Funds
\$ 1,048,528	\$ 634,818	\$ 252,447	\$ 370,439	\$ 3,844,594
-	-	-	-	2,700
10,551	3,638	-	1,832	50,505
-	-	-	-	16,489
6,976	-	-	966	25,304
25,742	9	-	4,024	111,302
-	4,388	-	1,368	5,756
-	17,607	-	9,713	27,320
-	-	-	47,500	47,500
18,959	1,007	-	-	35,409
-	-	-	-	13,052
19,208	-	-	-	194,158
184,467	2,640	-	-	1,479,564
-	-	-	-	103,045
-	-	-	-	36,136
-	-	-	-	182,170
\$ 1,314,431	\$ 664,107	\$ 252,447	\$ 435,842	\$ 6,175,004

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 65,505	\$ 46,834
Salaries payable	67,549	18,702
Compensated absences/vacation/sick leave payable - current	-	1,675
Contracts payable	-	131,392
Due to other funds	7,385	-
Due to other governments	118,136	34,198
Deferred revenue - unavailable	192,553	953,258
	\$ 451,128	\$ 1,186,059
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 103,045
Contract for deed	182,170	-
Sheriff's contingency	14,568	-
Advances to other organizations	36,136	-
State-aid highway project	-	107,586
Gravel pit restoration	-	14,083
SCORE	-	-
Missing heirs	2,955	-
Enhanced 911	46,916	-
Boat and water	631	-
Unreserved		
Designated for drug eradication	1,475	-
Designated for County development	2,692	-
Designated for timber development	72,512	-
Designated for parks and recreation	32,991	-
Designated for extension youth grant	3,488	-
Designated for drug extension programming	138	-
Undesignated	1,084,398	165,206
Unreserved, reported in nonmajor		
Special revenue funds	-	-
Debt service funds	-	-
	\$ 1,481,070	\$ 389,920
Total Fund Balances	\$ 1,481,070	\$ 389,920
Total Liabilities and Fund Balances	\$ 1,932,198	\$ 1,575,979

EXHIBIT 3
(Continued)

<u>Social Services</u>	<u>Solid Waste</u>	<u>Forfeited Tax Sale</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 38,818	\$ 9,066	\$ -	\$ -	\$ 160,223
35,730	1,372	-	-	123,353
-	-	-	-	1,675
-	-	-	-	131,392
2,664	1,043	170,275	759	182,126
39,896	1,659	82,172	1,053	277,114
34,006	18,569	-	62,606	1,260,992
\$ 151,114	\$ 31,709	\$ 252,447	\$ 64,418	\$ 2,136,875
\$ -	\$ -	\$ -	\$ -	\$ 103,045
-	-	-	-	182,170
-	-	-	-	14,568
-	-	-	-	36,136
-	-	-	-	107,586
-	-	-	-	14,083
-	35,115	-	-	35,115
-	-	-	-	2,955
-	-	-	-	46,916
-	-	-	-	631
-	-	-	-	1,475
-	-	-	-	2,692
-	-	-	-	72,512
-	-	-	-	32,991
-	-	-	-	3,488
-	-	-	-	138
1,163,317	597,283	-	-	3,010,204
-	-	-	250,124	250,124
-	-	-	121,300	121,300
\$ 1,163,317	\$ 632,398	\$ -	\$ 371,424	\$ 4,038,129
\$ 1,314,431	\$ 664,107	\$ 252,447	\$ 435,842	\$ 6,175,004

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	4,038,129
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.		17,711,401
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		1,260,992
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	\$ (702,000)	
Capital leases	(16,035)	
Loans payable	(3,829)	
Compensated absences	(141,451)	
Accrued interest payable	(14,710)	
		(878,025)
Net assets of governmental activities (Exhibit 1)		\$ 22,132,497

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General	Road and Bridge
Revenues		
Taxes	\$ 1,656,271	\$ 301,904
Special assessments	-	-
Licenses and permits	7,664	-
Intergovernmental	1,654,898	3,794,958
Charges for services	199,496	109,344
Fines and forfeits	22,352	-
Gifts and contributions	1,807	-
Interest on investments	78,822	-
Miscellaneous	124,286	11,827
Sale of property held for resale	186,670	-
	\$ 3,932,266	\$ 4,218,033
Expenditures		
Current		
General government	\$ 1,391,552	\$ -
Public safety	2,369,644	-
Highways and streets	-	3,911,824
Sanitation	-	-
Human services	16,453	-
Health	37,763	-
Culture and recreation	76,074	-
Conservation	119,515	-
Economic development	240,666	-
Intergovernmental		
Highways and streets	-	111,363
Debt service		
Principal retirement	4,087	8,893
Interest	107	1,255
	\$ 4,255,861	\$ 4,033,335
Excess of Revenues Over (Under) Expenditures	\$ (323,595)	\$ 184,698
Other Financing Sources (Uses)		
Transfers in	\$ 170,275	\$ -
Transfers out	-	-
	\$ 170,275	\$ -
Net Change in Fund Balances	\$ (153,320)	\$ 184,698
Fund Balance - January 1	1,634,390	188,418
Increase (decrease) in reserved for inventories	-	16,804
	\$ 1,481,070	\$ 389,920
Fund Balance - December 31	\$ 1,481,070	\$ 389,920

EXHIBIT 5

Social Services	Solid Waste	Forfeited Tax Sale	Other Governmental Funds	Total Governmental Funds
\$ 649,683	\$ 34	\$ -	\$ 81,010	\$ 2,688,902
-	104,374	-	44,690	149,064
-	-	-	-	7,664
1,743,840	66,570	-	-	7,260,266
57,329	7,622	-	-	373,791
-	-	-	-	22,352
-	-	-	-	1,807
-	-	-	-	78,822
60,914	-	258,659	6,484	462,170
-	-	-	-	186,670
\$ 2,511,766	\$ 178,600	\$ 258,659	\$ 132,184	\$ 11,231,508
\$ -	\$ -	\$ -	\$ -	\$ 1,391,552
-	-	-	-	2,369,644
-	-	-	-	3,911,824
-	227,371	-	-	227,371
2,060,799	-	-	-	2,077,252
-	-	-	-	37,763
-	-	-	-	76,074
-	-	88,894	8,512	216,921
-	-	-	-	240,666
-	-	-	-	111,363
-	-	-	68,714	81,694
-	-	-	37,634	38,996
\$ 2,060,799	\$ 227,371	\$ 88,894	\$ 114,860	\$ 10,781,120
\$ 450,967	\$ (48,771)	\$ 169,765	\$ 17,324	\$ 450,388
\$ -	\$ -	\$ -	\$ -	\$ 170,275
-	-	(170,275)	-	(170,275)
\$ -	\$ -	\$ (170,275)	\$ -	\$ -
\$ 450,967	\$ (48,771)	\$ (510)	\$ 17,324	\$ 450,388
712,350	681,169	510	354,100	3,570,937
-	-	-	-	16,804
\$ 1,163,317	\$ 632,398	\$ -	\$ 371,424	\$ 4,038,129

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 450,388**

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

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.

Expenditures for general capital assets and infrastructure	\$ 2,656,907	
Net book value of assets disposed of	(421)	
Current year depreciation	<u>(753,532)</u>	1,902,954

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

Deferred revenue - end of year	\$ 1,260,992	
Deferred revenue - beginning of year	<u>(2,541,074)</u>	(1,280,082)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments		
General obligation bonds	\$ 66,800	
Loans payable	1,914	
Capital lease	<u>12,980</u>	81,694

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	\$ 1,573	
Change in compensated absences	(92,032)	
Change in inventories	<u>16,804</u>	<u>(73,655)</u>

Change in net assets of governmental activities (Exhibit 2) **\$ 1,081,299**

FIDUCIARY FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004**

	Investment Trust	Agency
<u>Assets</u>		
Cash and cash equivalents	\$ 353,891	\$ 39,669
Receivables		
Accounts	-	6,032
Interest	289	-
	\$ 354,180	\$ 45,701
<u>Liabilities</u>		
Due to other funds	\$ 12,032	\$ -
Due to other governments	-	45,701
	\$ 12,032	\$ 45,701
<u>Net Assets</u>		
Net assets, held in trust for pool participants	\$ 342,148	

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Investment Trust</u>
<u>Additions</u>	
Contributions from participants	\$ 261,160
Investment earnings	
Interest	<u>2,923</u>
Total Additions	\$ 264,083
<u>Deductions</u>	
Distributions to participants	<u>330,036</u>
Change in Net Assets	\$ (65,953)
Net Assets - Beginning of the Year	<u>408,101</u>
Net Assets - End of the Year	<u><u>\$ 342,148</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The County has elected to implement all provisions of the statement in the current year.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

The Welfare Board governs the activities of the Welfare 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.

