

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

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, 2005



**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, MINNESOTA**

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Wallace Eid	District I	January 2009
Vice Chair	Jerry Dahl	District II	January 2007
Chair	John Peterick	District III	January 2009
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 Lunder		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	Jerry Dahl		January 2007
Vice Chair	Karen Ahmann		January 2007
Secretary	Colleen Blattenbauer		July 2007
Member	Wallace Eid		January 2009
Member	Theresa McCollum		July 2006
Member	Charles Pazdernik		January 2007
Member	John Peterick		January 2009
Director	Cindy Marihart		Indefinite

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mahnomen County

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, 2005, 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 reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the

aggregate remaining fund information of Mahnomen County as of December 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2006, 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.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

INTRODUCTION

Mahnomen County's Management's Discussion and Analysis (MD&A) provides an overview of the County financial activities for the fiscal year ended December 31, 2005. Because fiscal year 2005 represents the second year in which Mahnomen County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement 34, this MD&A will provide comparisons with the previous year. The MD&A is relatively new and will now be presented at the front of each year's audited financial statements. This report will include significantly more comparable information. Since this information is designed to focus on the current year and past year's activities, resulting changes, and known facts, it should be read in conjunction with Mahnomen County's financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$23,430,112, of which Mahnomen County has invested \$18,375,861 in capital assets, net of related debt, and \$1,239,618 is restricted to specific purposes/uses by the County.
- The net cost of Mahnomen County's governmental activities for the year ended December 31, 2005, was \$2,908,673. General property tax revenue and other revenue sources totaling \$4,206,288 funded the County's total net cost of \$2,908,673.
- Mahnomen County's governmental funds' fund balances increased by \$1,011,426.
- During the year ending December 31, 2005, Mahnomen County did not issue any new general obligation debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The chart on the next page demonstrates how the different pieces are inter-related.

Management's Discussion and Analysis (Required Supplementary Information)

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

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

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

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

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

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

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

- Governmental activities--Mahnomen County reports its basic services in the “Governmental Activities” column of these reports. The activities reported by the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, 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 obligation when expending property tax revenues, grants, and/or other funds designated for a specific purpose.

Governmental Funds

The County’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Mahnomen County reports these funds in its financial statements using an accounting method called modified accrual accounting. This accounting method measures cash and other financial assets that the County can readily convert to cash. The County’s governmental fund statements provide a detailed short-term view of the County’s general government operations and the basic services it provides. Governmental fund information helps determine whether 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 that can be used only for the trust beneficiaries, based on the trust arrangement. The County reports all of its fiduciary activities in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the County’s other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

Mahnomen County's net assets for the year ended December 31, 2005, were \$23,430,112. The analysis that follows focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 6,495,845	\$ 5,992,878
Capital assets	18,411,417	17,711,401
Total Assets	\$ 24,907,262	\$ 23,704,279
Liabilities		
Long-term debt outstanding	\$ 846,077	\$ 864,990
Other liabilities	631,073	706,792
Total Liabilities	\$ 1,477,150	\$ 1,571,782
Net Assets		
Invested in capital assets, net of related debt	\$ 18,375,861	\$ 17,705,613
Restricted	1,239,618	840,861
Unrestricted	3,814,633	3,586,023
Total Net Assets	\$ 23,430,112	\$ 22,132,497

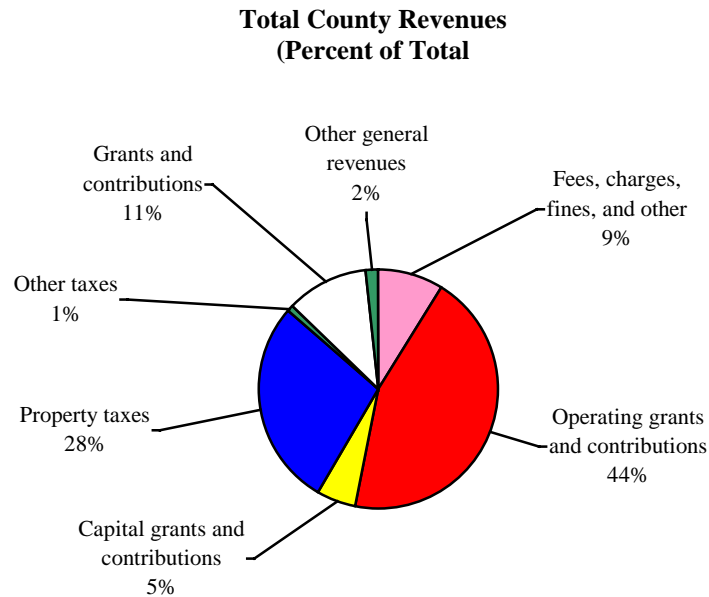
Unrestricted net assets totaling \$3,814,633 are available to Mahnomen County to finance day-to-day operations.

Table 2
Change in Net Assets

	Governmental Activities	
	2005	2004
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 895,936	\$ 1,149,049
Operating grants and contributions	4,451,728	4,745,696
Capital grants and contributions	514,508	395,106
General revenues		
Property taxes	2,847,964	2,684,315
Other taxes	78,245	70,626
Grants and contributions	1,125,721	756,022
Other general revenues	154,358	150,612
Total Revenues	\$ 10,068,460	\$ 9,951,426

	Governmental Activities	
	2005	2004
Expenditures		
Program expenses		
General government	\$ 1,661,187	\$ 1,433,283
Public safety	2,037,945	2,386,651
Highways and streets	2,158,517	2,067,438
Sanitation	222,462	236,567
Human services	2,191,669	2,128,758
Health	39,364	37,763
Culture and recreation	65,203	76,074
Conservation of natural resources	232,150	216,921
Economic development	128,174	249,249
Interest	34,174	37,423
Total Expenses	\$ 8,770,845	\$ 8,870,127
Change in Net Assets	\$ 1,297,615	\$ 1,081,299
Net Assets - Beginning	22,132,497	21,051,198
Net Assets - Ending	\$ 23,430,112	\$ 22,132,497

Mahnomen County's total revenues for the year ended December 31, 2005, were \$10,068,460. The total cost of County programs and services for the year ended December 31, 2005, was \$8,770,845. The net assets for governmental activities increased by \$1,297,615. The following pie chart depicts those revenues in seven categories.



Governmental Activities

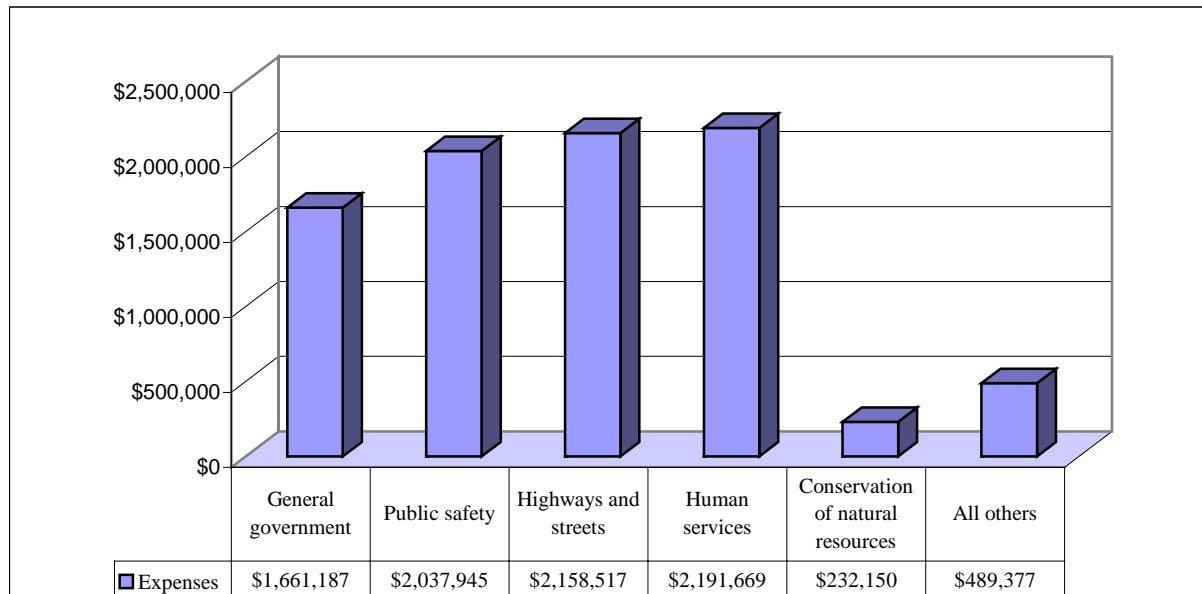
Mahnomen County's costs for all governmental activities for the year ended December 31, 2005, were \$8,770,845, as shown in the Statement of Activities. The net cost of services was ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, and grants.