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	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 several joint ventures which are described in Note 5.B. The County also participates in a jointly-governed organization which is described in Note 5.C.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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.

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 that are 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

The Solid Waste Special Revenue Fund is used to account 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 Forfeited Tax Sale Special Revenue Fund is used to account 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.

Additionally, the County reports the following fund types:

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

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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 to be *available* if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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, then unrestricted resources as they are needed.

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, 2004, 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 2004 were \$81,745.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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

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 are reported as an investment trust fund. Assets

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. External Investment Pools (Continued)

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)	\$ 3,953,957
Held for external pool participants (Interagency Collaborative)	<u>353,891</u>
Total	<u>\$ 4,307,848</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).

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 on 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. 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.

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.

5. Restricted Assets

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

6. Capital Assets

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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

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

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

Assets	Years
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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Compensated Absences (Continued)

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.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Fund Equity

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

11. Use of Estimates

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

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Primary government	
Cash and pooled investments	\$ 3,895,099
Petty cash and change funds	2,700
Departmental cash	16,489
Component unit	
Cash and pooled investments	1,034,044
Investments	143,103
Fiduciary funds	
Cash and pooled investments	
Investment trust funds	353,891
Agency funds	<u>39,669</u>
Total Cash and Investments	<u>\$ 5,484,995</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Board. At December 31, 2004, the carrying amount of the County's deposits totaled \$2,650,488. The bank balance deposit amount was \$2,972,521. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 345,096
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>2,088,942</u>
Total covered deposits	\$ 2,434,038
Uncollateralized	<u>538,483</u>
Total	<u>\$ 2,972,521</u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 186,080	\$ -	\$ 429,718	\$ 615,798
Negotiable certificates of deposit	313,920	-	724,942	1,038,862
Total Investments	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 1,154,660</u>	\$ 1,654,660
Add				
Cash on hand				2,700
Deposits				2,650,488
Total Cash and Investments				<u>\$ 4,307,848</u>

2. Receivables

Receivables as of December 31, 2004, 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	\$ 136,606	\$ -
Special assessments	80,576	-
Accounts	47,441	-
Interest	13,052	-
Due from other governments	1,479,564	-
Total Governmental Activities	<u>\$ 1,757,239</u>	<u>\$ -</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 327,915	\$ 15,000	\$ -	\$ 342,915
Capital assets depreciated				
Land improvements	\$ 28,015	\$ -	\$ -	\$ 28,015
Buildings	2,567,950	14,455	-	2,582,405
Machinery, furniture, and equipment	1,492,868	39,916	40,337	1,492,447
Infrastructure	19,897,290	2,587,536	-	22,484,826
Total capital assets depreciated	\$ 23,986,123	\$ 2,641,907	\$ 40,337	\$ 26,587,693
Less: accumulated depreciation for				
Land improvements	\$ 24,228	\$ 421	\$ -	\$ 24,649
Buildings	1,878,169	30,474	-	1,908,643
Machinery, furniture, and equipment	1,009,451	138,616	39,916	1,108,151
Infrastructure	5,593,743	584,021	-	6,177,764
Total accumulated depreciation	\$ 8,505,591	\$ 753,532	\$ 39,916	\$ 9,219,207
Total capital assets depreciated, net	\$ 15,480,532	\$ 1,888,375	\$ 421	\$ 17,368,486
Governmental Activities Capital Assets, Net	\$ 15,808,447	\$ 1,903,375	\$ 421	\$ 17,711,401

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

Governmental Activities		
General government	\$	25,082
Public safety		38,455
Highways and streets, including depreciation of infrastructure assets		653,512
Sanitation		6,371
Human services		21,529
Economic development		8,583
Total Depreciation Expense - Governmental Activities	\$	753,532

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Social Services Forfeited Tax Sale	\$ 2,259 170,275
Total Due to General Fund		\$ 172,534
Road and Bridge	General Social Services Solid Waste Other Governmental	\$ 209 405 1,043 759
Total Due to Road and Bridge Fund		\$ 2,416
Social Services	General Investment Trust Fund	\$ 7,176 12,032
Total Due to Social Services Fund		\$ 19,208
Total To/From Other Funds		\$ 194,158

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale Special Revenue Fund	\$	170,275	Settlement of proceeds
---	----	---------	------------------------

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

		<u>Governmental Activities</u>
Accounts	\$	160,223
Salaries		123,353
Contracts		131,392
Due to other governments		277,114
Accrued interest payable		14,710
Total Payables	\$	706,792

2. Deferred Revenue

Deferred revenue as of December 31, 2004, year-end for the County's governmental activities are as follows:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Governmental Activities		
Taxes and special assessments	\$ 183,844	\$ -
State-aid highway allotments	929,307	-
Charges for services	11,264	-
Grants	136,577	-
Total Governmental Activities	\$ 1,260,992	\$ -

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Other Post-Employment 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 one eligible participant. The County finances the plan on a pay-as-you-go basis. During 2004, the County expended \$17,300 for these benefits.

4. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2004:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2002 Bobcat loader	2006	Monthly	\$ 373	\$ 16,416	\$ 5,788
2003 copier	2008	Monthly	309	15,591	10,247
Total Capital Leases					<u>\$ 16,035</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

4. Capital Leases (Continued)

Year Ending December 31	Governmental Activities
2005	\$ 8,179
2006	5,195
2007	3,704
2008	309
Total minimum lease payments	\$ 17,387
Less: amount representing interest	(1,352)
Present Value of Minimum Lease Payments	\$ 16,035

5. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General Obligation Bonds 1999 G.O. Nursing Home Revenue Bonds	2015	\$60,000 - \$105,000	2.75 - 5.20	\$ 1,100,000	\$ 900,000
Less: City of Mahnomen's share					(198,000)
Total General Obligation Bonds					\$ 702,000

Loan Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
State Loan Payable	2006	\$2,454	5.60	\$ 41,992	\$ 4,908
Less: City of Mahnomen's share					(1,079)
Total State Loan Payable					\$ 3,829

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Year Ending December 31	General Obligation Bonds		Loan Payable	
	Principal	Interest	Principal	Interest
2005	\$ 65,000	\$ 43,279	\$ 2,454	\$ 275
2006	65,000	40,299	2,454	137
2007	70,000	37,125	-	-
2008	75,000	33,663	-	-
2009	75,000	30,025	-	-
2010-2014	445,000	85,971	-	-
2015	105,000	2,691	-	-
Total	\$ 900,000	\$ 273,053	\$ 4,908	\$ 412
Less: City of Mahnomen's share	(198,000)	(60,072)	(1,079)	(91)
Total	\$ 702,000	\$ 212,981	\$ 3,829	\$ 321

7. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities					
General obligation bonds	\$ 768,800	\$ -	\$ 66,800	\$ 702,000	\$ 50,700
Loans payable	5,743	-	1,914	3,829	1,914
Capital leases	29,015	-	12,980	16,035	7,395
Compensated absences	137,709	93,586	88,169	143,126	95,261
Total Long-Term Liabilities	\$ 941,267	\$ 93,586	\$ 169,863	\$ 864,990	\$ 155,270

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For all Public Employees Retirement Fund members 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. 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.

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
	_____	_____	_____
2004	\$ 121,488	\$ 45,692	\$ 14,970
2003	110,557	45,699	13,305
2002	110,124	36,320	12,403

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contribution for the year ending December 31, 2004, was \$710, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

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

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 \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. 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. The MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of the County.

B. Joint Ventures

Multi-County Nursing Service

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. The purpose of the Multi-County Nursing Service is the development, implementation, and operation of public health services throughout the member counties.

Control of the Multi-County Nursing Service was vested in the Becker-Norman-Mahnomen Multi-County Board of Health, which consisted of seven members. As provided in the by-laws, Norman and Mahnomen Counties had two members each, and Becker County had three members.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Multi-County Nursing Service (Continued)

On June 24, 2003, the Becker County Board passed a resolution to withdraw from the Multi-County Nursing Service as of January 1, 2005. Norman County became the fiscal agent.

In the event of withdrawal from the Becker-Norman-Mahnomen Multi-County Board of 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.

The Multi-County Nursing Service's long-term liabilities are \$21,031 at December 31, 2004. Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Mahnomen County's contribution for 2004 was \$43,148.

Complete financial information can be obtained from:

Norman-Mahnomen Community Health Services
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 Aitken, Beltrami, Clearwater, Koochiching, Lake of the Woods, Mahnomen, Marshall, and Roseau Counties.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

Control of the Natural Resources Board is vested in the Joint County Natural Resources Board, which is composed of at least one resident of each county appointed by their respective county board, as provided in the Natural Resources Board's by-laws. The governing body is composed of eight members, one from the board of commissioners of each of the participating counties.