Table 3 presents the cost of each of Mahnomen County's five largest program functions, as well as each function's net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on the County's taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses		
General government	\$ 1,661,187	\$ 1,421,758
Public safety	2,037,945	1,112,202
Highways and streets	2,158,517	(602,763)
Human services	2,191,669	644,514
Conservation of natural resources	232,150	144,001
All others	489,377	188,961
Totals	<u>\$ 8,770,845</u>	<u>\$ 2,908,673</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 \$5,049,555, which is above last year's total combined fund balance of \$4,038,129. This increase of \$1,011,426 represents a 25 percent total increase. Included in this year's total fund balance is the County's General Revenue Fund balance of \$1,695,252. The General Revenue Fund's change in fund balance (an increase of \$214,182 from 2004) represented a 14.5 percent increase in the General Revenue Fund balance. Most of the General Fund's increase was due to the increases in revenues and stabilization of expenditures.

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 2005, 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 21, 2004, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the County's General Fund, the actual revenues exceeded the expected revenues by \$401,916. Total actual expenditures in the County's General Fund exceeded the budgeted expenditures by \$148,426. However, the General Revenue Fund balance increased by a total of \$214,182. This is the first increase in the fund balance since the year ended December 31, 1999.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, Mahanomen County had \$18,411,417 invested in a broad range of capital assets, including land, construction in progress, buildings, highways and streets, and equipment (see Table 4). This amount represents a net increase (including additions and deductions) of \$700,016, or 4.0 percent, over last year.

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

	2005	2004
Land	\$ 383,894	\$ 342,915
Construction in progress	1,180,971	-
Land improvements	2,945	3,366
Buildings and improvements	643,288	673,762
Machinery, furniture, and equipment	380,806	384,296
Infrastructure	15,819,513	16,307,062
Totals	<u>\$ 18,411,417</u>	<u>\$ 17,711,401</u>

(Unaudited)

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Mahnomen County’s fiscal year 2005 capital budget plans did not call for any major expenditures outside of the normal equipment, vehicles, and road construction projects. More detailed information about the County’s capital assets can be found in Note 2.A.3. to the Mahnomen County financial statements.

Debt

As of December 31, 2005, Mahnomen County had \$651,300 in bonds outstanding, compared with \$702,000 as of December 31, 2004, a decrease of 7.2 percent--as shown in Table 5.

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

	<u>2005</u>	<u>2004</u>
Bonds payable		
General obligation bonds	<u>\$ 651,300</u>	<u>\$ 702,000</u>

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

Mahnomen County’s general obligation bonds are non-rated. The state limits the amount of net debt that the County 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 \$5,501,234 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 2006 budget, tax rates, and fees that will be charged for governmental activities.

- For the prior three out of four years, the State of Minnesota has projected a budget deficit. It now appears that the State of Minnesota resolved this deficit, which may have a significant impact on future Mahnomen County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce these revenues, 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 vulnerable tax base. There continues to be an ongoing concern of the possible change in the taxability status of the largest business in the County known as the Shooting Star Casino. The Shooting Star Casino has not yet made a 2006 tax payment as of the time of this print. The White Earth Tribal Council has made it publicly known that its intentions are not to pay the property taxes and move forward with its trust status application. Mahnomen County was fortunate to receive special legislative reimbursement funding for the shortfall of the Casino taxes. The County also has a good seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.
- Mahnomen County's unemployment rate for 2004 averaged 5.9 percent. The County's unemployment rate for 2005 averaged 4.7 percent according to the Department of Employment and Economic Development.
- The 2006 net property tax levies are planned to increase 5.765 percent from 2005.
- 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 2006 budget.
- Reviewing revenue sources and considering cost effective and efficient means for the delivery of Mahnomen County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 4,721,753	\$ 1,219,131
Petty cash and change funds	2,700	-
Departmental cash	22,524	-
Investments	-	160,102
Taxes receivable		
Current - net	89,758	-
Prior - net	50,731	-
Special assessments receivable		
Current - net	11,140	-
Prior - net	22,132	-
Noncurrent - net	37,500	-
Accounts receivable - net	57,222	833,184
Accrued interest receivable	28,558	-
Due from other governments	1,099,305	-
Prepaid items	-	70,059
Inventories	113,536	54,168
Contract for deed	173,855	-
Property held for resale	65,131	-
Restricted assets		
Due from other governments	-	234,168
Capital assets		
Non-depreciable	1,564,865	36,729
Depreciable - net of accumulated depreciation	16,846,552	2,936,314
Total Assets	\$ 24,907,262	\$ 5,543,855
<u>Liabilities</u>		
Accounts payable	\$ 245,748	\$ 123,426
Salaries payable	129,730	82,878
Contracts payable	87,610	-
Due to other governments	154,316	-
Accrued interest payable	13,669	-
Residents' personal funds	-	13,045
Long-term liabilities		
Due within one year	172,165	105,693
Due in more than one year	673,912	10,310
Total Liabilities	\$ 1,477,150	\$ 335,352

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 18,375,861	\$ 2,952,284
Restricted for general government	19,259	-
Restricted for public safety	112,424	-
Restricted for highways and streets	1,068,713	-
Restricted for sanitation	39,222	-
Restricted for hospital operations	-	54,346
Restricted for capital acquisitions	-	179,822
Unrestricted	3,814,633	2,022,051
Total Net Assets	\$ 23,430,112	\$ 5,208,503

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 1,661,187	\$ 167,359
Public safety	2,037,945	125,869
Highways and streets	2,158,517	159,532
Sanitation	222,462	108,045
Human services	2,191,669	278,388
Health	39,364	-
Culture and recreation	65,203	-
Conservation of natural resources	232,150	52,503
Economic development	128,174	4,240
Interest	34,174	-
	\$ 8,770,845	\$ 895,936
Total primary government		
	\$ 5,657,153	\$ 5,920,239
Component Unit		
Mahnomen Health Center	\$ 5,657,153	\$ 5,920,239
	\$ 5,657,153	\$ 5,920,239

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
\$ 72,070	\$ -	\$ (1,421,758)	
675,374	124,500	(1,112,202)	
2,211,740	390,008	602,763	
62,120	-	(52,297)	
1,268,767	-	(644,514)	
-	-	(39,364)	
41,850	-	(23,353)	
35,646	-	(144,001)	
84,161	-	(39,773)	
-	-	(34,174)	
\$ 4,451,728	\$ 514,508	\$ (2,908,673)	
\$ 148,037	\$ 68,267		\$ 479,390
		\$ 2,847,964	\$ -
		-	56,999
		3,112	-
		1,125,721	-
		75,133	-
		101,028	31,864
		53,330	-
		\$ 4,206,288	\$ 88,863
		\$ 1,297,615	\$ 568,253
		22,132,497	4,640,250
		\$ 23,430,112	\$ 5,208,503

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 1,367,580	\$ 1,156,500	\$ 1,179,903	\$ 987,084	\$ 4,691,067
Petty cash and change funds	2,700	-	-	-	2,700
Undistributed cash in agency funds	20,155	2,842	5,116	2,573	30,686
Departmental cash	22,524	-	-	-	22,524
Taxes receivable					
Current	60,251	9,461	16,950	3,096	89,758
Prior	30,574	6,062	12,249	1,846	50,731
Special assessments receivable					
Current	-	-	-	11,140	11,140
Prior	-	-	-	22,132	22,132
Noncurrent	-	20,000	-	17,500	37,500
Accounts receivable	27,765	676	17,795	180	46,416
Accrued interest receivable	28,558	-	-	-	28,558
Due from other funds	12,218	892	19,175	-	32,285
Due from other governments	281,718	675,517	141,545	525	1,099,305
Advance to other funds	-	-	-	55,000	55,000
Inventories	-	113,536	-	-	113,536
Contract for deed	173,855	-	-	-	173,855
Property held for resale	65,131	-	-	-	65,131
Total Assets	<u>\$ 2,093,029</u>	<u>\$ 1,985,486</u>	<u>\$ 1,392,733</u>	<u>\$ 1,101,076</u>	<u>\$ 6,572,324</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 88,163	\$ 66,842	\$ 83,771	\$ 6,972	\$ 245,748
Salaries payable	71,091	19,036	38,175	1,428	129,730
Contracts payable	-	87,610	-	-	87,610
Due to other funds	8,390	-	1,202	11,887	21,479
Due to other governments	79,165	35,517	25,635	13,999	154,316
Deferred revenue - unavailable	150,968	615,564	17,488	44,866	828,886
Advance from other funds	-	55,000	-	-	55,000
Total Liabilities	\$ 397,777	\$ 879,569	\$ 166,271	\$ 79,152	\$ 1,522,769
Fund Balances					
Reserved for					
Encumbrances	\$ -	\$ 5,242	\$ -	\$ -	\$ 5,242
Inventories	-	113,536	-	-	113,536
Contract for deed	173,855	-	-	-	173,855
Sheriff's contingency	3,439	-	-	-	3,439
State-aid highway project	-	549,468	-	-	549,468
Gravel pit restoration	-	14,221	-	-	14,221
SCORE	-	-	-	39,222	39,222
Missing heirs	2,955	-	-	-	2,955
Recorder's compliance fund	6,424	-	-	-	6,424
Recorder's equipment purchases	12,835	-	-	-	12,835
Enhanced 911	45,382	-	-	-	45,382
Boat and water safety	1,103	-	-	-	1,103
Homeland security program	62,500	-	-	-	62,500
Unreserved					
Designated for drug eradication	1,475	-	-	-	1,475
Designated for County development	2,692	-	-	-	2,692
Designated for timber development	145,487	-	-	-	145,487
Designated for parks and recreation	80,641	-	-	-	80,641
Designated for extension youth grant	2,787	-	-	-	2,787
Designated for drug extension programming	124	-	-	-	124
Designated for K-9 fund	2,260	-	-	-	2,260
Undesignated	1,151,293	423,450	1,226,462	-	2,801,205
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	861,247	861,247
Debt service funds	-	-	-	121,455	121,455
Total Fund Balances	\$ 1,695,252	\$ 1,105,917	\$ 1,226,462	\$ 1,021,924	\$ 5,049,555
Total Liabilities and Fund Balances	\$ 2,093,029	\$ 1,985,486	\$ 1,392,733	\$ 1,101,076	\$ 6,572,324

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$	5,049,555
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.		18,411,417
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		828,886
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	\$ (651,300)	
Capital leases	(42,718)	
Loans payable	(1,915)	
Compensated absences	(150,144)	
Accrued interest payable	(13,669)	
	(859,746)	(859,746)
Net assets of governmental activities (Exhibit 1)	\$	<u>23,430,112</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Road and Bridge	Social Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 1,924,562	\$ 301,388	\$ 537,452	\$ 97,650	\$ 2,861,052
Special assessments	-	-	-	152,227	152,227
Licenses and permits	8,525	-	-	-	8,525
Intergovernmental	2,039,620	3,019,493	1,415,764	71,205	6,546,082
Charges for services	232,444	154,587	86,107	7,641	480,779
Fines and forfeits	25,529	-	-	-	25,529
Gifts and contributions	2,175	-	-	-	2,175
Interest on investments	101,028	-	-	-	101,028
Miscellaneous	103,517	10,781	192,281	16,590	323,169
Total Revenues	\$ 4,437,400	\$ 3,486,249	\$ 2,231,604	\$ 345,313	\$ 10,500,566
Expenditures					
Current					
General government	\$ 1,638,343	\$ -	\$ -	\$ -	\$ 1,638,343
Public safety	2,183,070	-	-	-	2,183,070
Highways and streets	-	2,665,035	-	-	2,665,035
Sanitation	-	-	-	215,723	215,723
Human services	3,018	-	2,168,459	-	2,171,477
Health	39,364	-	-	-	39,364
Culture and recreation	65,203	-	-	-	65,203
Conservation of natural resources	219,202	-	-	12,948	232,150
Economic development	120,591	-	-	-	120,591
Intergovernmental					
Highways and streets	-	107,529	-	-	107,529
Debt service					
Principal	907	7,395	-	52,614	60,916
Interest	136	784	-	34,295	35,215
Total Expenditures	\$ 4,269,834	\$ 2,780,743	\$ 2,168,459	\$ 315,580	\$ 9,534,616
Excess of Revenues Over (Under) Expenditures	\$ 167,566	\$ 705,506	\$ 63,145	\$ 29,733	\$ 965,950
Other Financing Sources (Uses)					
Transfers in	\$ 11,631	\$ -	\$ -	\$ -	\$ 11,631
Transfers out	-	-	-	(11,631)	(11,631)
Capital lease issued	34,985	-	-	-	34,985
Total Other Financing Sources (Uses)	\$ 46,616	\$ -	\$ -	\$ (11,631)	\$ 34,985
Net Change in Fund Balances	\$ 214,182	\$ 705,506	\$ 63,145	\$ 18,102	\$ 1,000,935
Fund Balances - January 1	1,481,070	389,920	1,163,317	1,003,822	4,038,129
Increase (decrease) in reserved for inventories	-	10,491	-	-	10,491
Fund Balances - December 31	\$ 1,695,252	\$ 1,105,917	\$ 1,226,462	\$ 1,021,924	\$ 5,049,555

**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, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,000,935

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

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	\$ 828,886	
Deferred revenue - beginning of year	(1,260,992)	(432,106)

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	\$ 1,388,474	
Current year depreciation	(688,458)	700,016

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds of the debt issuance are shown. (34,985)

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	\$ 50,700	
Loans payable	1,914	
Capital lease	8,302	60,916

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	\$ 1,041	
Change in compensated absences	(8,693)	
Change in inventories	10,491	2,839

Change in net assets of governmental activities (Exhibit 2) \$ 1,297,615

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FIDUCIARY FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005**

	Family Services Collaborative Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 370,155	\$ 26,341
Receivables		
Accounts	-	7,648
Interest	1,034	-
	\$ 371,189	\$ 33,989
Total Assets	\$ 371,189	\$ 33,989
<u>Liabilities</u>		
Due to other funds	\$ 10,806	\$ -
Due to other governments	-	33,989
	\$ 10,806	\$ 33,989
Total Liabilities	\$ 10,806	\$ 33,989
<u>Net Assets</u>		
Net assets, held in trust for pool participants	\$ 360,383	

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

<u>Additions</u>	
Contributions from participants	\$ 530,020
Investment earnings	
Interest	<u>6,029</u>
Total Additions	\$ 536,049
<u>Deductions</u>	
Distributions to participants	<u>607,233</u>
Change in Net Assets	\$ (71,184)
Net Assets - Beginning of the Year	\$ 342,148
Prior period adjustment (Note 1.E.)	<u>89,419</u>
Net Assets - Beginning of the Year, as restated	\$ 431,567
Net Assets - End of the Year	\$ <u>360,383</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

The 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

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

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

Joint Ventures

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Mahnomen County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, 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 2005 were \$107,057.

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 in the pool are reported at fair value based on quoted market prices. The pool is not subject to the regulatory oversight. Fair value amounts are determined at year-end. The County has not provided or obtained any legally binding guarantees to support the value of the pool.

Cash and Pooled Investments	
Held for internal pool participants (County funds)	\$ 4,773,318
Held for external pool participants (Interagency Collaborative)	<u>370,155</u>
Total	<u>\$ 5,143,473</u>

3. Receivables and Payables

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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:

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Compensated Absences

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

8. Deferred Revenue

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

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 not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

11. Use of Estimates

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

E. Prior Period Adjustment

In the 2004 financial statements, the County understated the Family Services Collaborative Investment Trust Fund net assets in the amount of \$89,419 by understating cash and cash equivalents. The net asset account has been restated to show this correction.