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 Community Health Services), 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 Collaborative. The purpose of the Collaborative is to provide healthier communities and families and to reduce the number of out-of-home placements.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

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 their governing board. Mahnomen County is granted two votes.

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

Financing is provided by state and federal grants. Mahnomen County Human Services is the fiscal agent of the Collaborative. During 2004, the County did not contribute any funds to the Collaborative.

Northwestern Counties Data Processing Security Association

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

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

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

Clearwater County Auditor
213 North Main Avenue
Bagley, Minnesota 56621

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

C. Jointly-Governed Organization

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 which is composed of seven members appointed by the County Commissioners of Becker, Clay, Mahnomen, and Norman Counties. Norman County appoints three members, Clay County appoints two members, and the remaining counties each appoint one member.

Complete financial information can be obtained from:

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

D. Contingent Tax Revenue Reduction

The County's biggest taxpayer may become exempt from property taxes in the foreseeable future. This could translate into a potential reduction of \$400,000 a year, or approximately 15 percent, of the total property tax revenue for the County.

6. Mahnomen Health Center

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

A. Organization and Significant Accounting Policies

Organization

The Mahnomen Health Center (Organization) consists of a hospital (Hospital), nursing home, and clinic located in Mahnomen, Minnesota. The Organization is an operating entity under the ownership of Mahnomen County (County) and the City of Mahnomen (City), Minnesota, and is a component unit of Mahnomen County. The Organization is governed under a Joint Powers Agreement between the County and City. For the years ended December 31, 2004 and 2003, the County owned 78 percent of the Organization while the City owned 22 percent of the Organization. The County and City each appoint Mahnomen Health Center Commission members who are responsible for the operation of the Hospital, nursing home, and clinic. The Mahnomen Health Center Commission consists of nine members. The Mahnomen Health Center Commission is the ultimate governing body of the Organization. The Mahnomen Health Center 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.

Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Organization has adopted 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.

Effective January 1, 2003, the Organization adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis--for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements had no financial impact on the Organization.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Organization and Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Patient and Resident Receivables

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

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

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Organization and Significant Accounting Policies (Continued)

Capital Assets

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

<u>Assets</u>	<u>Years</u>
Land improvements	8 - 20 years
Buildings, fixed equipment, and building improvements	5 - 50 years
Movable equipment	2 - 20 years

Restricted Funds

When the Organization has both restricted and unrestricted resources available to finance a particular program, it is the Organization's policy to use restricted resources before unrestricted resources.

Net Assets

Net assets are presented in the following three components:

Net Assets Invested in Capital Assets Net of Related Debt - Invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation and unamortized deferred financing costs, and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted Expendable Net Assets - Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditor, grantors, or contributors external to the Organization.

Unrestricted Net Assets - 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**

6. Mahnomen Health Center

A. Organization and Significant Accounting Policies (Continued)

Net Patient and Resident Service Revenue

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

Operating Revenues and Expenses

The Organization's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services--the Organization's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for 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.

Charity Care

To fulfill its mission of community service, the Organization provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue.

Compensated Absences

The Organization's employees earn paid time off days at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees are paid for accumulated paid time off if they leave the Organization.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Organization and Significant Accounting Policies (Continued)

Investments in Debt and Equity Investments

Investments in debt and equity securities are reported at fair value, except for short-term highly liquid investments that have remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues when earned.

Advertising Costs

The Organization expenses advertising costs as they are incurred.

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental, and accident benefits; and medical malpractice claims and judgments. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Certain items in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications did not affect the financial position or results of operations as previously reported.

B. Net Patient and Resident Service Revenue

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Medicare - Hospital

The Hospital is licensed as a Critical Access Hospital. The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Organization subject to audits thereof by the Medicare intermediary. The Organization's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2002. The Organization's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Organization.

Medicaid - Hospital

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Organization's Medicare Cost Report, or rates as established by the Medicaid program. The Organization is reimbursed at a tentative rate with final settlement determined by the program based on the Organization's final Medicaid cost report. The Organization's final Medicaid settlements have been processed through the year ended December 31, 1999.

Blue Cross

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

Nursing Home Medicaid

Routine services rendered to nursing home residents who are beneficiaries of the Medicaid program or who pay from private resources and 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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue

Nursing Home Medicaid (Continued)

ability to perform certain activities of daily living and on certain other clinical factors. The nursing home's rate schedule is determined by the Minnesota Department of Human Services (DHS) after a review of the nursing home's annual cost report. Costs are classified into different cost pools, and each pool is subject to different limits, incentives, and inflation adjustments. The rates set by this review are effective from July 1 to June 30 of each year. The cost report is also subject to audit at a later time at the DHS's discretion. The Organization's final Medicaid nursing home settlements have been audited by the DHS through the year ended September 30, 1994.

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. The Organization's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2002.

Other Payors

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

Laws and regulations governing Medicare, Medicaid, and other 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.

A summary of patient and resident service revenue and contractual adjustments for the years ended December 31, 2004 and 2003, are as follows:

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue

Other Payors (Continued)

	2004	2003
Total patient and resident service revenue	\$ 6,534,794	\$ 5,581,010
Contractual adjustments and provisions for bad debts		
Medicare	\$ (718,807)	\$ (628,034)
Medicaid	(277,023)	(221,962)
Indian Health Service	(41,390)	(55,916)
Other	(47,945)	(27,358)
Provisions for bad debts	(249,059)	(144,382)
Total contractual adjustments and provisions for bad debts	\$ (1,334,224)	\$ (1,077,652)
Net Patient and Resident Service Revenue	\$ 5,200,570	\$ 4,503,358

C. Investments and Investment Income

The Organization's investments generally are reported at fair value, as discussed in Note 6.A. At December 31, 2004 and 2003, the Organization's investments consisted of the following, all of which were held in the Organization's name by a custodial bank that is an agent of the Organization.

Deposits

At December 31, 2004 and 2003, the Organization had bank balances as follows:

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

C. Investments and Investment Income

Deposits (Continued)

	<u>2004</u>	<u>2003</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Collateralized by securities held by the pledging financial institution's trust department in the Organization's name	877,690	760,246
Uninsured, uncollateralized or collateralized by securities held by the pledging financial institution or by its trust department or agent other than in the Organization's name	<u>406,630</u>	<u>-</u>
Total	<u>\$ 1,484,320</u>	<u>\$ 960,246</u>
Carrying value	<u>\$ 1,176,747</u>	<u>\$ 920,120</u>

Statutes require that investments be made only in U.S. government obligations and that all bank balances 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.

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts and requires that all bank balances be insured or collateralized by U.S. government securities held by the pledging financial institution's trust department in the name of the Organization.

Long-Term Investments

Minnesota statutes authorized the Organization to invest in obligations of the U.S. government and its agencies, the State of Minnesota and its agencies, as well as in bankers' acceptances, commercial paper, and certain other types of securities. The Organization's investments (recorded at market in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*) at December 31, 2004 and 2003, follow. All of the investments were held by the Organization's custodial bank in the Organization's name.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

C. Investments and Investment Income

Long-Term Investments (Continued)

Long-term investments are stated at fair value and include the following at December 31, 2004 and 2003:

	2004	2003
Certificate of deposit	\$ 143,103	\$ 138,587

Investment Income

Investment income and gains and losses on cash and cash equivalents and long-term investments consist of the following for the years ended December 31, 2004 and 2003:

	2004	2003
Nonoperating income		
Interest income	\$ 18,170	\$ 11,453

D. Capital Assets

Capital asset additions, retirements, and balances for the years ended December 31, 2004 and 2003, are as follows:

	Balance January 1, 2004	Additions	Retirements/ Transfers	Balance December 31, 2004
Land	\$ 36,729	\$ -	\$ -	\$ 36,729
Land improvements	55,991	30,135	-	86,126
Buildings	3,628,712	81,086	-	3,709,798
Fixed equipment	707,201	9,591	-	716,792
Movable equipment	1,637,241	18,953	-	1,656,194
Totals at historical cost	\$ 6,065,874	\$ 139,765	\$ -	\$ 6,205,639
Less: accumulated depreciation for				
Land improvements	\$ 55,991	\$ 617	\$ -	\$ 56,608
Buildings	1,090,503	135,469	-	1,225,972
Fixed equipment	677,748	7,552	-	685,300
Movable equipment	1,103,045	123,715	-	1,226,760
Total accumulated depreciation	\$ 2,927,287	\$ 267,353	\$ -	\$ 3,194,640
Capital Assets, Net	\$ 3,138,587	\$ (127,588)	\$ -	\$ 3,010,999