Net Assets - January 1	\$ 342,148
Prior period adjustment	<u>89,419</u>
Net Assets - January 1, as restated	<u><u>\$ 431,567</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 4,721,753
Petty cash and change funds	2,700
Departmental cash	22,524
Statement of fiduciary net assets	
Cash and pooled investments	
Investment Trust Fund	370,155
Agency funds	26,341
	<hr/>
Total Cash and Investments	\$ 5,143,473
	<hr/> <hr/>

a. Deposits

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County minimizes its exposure to custodial credit risk by requiring all deposits to be insured or collateralized in accordance with Minn. Stat. § 118A.03. As of December 31, 2005, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County selects only primary government security dealers that report daily to the New York Federal Reserve Bank, unless a comprehensive credit analysis reveals that other firms are adequately financed to conduct business. Only institutions and dealers located in the State of Minnesota are used for investing County funds.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
U.S. government agency securities					
Federal Home Loan Bank Note	Aaa	Moody's		08/26/2009	\$ 98,509
Federal Home Loan Bank Note	Aaa	Moody's		06/26/2013	97,527
Federal Home Loan Bank Note	Aaa	Moody's		06/26/2013	95,752
Federal Home Loan Bank Note	Aaa	Moody's		07/24/2013	316,459
Total Federal Home Loan Bank Notes			37.1%		\$ 608,247
Negotiable certificates of deposit					
GMAC Commercial Mortgage Bank	N/A	N/A	N/A	01/17/2006	\$ 98,000
Franklin Bank	N/A	N/A	N/A	02/10/2006	98,000
Commercial Capital Bank	N/A	N/A	N/A	02/16/2006	50,000
Sterling Savings Bank	N/A	N/A	N/A	02/17/2006	98,000
Republic Bank	N/A	N/A	N/A	03/14/2006	98,000
Independent Bank	N/A	N/A	N/A	03/28/2006	98,000
Independent Bank East	N/A	N/A	N/A	03/28/2006	98,000
Capital One Bank	N/A	N/A	N/A	05/30/2006	100,500
First National Bank	N/A	N/A	N/A	10/11/2006	100,099
LaSalle Brothers Bank	N/A	N/A	N/A	11/28/2007	98,086
Lehman Brothers Bank	N/A	N/A	N/A	11/20/2012	93,946
Total negotiable certificates of deposit					\$ 1,030,631

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Total investments					\$ 1,638,878
Deposits					3,501,895
Petty cash					2,700
Total Cash and Investments					<u>\$ 5,143,473</u>

N/A - Not Applicable

2. Receivables

Receivables as of December 31, 2005, 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	\$ 140,489	\$ -
Special assessments	70,772	-
Accounts	57,222	-
Interest	28,558	-
Due from other governments	1,099,305	-
Total Governmental Activities	<u>\$ 1,396,346</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, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 342,915	\$ 40,979	\$ -	\$ 383,894
Construction in progress	-	1,180,971	-	1,180,971
Total capital assets not depreciated	\$ 342,915	\$ 1,221,950	\$ -	\$ 1,564,865
Capital assets depreciated				
Land improvements	\$ 28,015	\$ -	\$ -	\$ 28,015
Buildings	2,582,405	-	-	2,582,405
Machinery, furniture, and equipment	1,492,447	162,673	66,811	1,588,309
Infrastructure	22,484,826	3,851	-	22,488,677
Total capital assets depreciated	\$ 26,587,693	\$ 166,524	\$ 66,811	\$ 26,687,406
Less: accumulated depreciation for				
Land improvements	\$ 24,649	\$ 421	\$ -	\$ 25,070
Buildings	1,908,643	30,474	-	1,939,117
Machinery, furniture, and equipment	1,108,151	166,163	66,811	1,207,503
Infrastructure	6,177,764	491,400	-	6,669,164
Total accumulated depreciation	\$ 9,219,207	\$ 688,458	\$ 66,811	\$ 9,840,854
Total capital assets depreciated, net	\$ 17,368,486	\$ (521,934)	\$ -	\$ 16,846,552
Governmental Activities Capital Assets, Net	<u>\$ 17,711,401</u>	<u>\$ 700,016</u>	<u>\$ -</u>	<u>\$ 18,411,417</u>

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

Governmental Activities	
General government	\$ 60,864
Public safety	36,255
Highways and streets, including depreciation of infrastructure assets	556,272
Sanitation	6,371
Human services	21,113
Economic development	7,583
Total Depreciation Expense - Governmental Activities	<u>\$ 688,458</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2005, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Social Services	\$ 587
	Other governmental	11,631
Total Due to General Fund		<u>\$ 12,218</u>
Road and Bridge	General	\$ 21
	Social Services	615
	Other governmental	256
Total Due to Road and Bridge Fund		<u>\$ 892</u>
Social Services	General	\$ 8,369
	Investment Trust	10,806
Total Due to Social Services Fund		<u>\$ 19,175</u>
Total Due To/From Other Funds		<u><u>\$ 32,285</u></u>

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

2. Advance From/To Other Funds

The Solid Waste Special Revenue Fund advanced \$55,000 to the Road and Bridge Special Revenue Fund to pay for costs related to an E-911 signage project. The advance will be paid from special assessments.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale	
Special Revenue Fund	<u>\$ 11,631</u> Settlement of proceeds

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities
Accounts	\$ 245,748
Salaries	129,730
Contracts	87,610
Due to other governments	154,316
Accrued interest payable	13,669
Total Payables	\$ 631,073

2. Deferred Revenue

Deferred revenue as of December 31, 2005, for the County's governmental funds and activities are as follows:

	Deferred Unavailable	Deferred Unearned
Governmental funds		
Taxes and special assessments	\$ 138,741	\$ -
State-aid highway allotments	581,031	-
Charges for services	5,428	-
Grants	103,686	-
Total Governmental Funds	\$ 828,886	\$ -

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Roads and bridges	\$ 866,741	\$ 1,098,515
Airport hangar	-	177,333
E-911 signage	43,032	5,242
Dispatch console	<u>62,000</u>	<u>60,000</u>
Total Construction Commitments	<u>\$ 971,773</u>	<u>\$ 1,341,090</u>

4. Other Postemployment Benefits - Retirees

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

As of year-end, the County has four eligible participants. The County finances the plan on a pay-as-you-go basis. During 2005, the County expended \$17,937 for these benefits.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2005:

<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	\$ 1,478
2003 copier	2008	Monthly	309	15,591	7,162
2005 AS400	2008	Monthly	1,043	34,985	34,078
Total Capital Leases					<u>\$ 42,718</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2006	\$ 17,712
2007	16,221
2008	11,783
Total minimum lease payments	\$ 45,716
Less: amount representing interest	<u>(2,998)</u>
Present Value of Minimum Lease Payments	<u>\$ 42,718</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Long-Term Debt

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
General obligation bonds					
1999 G.O. Nursing Home		\$60,000 -	2.75 -		
Revenue Bonds	2015	\$105,000	5.20	\$ 1,100,000	\$ 835,000
Less: City of Mahnomen's share					(183,700)
Total General Obligation Bonds					<u>\$ 651,300</u>

Loan Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
State Loan Payable	2006	\$2,454	5.60	\$ 41,992	\$ 2,454
Less: City of Mahnomen's share					(539)
Total State Loan Payable					<u>\$ 1,915</u>

7. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Loan Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 65,000	\$ 40,299	\$ 2,454	\$ 137
2007	70,000	37,125	-	-
2008	75,000	33,663	-	-
2009	75,000	30,025	-	-
2010	80,000	26,138	-	-
2011 - 2015	470,000	62,524	-	-
Total	<u>\$ 835,000</u>	<u>\$ 229,774</u>	<u>\$ 2,454</u>	<u>\$ 137</u>
Less: City of Mahnomen's share	(183,700)	(50,550)	(539)	(30)
Total	<u>\$ 651,300</u>	<u>\$ 179,224</u>	<u>\$ 1,915</u>	<u>\$ 107</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities					
General obligation bonds	\$ 702,000	\$ -	\$ 50,700	\$ 651,300	\$ 50,700
Loans payable	3,829	-	1,914	1,915	1,915
Capital leases	16,035	34,985	8,302	42,718	15,954
Compensated absences	143,126	139,041	132,023	150,144	103,596
Total Long-Term Liabilities	<u>\$ 864,990</u>	<u>\$ 174,026</u>	<u>\$ 192,939</u>	<u>\$ 846,077</u>	<u>\$ 172,165</u>

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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 internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. 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 were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	2005	2006
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2005, 2004, and 2003, 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
2005	\$ 124,832	\$ 45,419	\$ 16,980
2004	121,488	44,982	14,970
2003	110,557	45,699	13,305

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans (Continued)

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.

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 contributions for the years ending December 31, 2005 and 2004, were \$863 and \$710, respectively, 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

4. Risk Management (Continued)

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Norman-Mahnomen Community Health Board

The Multi-County Nursing Service was established in 1997, under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59 and included Becker, Mahnomen, and Norman Counties. On June 24, 2003, the Becker County Board passed a resolution to withdraw from the Multi-County Nursing Service as of January 1, 2005. On January 1, 2005, Norman and Mahnomen Counties amended the joint powers

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Norman-Mahnomen Community Health Board (Continued)

agreement forming the Multi-County Nursing Service and started doing business as Norman-Mahnomen Public Health. The purpose of Norman-Mahnomen Public Health is the development, implementation, and operation of public health services throughout the member counties.

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

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

The Norman-Mahnomen Community Health Board's long-term liabilities are \$21,031 at December 31, 2005. Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Mahnomen County's contribution for 2005 was \$39,364.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

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.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

Earth Human Services, and White Earth Mental Health. Mahnomen County Human Services is the acting fiscal agent of the MCIC. The purpose of the MCIC is to provide healthier communities and families and to reduce the number of out-of-home placements.

The management of the MCIC is vested in the interagency agreements. Each participating agency is granted one vote upon the receipt of a resolution from 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 MCIC cease to exist, all property, real and personal, held by the MCIC at the time of termination shall be distributed by resolution of the MCIC in accordance with law and in a manner to best accomplish the continuing purposes of the MCIC.

Financing is provided by state and federal grants. Mahnomen County Human Services is the fiscal agent of the MCIC. During 2005, the County did not contribute any funds to the MCIC.

Northwestern Counties Data Processing Security Association

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwestern Counties Data Processing Security Association (Continued)

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

D. Contingent Tax Revenue Reduction - Subsequent Event

In March 2006, Mahnomen County was notified that its largest taxpayer had been approved for tax-exempt status. This could translate into a potential reduction of \$456,000 a year, or approximately 15 percent, of the total property tax revenue for the County. The County is exercising the appeal process to reverse the decision to grant tax-exempt status to the tax payer. The taxpayer has not paid its taxes due in 2006; however, in July 2006, Mahnomen County received \$450,000 from the state to offset the tax revenue loss.

6. Mahnomen Health Center

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

A. Organization and Significant Accounting Policies

Organization

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 year ended December 31, 2005, 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 of the facilities subject to the other terms of the Joint Powers Agreement.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Organization and Significant Accounting Policies (Continued)

Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on 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.

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Organization and Significant Accounting Policies

Patient and Resident Receivables (Continued)

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.

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:

Land improvements	8 - 20 years
Buildings, fixed equipment, and building improvements	5 - 50 years
Movable equipment	2 - 20 years

Grants and Contributions

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Organization and Significant Accounting Policies (Continued)

Restricted Resources

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 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 creditors, 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."

Net Patient and Resident Service Revenue

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Organization and Significant Accounting Policies (Continued)

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

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. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues (expenses) when earned or incurred.

Advertising Costs

The Organization expenses advertising costs as they are incurred.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Organization and Significant Accounting Policies (Continued)

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. 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.

B. Net Patient and Resident Service Revenue

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

Medicare - Hospital

The Hospital is licensed as a Critical Access Hospital (CAH). 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 the year ended December 31, 2003. The Hospital'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 Hospital.

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 that is 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, 2003.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

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 ability to perform certain activities of daily living and on certain other clinical factors. Payments are made for each case mix category and are adjusted each year by an inflation index.

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, 2003.

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 the 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. The net patient service revenue for the year ended December 31, 2005, increased approximately \$50,000 due to removal of allowances previously estimated

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue

Other Payors (Continued)

that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations. Also, the Hospital was notified by the Minnesota Department of Human Services that the Hospital was underpaid for inpatient hospital services provided to Medical Assistance and General Assistance Medical Care program patients for the years ended December 31, 2000 through 2003, by approximately \$300,000. The \$300,000 amount is included with estimated third-party payor settlements on the balance sheet as of December 31, 2005.

A summary of patient and resident service revenue and contractual adjustments for the year ended December 31, 2005 and 2004, is as follows:

Total patient and resident service revenue	\$ 6,929,985
Contractual adjustments and provisions for bad debts	
Medicare	\$ (639,148)
Medicaid	(34,856)
Indian Health Service	(63,857)
Other	(155,483)
Provision for bad debts	(222,823)
Total contractual adjustments and provision for bad debts	\$ (1,116,167)
Net Patient and Resident Service Revenue	\$ 5,813,818

C. Cash, Investments, and Investment Income

The Organization's cash and investments are reported at fair value, as discussed in Note 6.A. At December 31, 2005, the Organization's deposits and 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

C. Cash, Investments, and Investment Income (Continued)

Deposits - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization does not have a separate deposit policy for custodial credit risk and follows statutory requirements. The Organization had bank balances at December 31, 2005, as follows:

Insured (FDIC)	\$ 200,000
Collateralized by securities held by the pledging financial institution's trust department in the Organization's name	744,654
Uninsured, uncollateralized or collateralized by securities held by the pledging financial institution or by its trust department or agent other than the Organization's name	<u>638,130</u>
Total	<u>\$ 1,582,784</u>
 Carrying Value	 <u>\$ 1,378,833</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. At December 31, 2005, \$638,130 was uninsured.

Long-Term Investments

Minnesota statutes authorize 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.

Interest Rate Risk

The Organization's investment policy currently does contain a provision that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

C. Cash, Investments, and Investment Income (Continued)

Investment Income

Investment income and gains and losses on cash and cash equivalents and long-term investments was \$31,864, reported as nonoperating interest income for the year ended December 31, 2005.

D. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2005, are as follows:

	Balance January 1, 2005	Additions	Retirements/ Transfers	Balance December 31, 2005
Land	\$ 36,729	\$ -	\$ -	\$ 36,729
Land improvement	86,126	-	-	86,126
Buildings	4,426,590	139,980	-	4,566,570
Movable equipment	1,656,193	113,971	-	1,770,164
Totals at historical cost	<u>\$ 6,205,638</u>	<u>\$ 253,951</u>	<u>\$ -</u>	<u>\$ 6,459,589</u>
Less: accumulated depreciation for				
Land improvements	\$ 56,608	\$ 2,009	\$ -	\$ 58,617
Buildings	1,911,271	153,840	-	2,065,111
Movable equipment	1,226,760	136,058	-	1,362,818
Total accumulated depreciation	<u>\$ 3,194,639</u>	<u>\$ 291,907</u>	<u>\$ -</u>	<u>\$ 3,486,546</u>
Capital Assets, Net	<u>\$ 3,010,999</u>	<u>\$ (37,956)</u>	<u>\$ -</u>	<u>\$ 2,973,043</u>

E. Leases

The Organization leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. The capitalized leased assets consist of:

Movable equipment	\$ 96,027
Less: accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(88,012)</u>
Net Value of Leased Equipment	<u>\$ 8,015</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

E. Leases (Continued)

Future lease payments for the capital leases are due in 2006. Total payments are \$8,552, which includes interest of \$216, for a net present value of minimum lease payments of \$8,336.