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

D. Capital Assets (Continued)

	Balance January 1, 2003	Additions	Retirements/ Transfers	Balance December 31, 2003
Land	\$ 36,729	\$ -	\$ -	\$ 36,729
Land improvements	55,991	-	-	55,991
Buildings	3,600,156	28,556	-	3,628,712
Fixed equipment	707,201	-	-	707,201
Movable equipment	1,598,826	38,415	-	1,637,241
Totals at historical cost	\$ 5,998,903	\$ 66,971	\$ -	\$ 6,065,874
Less: accumulated depreciation for				
Land improvements	\$ 55,692	\$ 299	\$ -	\$ 55,991
Buildings	957,938	132,565	-	1,090,503
Fixed equipment	662,262	15,486	-	677,748
Movable equipment	977,256	125,789	-	1,103,045
Total accumulated depreciation	\$ 2,653,148	\$ 274,139	\$ -	\$ 2,927,287
Capital Assets, Net	\$ 3,345,755	\$ (207,168)	\$ -	\$ 3,138,587

E. Leases

The Organization leases certain equipment under non-cancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended December 31, 2004 and 2003, for all operating leases was \$4,106 and \$6,642. The capitalized leased assets consist of:

	2004	2003
Movable equipment	\$ 96,027	\$ 96,027
Less: accumulated amortization (included as depreciation on the accompanying financial statements)	(69,600)	(50,395)
0		
Total	\$ 26,427	\$ 45,632

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

E. Leases (Continued)

Minimum future lease payments for capital leases are as follows:

Year Ending December 31	Amount
2005	\$ 23,372
2006	8,551
Total minimum lease payments	\$ 31,923
Less: interest	(2,419)
Present Value of Minimum Lease Payments (Note F)	\$ 29,504

F. Long-Term Debt

Long-term debt consists of the following as of December 31, 2004 and 2003:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Amounts Due Within One Year
Capital lease obligations (Note 6.E.)	\$ 49,728	\$ -	\$ 20,224	\$ 29,504	\$ 21,173
1990 special assessments	16,202	-	1,818	14,384	1,961
6.75% note payable	51,833	-	51,833	-	-
Total Long-Term Debt	\$ 117,763	\$ -	\$ 73,875	\$ 43,888	\$ 23,134
	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003	Amounts Due Within One Year
Capital lease obligations (Note 6.E.)	\$ 68,038	\$ -	\$ 18,310	\$ 49,728	\$ 20,223
1990 special assessments	17,883	-	1,681	16,202	1,816
6.75% note payable	84,059	-	32,226	51,833	51,833
1998 Minnesota rural hospital improvement loan	1,200,000	-	1,200,000	-	-
1983 special assessments	1,305	-	1,305	-	-
Total Long-Term Debt	\$ 1,371,285	\$ -	\$ 1,253,522	\$ 117,763	\$ 73,872

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

F. Long-Term Debt (Continued)

The terms and due dates of the Organization's long-term debt at December 31, 2004 and 2003, are as follows:

- 1990 special assessments, at 8.0 percent due in annual installments through 2010.
- 6.75 percent note payable, due in monthly installments of \$3,076 including interest, through November 2004.
- 1998 Minnesota Rural Hospital Improvement Loan, in the original amount of \$1,500,000 at zero interest rate.
- 1983 special assessments at 8.375 percent, due in annual installments through 2003.

The 1998 Minnesota Rural Hospital Improvement Loan was issued in the original amount of \$1,500,000 for the Organization to use the proceeds solely for the purposes listed in its application submitted to the State of Minnesota in 1998. The purpose was to remodel and equip the hospital facility. Through the year ended December 31, 2002, the Organization paid one fifteenth (1/15) of the total amount disbursed annually, beginning on October 1, 2000, and ending on October 1, 2014. Payments were due when the Hospital experienced a positive net operating margin (operating income) in excess of two percent for the fiscal year in which the payment was due. However, payment was limited to one-half (1/2) of the excess above two percent up to the yearly payment amount described above. No interest was due on the loan or included in the amount to be repaid. If the amount paid back by the Organization in any year is less than the yearly payment amount specified, or if no payment amount was required because the Hospital did not experience a positive net operating margin in excess of two percent, the amount unpaid for that year shall be deemed to be forgiven by the State of Minnesota, without any financial penalty to the Organization.

In May 2004, the Minnesota Legislature enacted legislation in which grants or loans awarded to eligible rural hospitals prior to August 1, 1999, are grants subject to conditions of this section and are not subject to repayment as loans under Minn. Stat. § 144.148 (1998). The legislation was signed by the Governor on May 19, 2004. As a result, the balance of the 1998 Minnesota Rural Hospital Improvement Loan which totaled \$1,100,000 as of December 31, 2003, was subject to this legislation and was treated by the Organization as forgiven as of December 31, 2003.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

F. Long-Term Debt (Continued)

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending December 31	Long-Term Debt		
	Principal	Interest	Total
2005	\$ 23,134	\$ 3,244	\$ 26,378
2006	10,449	1,360	11,809
2007	2,287	-	2,287
2008	2,470	-	2,470
2009	2,668	-	2,668
2010-2014	2,880	-	2,880
Total	\$ 43,888	\$ 4,604	\$ 48,492

G. Defined Benefit Pension Plan - Statewide

Plan Description

All full-time and certain part-time employees of the Organization are covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

G. Defined Benefit Pension Plan - Statewide

Plan Description (Continued)

Two methods are used to compute benefits for Public Employees Retirement Fund 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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining 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 Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor benefit is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

G. Defined Benefit Pension Plan - Statewide

Plan Description (Continued)

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

Funding Policy

Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Organization makes annual contributions to the pension plan equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 percent and 5.10 percent, respectively, of their annual covered salary. The Organization is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 5.53 percent for Coordinated Plan members. The Organization's contributions to the Public Employees Retirement Fund for the years ending December 31, 2004, 2003, and 2002, were \$120,068, \$106,823, and \$110,228, respectively. The Organization's contributions were equal to the contractually required contributions for each year as set by state statute.

H. Related-Party Transactions

In an agreement with Mahnomen County through the year ended December 31, 2002, monies the County received from the State of Minnesota related to Casino Aid funds were transferred to the Organization. During the year ended December 31, 2003, the Organization recorded revenue totaling \$18,469 related to the Casino Aid funds Mahnomen County received in the fiscal year.

I. Concentrations of Credit Risk

The Organization grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2004 and 2003, was as follows:

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

I. Concentrations of Credit Risk (Continued)

	2004	2003
Medicare	32.8%	34.5%
Blue Cross	7.6%	9.3%
Medicaid	27.0%	28.2%
Commercial insurance	4.4%	3.9%
Other third-party payors, patients, and residents	28.2%	24.1%
Total	100.0%	100.0%

J. Malpractice Insurance

The Organization has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$5,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

K. Restricted Expendable Net Assets

Restricted, expendable net assets are available for the following purposes as of December 31, 2004 and 2003:

	2004	2003
Expendable for operations	\$ 57,275	\$ 30,018
Expendable of capital acquisitions	128,823	122,182
Total	\$ 186,098	\$ 152,200

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REQUIRED SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,826,720	\$ 1,806,550	\$ 1,656,271	\$ (150,279)
Licenses and permits	8,140	8,140	7,664	(476)
Intergovernmental	1,329,926	1,329,926	1,654,898	324,972
Charges for services	205,981	204,841	199,496	(5,345)
Fines and forfeits	12,250	12,250	22,352	10,102
Gifts and contributions	-	-	1,807	1,807
Investment earnings	125,000	125,000	78,822	(46,178)
Miscellaneous	36,050	36,050	124,286	88,236
Sale of property held for resale	-	-	186,670	186,670
Total Revenues	\$ 3,544,067	\$ 3,522,757	\$ 3,932,266	\$ 409,509
Expenditures				
Current				
General government				
Commissioners	\$ 140,222	\$ 140,222	\$ 127,259	\$ 12,963
Courts	12,500	12,500	14,142	(1,642)
Law library	15,000	15,000	16,002	(1,002)
County auditor/auditor-treasurer	191,869	191,869	172,786	19,083
License bureau	69,631	69,631	64,137	5,494
County treasurer	100,560	100,560	98,943	1,617
County assessor	99,825	99,825	103,976	(4,151)
Elections	24,595	24,595	18,497	6,098
Accounting and auditing	50,000	50,000	54,230	(4,230)
Data processing	149,683	149,683	121,743	27,940
Attorney	242,740	242,740	216,543	26,197
Contracted legal services	10,000	10,000	-	10,000
Recorder	85,879	85,879	79,068	6,811
Planning and zoning	22,860	22,860	17,717	5,143
Buildings and plant	167,118	167,118	148,244	18,874
Veteran services officer	17,570	17,570	17,861	(291)
Unallocated	314,800	314,800	120,404	194,396
Total general government	\$ 1,714,852	\$ 1,714,852	\$ 1,391,552	\$ 323,300