F. Long-Term Debt

Long-term debt consists of the following as of December 31, 2005:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Amounts Due Within One Year
Capital lease obligation (Note E.6.)	\$ 29,504	\$ -	\$ 21,168	\$ 8,336	\$ 8,336
1990 special assessments	14,384	-	1,961	12,423	2,113
Total Long-Term Debt	<u>\$ 43,888</u>	<u>\$ -</u>	<u>\$ 23,129</u>	<u>\$ 20,759</u>	<u>\$ 10,449</u>

The terms and due dates of the Organization's long-term debt at December 31, 2005, are as follows:

- 1990 special assessments at 8.0 percent due in annual installments through 2010.

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

Year Ending December 31	Long-Term Debt		
	Principal	Interest	Total
2006	\$ 10,449	\$ 216	\$ 10,665
2007	2,287	-	2,287
2008	2,470	-	2,470
2009	2,668	-	2,668
2010	2,885	-	2,885
Total	<u>\$ 20,759</u>	<u>\$ 216</u>	<u>\$ 20,975</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

G. Defined Benefit Pension Plan - Statewide

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. See Note 3.A. for information on the plan description and funding policy.

The Organization's contributions to the Public Employees Retirement Fund for the years ended December 31, 2005, 2004 and 2003, were \$105,687, \$120,068, and \$106,823, respectively. The Organization's contributions were equal to the contractually required contributions for each year as set by state statute.

H. 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, 2005, was as follows:

Medicare	29%
Blue Cross	9%
Medicaid	27%
Commercial insurance	5%
Other third-party payors, patients, and residents	<u>30%</u>
	<u><u>100.0%</u></u>

I. Restricted Expendable Net Assets

Restricted, expendable net assets are available for the following purposes as of December 31, 2005 :

Expendable for operations	\$ 54,346
Expendable of capital acquisitions	<u>179,822</u>
Total Restricted Net Assets	<u>\$ 234,168</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

J. Contingencies

Malpractice Insurance - Health Care Industry

The Organization has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$5 million. 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.

Litigation, Claims, and Other Disputes

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

The health care industry is subject to laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties as well as significant repayments of previously billed and collected revenues for patient services. Management believes the Hospital is in substantial compliance with current laws and regulations.

K. Related-Party Transactions

The Organization received certain data processing services from the County during 2005. The estimated value of these services approximated \$33,000 for 2005.

In August 1999, the County issued \$1,100,000 of General Obligation Nursing Home Revenue Bonds, Series 1999, to finance improvements to the nursing home portion of the Organization. The bonds are general obligations of the County for which the County pledged its full faith, credit, and taxing powers. For the year ended December 31, 2005, the County made principal payments of \$65,000 and made interest payments of \$43,289 related to the Series 1999 Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,097,718	\$ 2,097,718	\$ 1,924,562	\$ (173,156)
Licenses and permits	7,825	7,825	8,525	700
Intergovernmental	1,385,478	1,385,478	2,039,620	654,142
Charges for services	250,510	250,510	232,444	(18,066)
Fines and forfeits	11,510	11,510	25,529	14,019
Gifts and contributions	4,000	4,000	2,175	(1,825)
Investment earnings	100,001	100,001	101,028	1,027
Miscellaneous	178,442	178,442	103,517	(74,925)
Total Revenues	\$ 4,035,484	\$ 4,035,484	\$ 4,437,400	\$ 401,916
Expenditures				
Current				
General government				
Commissioners	\$ 141,861	\$ 141,861	\$ 138,821	\$ 3,040
Courts	10,135	10,135	14,408	(4,273)
Law library	15,000	15,000	18,786	(3,786)
County auditor	194,128	194,128	192,947	1,181
License bureau	73,898	73,898	70,296	3,602
County treasurer	111,030	111,030	104,471	6,559
County assessor	93,688	93,688	87,273	6,415
Elections	425	425	440	(15)
Accounting and auditing	40,000	40,000	58,903	(18,903)
Data processing	152,138	152,138	164,652	(12,514)
Attorney	279,109	279,109	286,805	(7,696)
Contracted legal services	10,000	10,000	-	10,000
Recorder	109,542	109,542	100,613	8,929
Planning and zoning	20,663	20,663	20,622	41
Buildings and plant	172,188	172,188	181,710	(9,522)
Veteran services officer	18,347	18,347	19,093	(746)
Unallocated	289,800	289,800	178,503	111,297
Total general government	\$ 1,731,952	\$ 1,731,952	\$ 1,638,343	\$ 93,609

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,522,231	\$ 1,522,231	\$ 1,421,763	\$ 100,468
Boat and water safety	1,341	1,341	440	901
Emergency services	15,198	15,198	69,955	(54,757)
Coroner	6,000	6,000	-	6,000
E-911 system	35,678	35,678	32,596	3,082
Victim resources	75,000	75,000	71,720	3,280
Probation and parole	84,435	84,435	92,584	(8,149)
County safety program	15,200	15,200	10,165	5,035
Weed and seed	69,060	69,060	473,977	(404,917)
Snowmobile safety	3,140	3,140	5,614	(2,474)
Flood	-	-	4,256	(4,256)
Total public safety	\$ 1,827,283	\$ 1,827,283	\$ 2,183,070	\$ (355,787)
Human services				
Social services	\$ -	\$ -	\$ 3,018	\$ (3,018)
Health				
Nursing service	\$ 39,364	\$ 39,364	\$ 39,364	\$ -
Culture and recreation				
Parks	\$ -	\$ -	\$ 1,000	\$ (1,000)
Regional library	22,353	22,353	22,353	-
Snowmobile trails	-	-	41,850	(41,850)
Total culture and recreation	\$ 22,353	\$ 22,353	\$ 65,203	\$ (42,850)
Conservation of natural resources				
County extension	\$ 86,881	\$ 86,881	\$ 88,437	\$ (1,556)
Soil and water conservation	47,849	47,849	62,623	(14,774)
Agricultural inspections	15,377	15,377	14,658	719
Agricultural society/County fair	10,500	10,500	10,500	-
Predator control	1,500	1,500	387	1,113
Water planning	21,744	21,744	42,597	(20,853)
Total conservation of natural resources	\$ 183,851	\$ 183,851	\$ 219,202	\$ (35,351)
Economic development				
Housing Authority	\$ -	\$ -	\$ 7,409	\$ (7,409)
Airports	316,605	316,605	113,182	203,423
Total economic development	\$ 316,605	\$ 316,605	\$ 120,591	\$ 196,014

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<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	\$ -	\$ -	\$ 907	\$ (907)
Interest	\$ -	\$ -	\$ 136	\$ (136)
Total Expenditures	\$ 4,121,408	\$ 4,121,408	\$ 4,269,834	\$ (148,426)
Excess of Revenues Over (Under) Expenditures	\$ (85,924)	\$ (85,924)	\$ 167,566	\$ 253,490
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 11,631	\$ 11,631
Capital lease issued	-	-	34,985	34,985
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 46,616	\$ 46,616
Net Change in Fund Balance	\$ (85,924)	\$ (85,924)	\$ 214,182	\$ 300,106
Fund Balance - January 1	1,481,070	1,481,070	1,481,070	-
Fund Balance - December 31	\$ 1,395,146	\$ 1,395,146	\$ 1,695,252	\$ 300,106

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 328,500	\$ 328,500	\$ 301,388	\$ (27,112)
Intergovernmental	3,464,997	3,464,997	3,019,493	(445,504)
Charges for services	126,000	126,000	154,587	28,587
Miscellaneous	-	-	10,781	10,781
Total Revenues	\$ 3,919,497	\$ 3,919,497	\$ 3,486,249	\$ (433,248)
Expenditures				
Current				
Highways and streets				
Administration	\$ 195,822	\$ 195,822	\$ 183,414	\$ 12,408
Maintenance	894,239	894,239	690,005	204,234
Construction	2,488,286	2,488,286	1,339,183	1,149,103
Equipment maintenance and shop	148,918	148,918	179,835	(30,917)
Materials and services for resale	126,000	126,000	128,887	(2,887)
Other	7,500	7,500	3,592	3,908
Unallocated	160,628	160,628	140,119	20,509
Total highways and streets	\$ 4,021,393	\$ 4,021,393	\$ 2,665,035	\$ 1,356,358
Intergovernmental				
Highways and streets	-	-	107,529	(107,529)
Debt service				
Principal	-	-	7,395	(7,395)
Interest	-	-	784	(784)
Total Expenditures	\$ 4,021,393	\$ 4,021,393	\$ 2,780,743	\$ 1,240,650
Excess of Revenues Over (Under) Expenditures	\$ (101,896)	\$ (101,896)	\$ 705,506	\$ 807,402
Fund Balance - January 1	389,920	389,920	389,920	-
Increase (decrease) in reserved for inventories	-	-	10,491	10,491
Fund Balance - December 31	\$ 288,024	\$ 288,024	\$ 1,105,917	\$ 817,893

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 588,609	\$ 588,609	\$ 537,452	\$ (51,157)
Intergovernmental	1,436,454	1,436,454	1,415,764	(20,690)
Charges for services	50,300	50,300	86,107	35,807
Miscellaneous	20,100	20,100	192,281	172,181
Total Revenues	\$ 2,095,463	\$ 2,095,463	\$ 2,231,604	\$ 136,141
Expenditures				
Current				
Human services				
Income maintenance	\$ 680,884	\$ 680,884	\$ 706,426	\$ (25,542)
Social services	1,517,750	1,517,750	1,305,036	212,714
Transportation	134,170	134,170	156,997	(22,827)
Total Expenditures	\$ 2,332,804	\$ 2,332,804	\$ 2,168,459	\$ 164,345
Excess of Revenues Over (Under) Expenditures	\$ (237,341)	\$ (237,341)	\$ 63,145	\$ 300,486
Fund Balance - January 1	1,163,317	1,163,317	1,163,317	-
Fund Balance - December 31	\$ 925,976	\$ 925,976	\$ 1,226,462	\$ 300,486

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Forfeited Tax 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. 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, 2005, expenditures exceeded appropriations in the General Fund (the legal level of budgetary control) by \$148,426.

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SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

DEBT SERVICE FUNDS

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

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

The 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, 2005**

	Special Revenue (Statement B-1)	Debt Service (Statement C-1)	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 868,096	\$ 118,988	\$ 987,084
Undistributed cash in agency funds	1,816	757	2,573
Taxes receivable			
Current	576	2,520	3,096
Prior	201	1,645	1,846
Special assessments receivable			
Current	11,140	-	11,140
Prior	22,132	-	22,132
Noncurrent	17,500	-	17,500
Accounts receivable	180	-	180
Due from other governments	525	-	525
Advance to other funds	55,000	-	55,000
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 977,166	\$ 123,910	\$ 1,101,076
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 6,972	\$ -	\$ 6,972
Salaries payable	1,428	-	1,428
Due to other funds	11,887	-	11,887
Due to other governments	13,999	-	13,999
Deferred revenue - unavailable	42,411	2,455	44,866
	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ 76,697	\$ 2,455	\$ 79,152
	<hr/>	<hr/>	<hr/>
Fund Balances			
Reserved for SCORE	\$ 39,222	\$ -	\$ 39,222
Unreserved			
Designated for debt service	-	121,455	121,455
Undesignated	861,247	-	861,247
	<hr/>	<hr/>	<hr/>
Total Fund Balances	\$ 900,469	\$ 121,455	\$ 1,021,924
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 977,166	\$ 123,910	\$ 1,101,076
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**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, 2005**

	Special Revenue (Statement B-2)	Debt Service (Statement C-2)	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues			
Taxes	\$ 17,980	\$ 79,670	\$ 97,650
Special assessments	152,227	-	152,227
Intergovernmental	63,811	7,394	71,205
Charges for services	7,641	-	7,641
Miscellaneous	16,590	-	16,590
Total Revenues	\$ 258,249	\$ 87,064	\$ 345,313
Expenditures			
Current			
Sanitation	\$ 215,723	\$ -	\$ 215,723
Conservation of natural resources	12,948	-	12,948
Debt service			
Principal	-	52,614	52,614
Interest	-	34,295	34,295
Total Expenditures	\$ 228,671	\$ 86,909	\$ 315,580
Excess of Revenues Over (Under) Expenditures	\$ 29,578	\$ 155	\$ 29,733
Other Financing Sources (Uses)			
Transfers out	(11,631)	-	(11,631)
Net Change in Fund Balance	\$ 17,947	\$ 155	\$ 18,102
Fund Balance - January 1	882,522	121,300	1,003,822
Fund Balance - December 31	\$ 900,469	\$ 121,455	\$ 1,021,924

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement B-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2005**

	Solid Waste	Ditch	Hospital	Forfeited Tax Sale	Total (Statement A-1)
<u>Assets</u>					
Cash and pooled investments	\$ 544,782	\$ 216,282	\$ 90,367	\$ 16,665	\$ 868,096
Undistributed cash in agency funds	1,107	539	170	-	1,816
Taxes receivable					
Current	-	-	576	-	576
Prior	-	-	201	-	201
Special assessments receivable					
Current	9,681	1,459	-	-	11,140
Prior	11,755	10,377	-	-	22,132
Noncurrent	-	17,500	-	-	17,500
Accounts receivable	180	-	-	-	180
Due from other governments	525	-	-	-	525
Advance to other funds	55,000	-	-	-	55,000
Total Assets	\$ 623,030	\$ 246,157	\$ 91,314	\$ 16,665	\$ 977,166
 <u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 6,972	\$ -	\$ -	\$ -	\$ 6,972
Salaries payable	1,428	-	-	-	1,428
Due to other funds	256	-	-	11,631	11,887
Due to other governments	8,965	-	-	5,034	13,999
Deferred revenue - unavailable	12,963	29,034	414	-	42,411
Total Liabilities	\$ 30,584	\$ 29,034	\$ 414	\$ 16,665	\$ 76,697
Fund Balances					
Reserved for SCORE	\$ 39,222	\$ -	\$ -	\$ -	\$ 39,222
Unreserved					
Undesignated	553,224	217,123	90,900	-	861,247
Total Fund Balances	\$ 592,446	\$ 217,123	\$ 90,900	\$ -	\$ 900,469
Total Liabilities and Fund Balances	\$ 623,030	\$ 246,157	\$ 91,314	\$ 16,665	\$ 977,166

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Solid Waste	Ditch	Hospital	Forfeited Tax Sale	Total (Statement A-2)
Revenues					
Taxes	\$ -	\$ -	\$ 17,980	\$ -	\$ 17,980
Special assessments	106,010	46,217	-	-	152,227
Intergovernmental	62,120	-	1,691	-	63,811
Charges for services	7,641	-	-	-	7,641
Miscellaneous	-	-	-	16,590	16,590
Total Revenues	\$ 175,771	\$ 46,217	\$ 19,671	\$ 16,590	\$ 258,249
Expenditures					
Current					
Sanitation	\$ 215,723	\$ -	\$ -	\$ -	\$ 215,723
Conservation of natural resources	-	7,989	-	4,959	12,948
Total Expenditures	\$ 215,723	\$ 7,989	\$ -	\$ 4,959	\$ 228,671
Excess of Revenues Over (Under) Expenditures	\$ (39,952)	\$ 38,228	\$ 19,671	\$ 11,631	\$ 29,578
Other Financing Sources (Uses)					
Transfers out	-	-	-	(11,631)	(11,631)
Net Change in Fund Balance	\$ (39,952)	\$ 38,228	\$ 19,671	\$ -	\$ 17,947
Fund Balance - January 1	632,398	178,895	71,229	-	882,522
Fund Balance - December 31	\$ 592,446	\$ 217,123	\$ 90,900	\$ -	\$ 900,469

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement C-1

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2005**

	Hospital Steam Line	Nursing Home Revenue Bonds	Watershed Project No. 27-34	Total (Statement A-1)
<u>Assets</u>				
Cash and pooled investments	\$ 16,839	\$ 102,092	\$ 57	\$ 118,988
Undistributed cash in agency funds	-	757	-	757
Taxes receivable				
Current	-	2,520	-	2,520
Prior	18	1,627	-	1,645
Total Assets	\$ 16,857	\$ 106,996	\$ 57	\$ 123,910
<u>Liabilities and Fund Balances</u>				
Liabilities				
Deferred revenue - unavailable	\$ 18	\$ 2,437	\$ -	\$ 2,455
Fund Balances				
Unreserved				
Designated for debt service	16,839	104,559	57	121,455
Total Liabilities and Fund Balances	\$ 16,857	\$ 106,996	\$ 57	\$ 123,910