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,471,179	\$ 1,471,179	\$ 1,406,030	\$ 65,149
Boat and water safety	1,314	1,314	912	402
Emergency services	15,198	15,198	20,724	(5,526)
Coroner	6,000	6,000	109	5,891
E-911 system	33,780	33,780	23,688	10,092
Victim resources	43,763	43,763	57,103	(13,340)
Probation and parole	84,435	84,435	146,451	(62,016)
County safety program	15,200	15,200	9,715	5,485
Weed and seed	112,505	112,505	470,312	(357,807)
Snowmobile safety	3,565	3,565	2,640	925
Flood	93,895	93,895	231,960	(138,065)
Total public safety	\$ 1,880,834	\$ 1,880,834	\$ 2,369,644	\$ (488,810)
Human services				
Social services	\$ -	\$ -	\$ 16,453	\$ (16,453)
Health				
Nursing service	\$ 38,000	\$ 38,000	\$ 37,763	\$ 237
Culture and recreation				
Regional library	\$ 22,353	\$ 22,353	\$ 22,353	\$ -
Snowmobile trails	-	-	53,721	(53,721)
Total culture and recreation	\$ 22,353	\$ 22,353	\$ 76,074	\$ (53,721)
Conservation of natural resources				
Cooperative extension	\$ 80,380	\$ 78,904	\$ 75,589	\$ 3,315
Soil and water conservation	31,593	31,593	16,412	15,181
Agricultural inspections	14,970	14,970	14,826	144
Agricultural society/County fair	10,500	10,500	10,500	-
Soil survey	-	-	990	(990)
Predator control	1,500	1,500	1,137	363
Water planning	21,843	21,843	-	21,843
AKI horticulture project	-	-	61	(61)
Total conservation of natural resources	\$ 160,786	\$ 159,310	\$ 119,515	\$ 39,795
Economic development				
Community development	\$ -	\$ -	\$ 298	\$ (298)
Housing Authority	-	-	186,123	(186,123)
Airports	297,820	297,820	54,245	243,575
Total economic development	\$ 297,820	\$ 297,820	\$ 240,666	\$ 57,154

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Debt service				
Principal retirement	\$ -	\$ -	\$ 4,087	\$ (4,087)
Interest	\$ -	\$ -	\$ 107	\$ (107)
Total Expenditures	\$ 4,114,645	\$ 4,113,169	\$ 4,255,861	\$ (142,692)
Excess of Revenues Over (Under) Expenditures	\$ (570,578)	\$ (590,412)	\$ (323,595)	\$ 266,817
Other Financing Sources (Uses)				
Transfers in	-	-	170,275	170,275
Net Change in Fund Balance	\$ (570,578)	\$ (590,412)	\$ (153,320)	\$ 437,092
Fund Balance - January 1	1,634,390	1,634,390	1,634,390	-
Fund Balance - December 31	\$ 1,063,812	\$ 1,043,978	\$ 1,481,070	\$ 437,092

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 327,676	\$ 327,676	\$ 301,904	\$ (25,772)
Intergovernmental	3,577,390	3,577,390	3,794,958	217,568
Charges for services	136,000	136,000	109,344	(26,656)
Miscellaneous	30,000	30,000	11,827	(18,173)
Total Revenues	\$ 4,071,066	\$ 4,071,066	\$ 4,218,033	\$ 146,967
Expenditures				
Current				
Highways and streets				
Administration	\$ 198,000	\$ 198,000	\$ 195,467	\$ 2,533
Maintenance	794,489	794,489	737,694	56,795
Construction	2,781,500	3,201,500	2,559,313	642,187
Equipment maintenance and shop	148,600	148,600	164,230	(15,630)
Materials and services for resale	136,000	136,000	117,184	18,816
Other	6,500	6,500	5,739	761
Unallocated	143,046	143,046	132,197	10,849
Total highways and streets	\$ 4,208,135	\$ 4,628,135	\$ 3,911,824	\$ 716,311
Intergovernmental				
Highways and streets	-	-	111,363	(111,363)
Debt service				
Principal retirement	-	-	8,893	(8,893)
Interest	-	-	1,255	(1,255)
Total Expenditures	\$ 4,208,135	\$ 4,628,135	\$ 4,033,335	\$ 594,800
Excess of Revenues Over (Under) Expenditures	\$ (137,069)	\$ (557,069)	\$ 184,698	\$ 741,767
Other Financing Sources (Uses)				
Transfers in	130,500	130,500	-	(130,500)
Net Change in Fund Balance	\$ (6,569)	\$ (426,569)	\$ 184,698	\$ 611,267
Fund Balance - January 1	188,418	188,418	188,418	-
Increase (decrease) in reserved for inventories	-	-	16,804	16,804
Fund Balance - December 31	\$ 181,849	\$ (238,151)	\$ 389,920	\$ 628,071

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 725,756	\$ 725,756	\$ 649,683	\$ (76,073)
Intergovernmental	1,393,949	1,393,949	1,743,840	349,891
Charges for services	41,410	41,410	57,329	15,919
Miscellaneous	62,425	62,425	60,914	(1,511)
Total Revenues	\$ 2,223,540	\$ 2,223,540	\$ 2,511,766	\$ 288,226
Expenditures				
Current				
Human services				
Income maintenance	\$ 673,389	\$ 673,389	\$ 662,996	\$ 10,393
Social services	1,415,981	1,415,981	1,274,963	141,018
Transportation	134,170	134,170	122,840	11,330
Total human services	\$ 2,223,540	\$ 2,223,540	\$ 2,060,799	\$ 162,741
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 450,967	\$ 450,967
Fund Balance - January 1	712,350	712,350	712,350	-
Fund Balance - December 31	\$ 712,350	\$ 712,350	\$ 1,163,317	\$ 450,967

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 34	\$ 34
Special assessments	108,000	108,000	104,374	(3,626)
Intergovernmental	47,500	47,500	66,570	19,070
Charges for services	6,100	6,100	7,622	1,522
Total Revenues	\$ 161,600	\$ 161,600	\$ 178,600	\$ 17,000
Expenditures				
Current				
Sanitation				
Solid waste	332,503	232,503	227,371	5,132
Excess of Revenues Over (Under) Expenditures	\$ (170,903)	\$ (70,903)	\$ (48,771)	\$ 22,132
Other Financing Sources (Uses)				
Transfers in	\$ 9,875	\$ 9,875	\$ -	\$ (9,875)
Transfers out	(9,875)	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ 9,875	\$ -	\$ (9,875)
Net Change in Fund Balance	\$ (170,903)	\$ (61,028)	\$ (48,771)	\$ 12,257
Fund Balance - January 1	681,169	681,169	681,169	-
Fund Balance - December 31	\$ 510,266	\$ 620,141	\$ 632,398	\$ 12,257

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all major governmental funds, except the Forfeited Tax Sale Special Revenue 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 head 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 the supplemental budgetary appropriations of an increase of \$420,000 in the Road and Bridge Special Revenue Fund and a decrease of \$100,000 in the Solid Waste Special Revenue Fund. Supplemental budgetary appropriations in other funds were not considered significant. Encumbrance accounting is employed in governmental funds.

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the General Fund (the legal level of budgetary control) by \$142,692.

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SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

DEBT SERVICE FUNDS

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

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

The Watershed Project No. 27-34 Fund accounts for the retirement of general obligation bonds issued for a Wild Rice Watershed District construction project. The bonds will be retired from special assessments levied against benefited landowners.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>Special Revenue (Statement B-1)</u>	<u>Debt Service (Statement C-1)</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
<u>Assets</u>			
Cash and pooled investments	\$ 251,369	\$ 119,070	\$ 370,439
Undistributed cash in agency funds	514	1,318	1,832
Taxes receivable			
Current	179	787	966
Prior	290	3,734	4,024
Special assessments receivable			
Current	1,215	153	1,368
Prior	9,501	212	9,713
Noncurrent	47,500	-	47,500
Total Assets	<u>\$ 310,568</u>	<u>\$ 125,274</u>	<u>\$ 435,842</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Due to other funds	\$ 759	\$ -	\$ 759
Due to other governments	1,053	-	1,053
Deferred revenue - unavailable	58,632	3,974	62,606
Total Liabilities	<u>\$ 60,444</u>	<u>\$ 3,974</u>	<u>\$ 64,418</u>
Fund Balances			
Unreserved			
Designated for debt service	\$ -	\$ 121,300	\$ 121,300
Undesignated	250,124	-	250,124
Total Fund Balances	<u>\$ 250,124</u>	<u>\$ 121,300</u>	<u>\$ 371,424</u>
Total Liabilities and Fund Balances	<u>\$ 310,568</u>	<u>\$ 125,274</u>	<u>\$ 435,842</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Special Revenue (Statement B-2)</u>	<u>Debt Service (Statement C-2)</u>	<u>Total Nonmajor Governmental Funds (Exhibit 5)</u>
Revenues			
Taxes	\$ 304	\$ 80,706	\$ 81,010
Special assessments	44,690	-	44,690
Miscellaneous	-	6,484	6,484
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 44,994	\$ 87,190	\$ 132,184
Expenditures			
Current			
Conservation of natural resources	\$ 8,512	\$ -	\$ 8,512
Debt service			
Principal retirement	-	68,714	68,714
Interest	-	37,634	37,634
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 8,512	\$ 106,348	\$ 114,860
Excess of Revenues Over (Under) Expenditures	\$ 36,482	\$ (19,158)	\$ 17,324
Fund Balance - January 1	213,642	140,458	354,100
	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ 250,124	\$ 121,300	\$ 371,424
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL SPECIAL REVENUE FUNDS
DECEMBER 31, 2004**

	Ditch	Hospital	Total (Statement A-1)
<u>Assets</u>			
Cash and pooled investments	\$ 180,170	\$ 71,199	\$ 251,369
Undistributed cash in agency funds	511	3	514
Taxes receivable			
Current	-	179	179
Prior	-	290	290
Special assessments receivable			
Current	1,215	-	1,215
Prior	9,501	-	9,501
Noncurrent	47,500	-	47,500
	\$ 238,897	\$ 71,671	\$ 310,568
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Due to other funds	\$ 759	\$ -	\$ 759
Due to other governments	1,053	-	1,053
Deferred revenue - unavailable	58,190	442	58,632
	\$ 60,002	\$ 442	\$ 60,444
 Fund Balances			
Unreserved			
Undesignated	178,895	71,229	250,124
	\$ 238,897	\$ 71,671	\$ 310,568

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Ditch	Hospital	Total (Statement A-2)
Revenues			
Taxes	\$ -	\$ 304	\$ 304
Special assessments	44,690	-	44,690
Total Revenues	\$ 44,690	\$ 304	\$ 44,994
Expenditures			
Current			
Conservation of natural resources	8,512	-	8,512
Excess of Revenues Over (Under) Expenditures	\$ 36,178	\$ 304	\$ 36,482
Fund Balance - January 1	142,717	70,925	213,642
Fund Balance - December 31	\$ 178,895	\$ 71,229	\$ 250,124

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement C-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL DEBT SERVICE FUNDS
DECEMBER 31, 2004**

	Hospital Steam Line	Nursing Home Revenue Bonds	Watershed Project No. 27-34	Total (Statement A-1)
<u>Assets</u>				
Cash and pooled investments	\$ 18,933	\$ 100,080	\$ 57	\$ 119,070
Undistributed cash in agency funds	1	1,317	-	1,318
Taxes receivable				
Current	-	787	-	787
Prior	53	3,681	-	3,734
Special assessments receivable				
Current	-	-	153	153
Prior	-	-	212	212
Total Assets	\$ 18,987	\$ 105,865	\$ 422	\$ 125,274
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Deferred revenue - unavailable	\$ 51	\$ 3,558	\$ 365	\$ 3,974
Fund Balances				
Unreserved				
Designated for debt service	18,936	102,307	57	121,300
Total Liabilities and Fund Balances	\$ 18,987	\$ 105,865	\$ 422	\$ 125,274

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement C-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Hospital Steam Line	Nursing Home Revenue Bonds	Watershed Project No. 27-34	Total (Statement A-2)
Revenues				
Taxes	\$ 20	\$ 80,686	\$ -	\$ 80,706
Miscellaneous	-	-	6,484	6,484
Total Revenues	\$ 20	\$ 80,686	\$ 6,484	\$ 87,190
Expenditures				
Debt service				
Principal retirement	\$ 1,914	\$ 46,800	\$ 20,000	\$ 68,714
Interest	321	36,275	1,038	37,634
Total Expenditures	\$ 2,235	\$ 83,075	\$ 21,038	\$ 106,348
Excess of Revenues Over (Under) Expenditures	\$ (2,215)	\$ (2,389)	\$ (14,554)	\$ (19,158)
Fund Balance - January 1	21,151	104,696	14,611	140,458
Fund Balance - December 31	\$ 18,936	\$ 102,307	\$ 57	\$ 121,300

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 47,500	\$ 47,500	\$ 44,690	\$ (2,810)
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	-	-	8,512	(8,512)
Excess of Revenues Over (Under) Expenditures	\$ 47,500	\$ 47,500	\$ 36,178	\$ (11,322)
Fund Balance - January 1	142,717	142,717	142,717	-
Fund Balance - December 31	<u>\$ 190,217</u>	<u>\$ 190,217</u>	<u>\$ 178,895</u>	<u>\$ (11,322)</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
HOSPITAL STEAM LINE DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 20	\$ 20
Expenditures				
Debt service				
Principal retirement	\$ 2,454	\$ 2,454	\$ 1,914	\$ 540
Interest	412	412	321	91
Total Expenditures	\$ 2,866	\$ 2,866	\$ 2,235	\$ 631
Excess of Revenues Over (Under) Expenditures	\$ (2,866)	\$ (2,866)	\$ (2,215)	\$ 651
Fund Balance - January 1	21,151	21,151	21,151	-
Fund Balance - December 31	\$ 18,285	\$ 18,285	\$ 18,936	\$ 651

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
NURSING HOME REVENUE BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 89,934	\$ 89,934	\$ 80,686	\$ (9,248)
Expenditures				
Debt service				
Principal retirement	\$ 46,800	\$ 46,800	\$ 46,800	\$ -
Interest	35,952	35,960	36,275	(315)
Total Expenditures	\$ 82,752	\$ 82,760	\$ 83,075	\$ (315)
Excess of Revenues Over (Under) Expenditures	\$ 7,182	\$ 7,174	\$ (2,389)	\$ (9,563)
Fund Balance - January 1	104,696	104,696	104,696	-
Fund Balance - December 31	\$ 111,878	\$ 111,870	\$ 102,307	\$ (9,563)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
WATERSHED PROJECT NO. 27-34 DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Miscellaneous	\$ -	\$ -	\$ 6,484	\$ 6,484
Expenditures				
Debt service				
Principal retirement	\$ -	\$ 20,000	\$ 20,000	\$ -
Interest	-	750	1,038	(288)
Total Expenditures	\$ -	\$ 20,750	\$ 21,038	\$ (288)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (20,750)	\$ (14,554)	\$ 6,196
Fund Balance - January 1	14,611	14,611	14,611	-
Fund Balance - December 31	\$ 14,611	\$ (6,139)	\$ 57	\$ 6,196

FIDUCIARY FUNDS

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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.

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>HEADWATERS COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 11,448	\$ 11,448	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 11,448	\$ 11,448	\$ -
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 669,113	\$ 668,163	\$ 950
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 669,113	\$ 668,163	\$ 950
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 84	\$ 483,922	\$ 482,788	\$ 1,218
Accounts receivable	6,804	5,192	6,804	5,192
Due from other funds	21	-	21	-
Total Assets	\$ 6,909	\$ 489,114	\$ 489,613	\$ 6,410
<u>Liabilities</u>				
Due to other governments	\$ 6,909	\$ 489,114	\$ 489,613	\$ 6,410

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*Statement D-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 30,074	\$ 4,911,149	\$ 4,906,203	\$ 35,020
<u>Liabilities</u>				
Due to other governments	\$ 30,074	\$ 4,911,149	\$ 4,906,203	\$ 35,020
 <u>TOWNSHIPS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,312	\$ 901,857	\$ 900,740	\$ 2,429
Accounts receivable	989	840	989	840
Total Assets	\$ 2,301	\$ 902,697	\$ 901,729	\$ 3,269
<u>Liabilities</u>				
Due to other governments	\$ 2,301	\$ 902,697	\$ 901,729	\$ 3,269
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 172,955	\$ 172,955	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 172,955	\$ 172,955	\$ -

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*Statement D-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ADVANCED LIFE SUPPORT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 26	\$ 53,005	\$ 52,979	\$ 52
<u>Liabilities</u>				
Due to other governments	\$ 26	\$ 53,005	\$ 52,979	\$ 52
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 31,496	\$ 7,203,449	\$ 7,195,276	\$ 39,669
Accounts receivable	7,793	6,032	7,793	6,032
Due from other funds	21	-	21	-
Total Assets	\$ 39,310	\$ 7,209,481	\$ 7,203,090	\$ 45,701
<u>Liabilities</u>				
Due to other governments	\$ 39,310	\$ 7,209,481	\$ 7,203,090	\$ 45,701

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OTHER SCHEDULES

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 9

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2004**

	Number	Interest Rate (%)	Maturity Dates	Fair Value
Cash and Pooled Investments				
Cash on hand	N/A	N/A	N/A	\$ 2,700
Non-interest-bearing checking	One	N/A	N/A	5,635
Interest-bearing checking	Three	Various	Continuous	660,165
Passbook savings	Three	0.25	Continuous	38,988
Certificates of deposit	One	1.70	September 28, 2006	5,000
Money market savings	Three	Various	Continuous	1,940,700
Certificates of deposit with broker	Eleven	1.55 to 7.00	January 13, 2005, to November 12, 2020	1,038,862
FHLB	Four	3.00	August 26, 2009, to July 24, 2013	<u>615,798</u>
Total Cash and Pooled Investments				<u>\$ 4,307,848</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 10

**BALANCE SHEET BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2004**

	County Ditch No. 3	Joint Ditch No. 55	County Ditch No. 91-91A	Total
<u>Assets</u>				
Cash and pooled investments	\$ 5,695	\$ 80,622	\$ 93,853	\$ 180,170
Undistributed cash in agency funds	11	-	500	511
Special assessments receivable				
Current	-	1,153	62	1,215
Delinquent	36	9,225	240	9,501
Noncurrent	2,500	15,000	30,000	47,500
Total Assets	\$ 8,242	\$ 106,000	\$ 124,655	\$ 238,897
<u>Liabilities and Fund Balance</u>				
Liabilities				
Due to other funds	\$ 192	\$ -	\$ 567	\$ 759
Due to other governments	-	1,053	-	1,053
Deferred revenue - unavailable	2,510	25,378	30,302	58,190
Total Liabilities	\$ 2,702	\$ 26,431	\$ 30,869	\$ 60,002
Fund Balance				
Unreserved				
Undesignated	5,540	79,569	93,786	178,895
Total Liabilities and Fund Balance	\$ 8,242	\$ 106,000	\$ 124,655	\$ 238,897

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 11

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2004**

Shared Revenue

State

Highway users tax	\$	3,366,756
HACA		302,330
PERA rate reimbursement		10,235
Disparity reduction aid		66,695
Police aid		45,784
Market value credit		247,724
Mobile home MVC		1,017
Indian casino aid		117,627
		117,627

Total Shared Revenue **\$ 4,158,168**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	788,201
		788,201

Payments

Local

Local contributions	\$	76,166
Payments in lieu of taxes		63,521
		63,521

Total Payments **\$ 139,687**

Grants

State

Minnesota Department of		
Corrections	\$	23,354
Public Safety		84,667
Transportation		114,991
Natural Resources		87,800
Human Services		485,041
Soil and Water Resources		40,974
Veteran Services		1,400
Housing and Finance		16,910
Office of Environmental Assistance		54,290
Peace Officer's Board		3,939
		3,939

Total State **\$ 913,366**

Federal

Department of		
Justice	\$	409,445
Transportation		423,879
Health and Human Services		268,028
Homeland Security		159,492
		159,492

Total Federal **\$ 1,260,844**

Total State and Federal Grants **\$ 2,174,210**

Total Intergovernmental Revenue **\$ 7,260,266**

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 12

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Mahnomen County.
- B. A reportable condition in internal control is disclosed by the audit of financial statements of Mahnomen County and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of Mahnomen County were disclosed during the audit.
- D. A reportable condition relating to the audit of the major federal award programs is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." The reportable condition is a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Mahnomen County expresses an unqualified opinion.
- F. A finding relative to a major federal award program for Mahnomen County was reported as required by Section 510(a) of Office of Management and Budget (OMB) Circular A-133.
- G. The major programs are:
- | | |
|-----------------------------------|--------------|
| Byrne Formula Grant | CFDA #16.579 |
| Highway Planning and Construction | CFDA #20.205 |
| Hazard Mitigation Grant | CFDA #97.039 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Mahnomen County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-4 Segregation of Duties

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. 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.

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

Client's Response:

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

PREVIOUSLY REPORTED ITEMS RESOLVED

General Fixed Asset Records (02-1)

Except in the County Highway Department, the County did not maintain an up-to-date and adequate record of its fixed assets, including an annual inventory to ensure items included on the list are actually held by the County.

Resolution

For 2004, the County provided adequate up-to-date records of its fixed assets.

Controls Over Travel Expenses - Highway (03-1)

During our review of travel expenses in the County Highway Department, we noted County policy did not address who should be responsible for authorizing travel expenses of the department head; travel expenses were paid using photocopies of receipts rather than the original; and the County Highway Department did not maintain logs for County vehicles documenting the user, time, date, destination, and purpose of travel.

Resolution

The County Auditor's Office now reviews all travel claims of department heads, including Road and Bridge, before presentation to the Board for approval. The County Highway Department now requires the original receipt before submitting the claims for payment. If two or more employees travel together and share one receipt, the original is submitted by one employee, and copies are made to be submitted for the other employees. Those employees make a notation explaining to which expense report the original receipt is attached. On September 14, 2004, the Board approved a travel log to be used for County vehicles.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

ITEM ARISING THIS YEAR

04-1 **Subrecipient Monitoring (CFDA #16.579)**

Mahnomen County, acting as the pass-through entity, was awarded a Byrne Formula grant. This grant was awarded to the Center for Reducing Rural Violence, a subrecipient. Mahnomen County was unable to provide any documentation that the subrecipient was not suspended or debarred and that any monitoring procedures were performed.

Non-federal entities are prohibited from contracting with or making sub-awards of federal funds to parties that are suspended or debarred or whose principles are suspended or debarred. Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principles are not suspended or debarred.

As a pass-through entity, the County is responsible for the following monitoring requirements:

Schedule 12
(Continued)

- Award Identification - At the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements).
- During-the-Award Monitoring - Monitoring the subrecipient's use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the other provisions of contracts or grant agreements and that performance goals are achieved.
- Subrecipient Audits - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all findings. In cases of continued inability or unwillingness of a recipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- Pass-Through Entity Impact - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Upon informing Mahnomen County of the compliance requirements for the Byrne Formula Grant, a certification form documenting that the Center for Reducing Rural Violence is not suspended or debarred was signed by the Executive Director on May 2, 2005. The County also obtained a copy of the Center for Reducing Rural Violence's 2003 audit report and noted in 2003 a single audit was not required.

We recommend the County implement internal control policies and procedures to ensure compliance requirements over subrecipients are met in accordance with OMB Circular A-133.

Corrective Action Plan:

Contact Person(s) Responsible for Corrective Action:

Frank Thompson, County Auditor, Mahnomen County, Minnesota
Randy Waller, Deputy Auditor, Mahnomen County, Minnesota

Action Planned:

Mahnomen County has now learned that when being a pass-through entity, the County will make certain that there is proper documentation of all guidelines that are to be followed. This process is now being implemented. If necessary, we will contact the State Auditor's Office for all information to ensure all guidelines are followed properly.

Anticipated Completion Date:

May 2, 2005

PREVIOUSLY REPORTED ITEM RESOLVED

Compliance Requirements (CFDA #93.982) (03-2)

Mahnomen County, acting as the pass-through entity, was awarded a one-time Mental Health Disaster Assistance and Emergency Mental Health grant. This grant was awarded to three subrecipients. Mahnomen County was unable to provide any documentation that subrecipients were not suspended or debarred and that any monitoring procedures were performed.

Resolution

The Mental Health Disaster Assistance and Emergency Mental Health grant was a one-time award.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-3 Credit Card Policy

The County Board does not have a credit card policy. Minn. Stat. § 375.171 authorizes and restricts the use of credit cards by counties. Pursuant to the language of the statute, County credit cards should be used only by those officers and employees authorized to make County purchases. Use of the credit card is restricted to purchases for the County; therefore, no personal use is permitted. The statute further provides that if officers and employees make purchases for the County that are not authorized by the County Board, they become personally liable for the amount of the purchase.

Schedule 12
(Continued)

Minn. Stat. § 375.171 further requires that the use of a credit card must be consistent with other state law. For example, Minn. Stat. § 375.17, subd. 2, requires the publishing of an itemized account of amounts paid out, to whom, and for what purpose to the extent that the published proceedings of the County Board contain the information. If the publishing of disbursements is required, the actual vendors providing the goods and services to the County must be identified and not just the credit card company. The bills received from a credit card company lack sufficient detail to comply with that statutory section. Therefore, the County must also have the invoices and receipts needed to support the items charged in the bill from the credit card company.

Further, the use of credit cards would require the County Board to act in compliance with Minn. Stat. ch. 475. This statutory chapter governs the issuance of debt by public entities and a number of restrictions attached to the issuance of the obligation. Minn. Stat. § 375.171 was not intended to be another method of creating debt for the County, but rather authorizes another type of payment method. Therefore, it is incumbent on the County Board to adopt a policy of paying off credit card charges on a monthly basis.

In addition to the statutory restrictions on the use of credit cards, we recommend that the County Board develop a comprehensive credit card policy providing other safeguards for the County. A comprehensive policy should:

- identify the officers and employees who are authorized to make purchases on behalf of the County and are eligible to use the card,
- identify the particular purchases that are to be made with the credit card,
- set up a review process for all purchases made with the credit card,
- prohibit the use of a County credit card for personal purposes, and
- require supporting documentation.

The County Board may also want to restrict the total amount of charges that can be made on County credit cards. This will help limit the County's exposure to theft or other improper use.

Client's Response:

The Mahnomon County Board of Commissioners have now adopted a Credit Card Policy, as per approved Board minutes dated January 21, 2005.

ITEM ARISING THIS YEAR

04-2 Collateral Pledged to Secure Deposits

To secure deposits at the First National Bank in Mahanomen, four investments are pledged as collateral. One of those investments is held at the United Banker's Bank and three are held at Vining Sparks IBG, L.P.

Minn. Stat. § 118A.03, subd. 7, states, "All collateral shall be placed in safekeeping in a restricted account at a 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. The selection shall be approved by the governmental entity." Minn. Stat. § 118A.03, subd. 3, requires collateral of 110 percent of balances not covered by federal deposit insurance.

Since the safekeeping for three of the investments pledged does not meet the requirements of Minn. Stat. § 118A.03, subd. 7, the deposits with First National Bank exceeded the amount of federal deposit insurance and collateral placed in safekeeping as required by law.

We recommend that the County Treasurer request that the collateral be moved to comply with Minn. Stat. § 118A.03, subd. 7. If the First National Bank is unwilling to move the safekeeping of collateral, we recommend deposits be reduced to an amount in compliance with Minn. Stat. § 118A.03, subd. 3.

Client's Response (County Treasurer):

We understand the concerns raised by the audit and now that we are aware that Vining Sparks is not deemed a legal safekeeping institution we requested in writing on April 20, 2005, that the First National Bank move the pledged collateral to a financial institution deemed legal as per Minn. Stat. § 118A.03, subd. 7.

We have just received documentation from the First National Bank that the pledged collateral is now held at United Banker's Bank. We have safekeeping agreements dated June 13, 2005.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-1 Consolidated General Ledger

Currently, a separate general ledger is maintained by the Highway Department. The detailed financial transactions recorded in the Highway Department's general ledger are not recorded in the same amount of detail in the main general ledger maintained by the County Auditor.

Accounting and reporting controls are more efficient and effective when all transactions are accounted for in one centralized general ledger. Access controls to a centralized general ledger could be established so that departments would have the same responsibility and authority for entering detailed transactions as is currently done with separate departmental general ledgers. A centralized general ledger generally provides more uniformity and consistency in accounting for financial transactions. In addition, it allows senior management to have independent access to financial information for the entire County as needed to manage or monitor its financial operations.

With the implementation of GASB Statement 34, it is important to have all transactions reported in one general ledger. GASB Statement 34 requires the County's financial statements to be reported on the accrual basis of accounting, and having one general ledger will allow for an easier conversion to accrual basis financial statements. For 2004, the County made progress by combining the Social Services general ledger into the centralized general ledger.

We recommend that the County Board continue the necessary directives that would allow for the recording of all detailed financial transactions in a consolidated general ledger.

Client's Response:

Mahnomen County acknowledges the finding and will continue to move forward with addressing and implementing GASB 34. The Revenue Fund and Human Services Fund have consolidated. The Highway Department is researching the software compatibility into the IFS program.

ITEMS ARISING THIS YEAR

04-3

Bank Overdrafts

A checking account at Midwest-Waubun Bank had a deficit book balance in the amount of \$163,376 and a deficit bank balance of \$5,620 on December 31, 2004.

The County Treasurer was aware of the situation and made a \$200,000 transfer on January 4, 2005, to cover the deficit balance.

We recommend the County Treasurer monitor all County checking accounts and provide sufficient funds prior to making payments from those accounts.

Client's Response (County Treasurer):

Prior to my service with the County as Treasurer an informal verbal agreement was in place with the President of the Midwest Bank of Waubun to notify us as soon as we reached a predetermined balance on this account. At that time we would transfer the necessary funds. Midwest Bank has since changed presidents and it appears that the new president is not willing to offer the same courtesy. We will be more diligent in monitoring this account's balance and ensure that funds are available when making payments from this account as we do with all other accounts.

04-4

Former County Engineer's Travel Expenses

In 2004, the Office of the State Auditor was engaged by Mahnommen County to review travel expenses and reimbursements submitted by the former County Highway Engineer. A report detailing these findings was issued on October 4, 2004.

The County has not reached a settlement with the former Engineer relating to questionable payments for travel expenses. The County Board is responsible for managing the public funds of the County and should make every attempt possible to recover the questionable payments made to the former Engineer for travel expenses. At the October 12, 2004, meeting, the Board directed the County Attorney to meet with the former Engineer to discuss a financial settlement.

We recommend the County Attorney continue to work with the former Engineer to reach a settlement.

Client's Response:

The County Attorney continues to work with the former County Engineer in reaching a final settlement. This should be concluded by the end of this year.

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Asset Accounting System (01-2)

To comply with GASB 34, the County must establish accounting policies for capital assets and evaluate its capital asset system to determine if it is capable of providing the information needed to comply with the reporting requirements of GASB Statement 34.

Resolution

The County established the capital asset policies necessary for the implementation of GASB 34. The County has a centralized capital asset accounting system that provides the information needed for GASB 34 reporting.

Budget Documentation (03-4)

The detailed budget presented for financial statement purposes could not be reconciled to the budget approval documented in the Board minutes.

Resolution

The County provided spreadsheets with the budget detail sufficient for financial statement purposes that were reconciled to the budget approval documented in the Board minutes.

OTHER REQUIRED REPORTS

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING 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 Mahnomen County as of and for the year ended December 31, 2004, and have issued our report thereon dated June 15, 2005. 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. The financial statements of the Mahnomen Health Center were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mahnomen County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Mahnomen County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 03-3 and 04-2.

This report is intended solely for the information and use of the Board of County Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 15, 2005



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Mahnomen County

Compliance

We have audited the compliance of Mahnomen County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. Mahnomen County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Mahnomen County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Mahnomen County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Mahnomen County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Mahnomen County as of and for the year ended December 31, 2004, and have issued our report thereon dated June 15, 2005. We did not audit the financial statements of the Mahnomen Health Center, a discrete component unit. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Mahnomen County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, and 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 15, 2005

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 13

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 1,356
Byrne Formula Grant Program	16.579	188,159
Executive Office for Weed and Seed	16.595	218,550
Enforcing Underage Drinking Laws Program	16.727	<u>1,380</u>
Total U.S. Department of Justice		\$ 409,445
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 21,803
Highway Planning and Construction	20.205	384,000
Public Transportation for Non-Urbanized Areas	20.509	<u>18,076</u>
Total U.S. Department of Transportation		\$ 423,879
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families Title IV-B-2	93.556	\$ 2,951
Temporary Assistance for Needy Families	93.558	32,458
Child Care Mandatory and Matching Funds	93.596	2,705
Child Welfare Services - State Grants	93.645	16
Foster Care Title IV-E	93.658	66,293
Social Services Block Grant Title XX	93.667	87,501
Chafee Foster Care Independent Living	93.674	4,976
Community Mental Health Block Grant	93.958	<u>5,685</u>
Total U.S. Department of Health and Human Services		\$ 202,585

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 13
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 3,697
Hazard Mitigation Grant	97.039	148,616
Emergency Management Performance Grants	97.042	5,038
State and Local All Hazards Emergency Operations Planning	97.051	<u>2,141</u>
Total U.S. Department of Homeland Security		\$ 159,492
Total Federal Awards		<u>\$ 1,195,401</u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Mahnomen County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. During 2004, \$143,019 of CFDA #16.579 was passed through to subrecipients.
5. Federal grants as indicated on the Schedule of Intergovernmental Revenue (Schedule 11) are \$65,443 more than the total federal awards above. The variance is due to expenditures made by the County in 2003 for the Mental Health Disaster Assistance and Emergency Mental Health grant (CFDA No. 93.982) not reimbursed until 2004.