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement C-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Hospital Steam Line</u>	<u>Nursing Home Revenue Bonds</u>	<u>Watershed Project No. 27-34</u>	<u>Total (Statement A-2)</u>
Revenues				
Taxes	\$ 32	\$ 79,638	\$ -	\$ 79,670
Intergovernmental	-	7,394	-	7,394
Total Revenues	\$ 32	\$ 87,032	\$ -	\$ 87,064
Expenditures				
Debt service				
Principal	\$ 1,914	\$ 50,700	\$ -	\$ 52,614
Interest	215	34,080	-	34,295
Total Expenditures	\$ 2,129	\$ 84,780	\$ -	\$ 86,909
Excess of Revenues Over (Under) Expenditures	\$ (2,097)	\$ 2,252	\$ -	\$ 155
Fund Balance - January 1	18,936	102,307	57	121,300
Fund Balance - December 31	\$ 16,839	\$ 104,559	\$ 57	\$ 121,455

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 100,000	\$ 100,000	\$ 106,010	\$ 6,010
Intergovernmental	64,198	64,198	62,120	(2,078)
Charges for services	4,500	4,500	7,641	3,141
Miscellaneous	100	100	-	(100)
Total Revenues	\$ 168,798	\$ 168,798	\$ 175,771	\$ 6,973
Expenditures				
Current				
Sanitation				
Solid waste	228,396	228,396	215,723	12,673
Excess of Revenues Over (Under) Expenditures	\$ (59,598)	\$ (59,598)	\$ (39,952)	\$ 19,646
Fund Balance - January 1	632,398	632,398	632,398	-
Fund Balance - December 31	\$ 572,800	\$ 572,800	\$ 592,446	\$ 19,646

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<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	\$ 46,217	\$ (1,283)
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	-	-	7,989	(7,989)
Excess of Revenues Over (Under)				
Expenditures	\$ 47,500	\$ 47,500	\$ 38,228	\$ (9,272)
Fund Balance - January 1	<u>178,895</u>	<u>178,895</u>	<u>178,895</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 226,395</u>	<u>\$ 226,395</u>	<u>\$ 217,123</u>	<u>\$ (9,272)</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
HOSPITAL SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 20,000	\$ 20,000	\$ 17,980	\$ (2,020)
Intergovernmental	-	-	1,691	1,691
Total Revenues	\$ 20,000	\$ 20,000	\$ 19,671	\$ (329)
Fund Balance - January 1	71,229	71,229	71,229	-
Fund Balance - December 31	<u>\$ 91,229</u>	<u>\$ 91,229</u>	<u>\$ 90,900</u>	<u>\$ (329)</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
HOSPITAL STEAM LINE DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 32	\$ 32
Expenditures				
Debt service				
Principal	\$ 2,454	\$ 2,454	\$ 1,914	\$ 540
Interest	275	275	215	60
Total Expenditures	\$ 2,729	\$ 2,729	\$ 2,129	\$ 600
Excess of Revenues Over (Under) Expenditures	\$ (2,729)	\$ (2,729)	\$ (2,097)	\$ 632
Fund Balance - January 1	18,936	18,936	18,936	-
Fund Balance - December 31	\$ 16,207	\$ 16,207	\$ 16,839	\$ 632

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
NURSING HOME REVENUE BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 87,516	\$ 87,516	\$ 79,638	\$ (7,878)
Intergovernmental	-	-	7,394	7,394
Total Revenues	\$ 87,516	\$ 87,516	\$ 87,032	\$ (484)
Expenditures				
Debt service				
Principal	\$ 50,700	\$ 50,700	\$ 50,700	\$ -
Interest	33,765	33,765	34,080	(315)
Total Expenditures	\$ 84,465	\$ 84,465	\$ 84,780	\$ (315)
Excess of Revenues Over (Under) Expenditures	\$ 3,051	\$ 3,051	\$ 2,252	\$ (799)
Fund Balance - January 1	102,307	102,307	102,307	-
Fund Balance - December 31	\$ 105,358	\$ 105,358	\$ 104,559	\$ (799)

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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

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

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

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

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

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>HEADWATERS COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 11,102	\$ 11,102	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 11,102	\$ 11,102	\$ -
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 950	\$ 854,873	\$ 855,051	\$ 772
<u>Liabilities</u>				
Due to other governments	\$ 950	\$ 854,873	\$ 855,051	\$ 772
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,218	\$ 475,223	\$ 475,428	\$ 1,013
Accounts receivable	5,192	7,648	5,192	7,648
Total Assets	\$ 6,410	\$ 482,871	\$ 480,620	\$ 8,661
<u>Liabilities</u>				
Due to other governments	\$ 6,410	\$ 482,871	\$ 480,620	\$ 8,661

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 35,020	\$ 5,242,060	\$ 5,256,418	\$ 20,662
<u>Liabilities</u>				
Due to other governments	\$ 35,020	\$ 5,242,060	\$ 5,256,418	\$ 20,662
 <u>TOWNSHIPS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,429	\$ 983,954	\$ 985,969	\$ 414
Accounts receivable	840	-	840	-
Total Assets	\$ 3,269	\$ 983,954	\$ 986,809	\$ 414
<u>Liabilities</u>				
Due to other governments	\$ 3,269	\$ 983,954	\$ 986,809	\$ 414
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 196,899	\$ 196,899	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 196,899	\$ 196,899	\$ -

**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, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ADVANCED LIFE SUPPORT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 52	\$ 54,018	\$ 53,992	\$ 78
<u>Liabilities</u>				
Due to other governments	\$ 52	\$ 54,018	\$ 53,992	\$ 78
 <u>CAFETERIA PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 5,946	\$ 2,544	\$ 3,402
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 5,946	\$ 2,544	\$ 3,402
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 39,669	\$ 7,824,075	\$ 7,837,403	\$ 26,341
Accounts receivable	6,032	7,648	6,032	7,648
Total Assets	\$ 45,701	\$ 7,831,723	\$ 7,843,435	\$ 33,989
<u>Liabilities</u>				
Due to other governments	\$ 45,701	\$ 7,831,723	\$ 7,843,435	\$ 33,989

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OTHER SCHEDULES

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 9

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2005**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Cash on hand	N/A	N/A	N/A	\$ 2,700
Non-interest-bearing checking	Three	N/A	N/A	15,956
Interest-bearing checking	Three	Various	Continuous	508,885
Passbook savings	Three	0.50	Continuous	56,568
Certificates of deposit	One	1.70	September 28, 2006	5,000
Money market savings	Three	Various	Continuous	2,915,486
Certificates of deposit with broker	Eleven	3.60 to 6.00	January 17, 2006, to November 20, 2012	1,030,631
FHLB	Four	3.00 to 4.00	August 26, 2009, to July 24, 2013	608,247
Total Cash and Pooled Investments				<u>\$ 5,143,473</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 10

**BALANCE SHEET BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2005**

	<u>County Ditch No. 3</u>	<u>Joint Ditch No. 55</u>	<u>County Ditch No. 91-91A</u>	<u>Total</u>
<u>Assets</u>				
Cash and pooled investments	\$ 7,453	\$ 92,024	\$ 116,805	\$ 216,282
Undistributed cash in agency funds	20	-	519	539
Special assessments receivable				
Current	40	1,153	266	1,459
Delinquent	-	10,377	-	10,377
Noncurrent	2,500	15,000	-	17,500
Total Assets	<u>\$ 10,013</u>	<u>\$ 118,554</u>	<u>\$ 117,590</u>	<u>\$ 246,157</u>
<u>Liabilities and Fund Balance</u>				
Liabilities				
Deferred revenue - unavailable	\$ 2,498	\$ 26,530	\$ 6	\$ 29,034
Fund Balance				
Unreserved				
Undesignated	7,515	92,024	117,584	217,123
Total Liabilities and Fund Balance	<u>\$ 10,013</u>	<u>\$ 118,554</u>	<u>\$ 117,590</u>	<u>\$ 246,157</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 11

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2005**

Shared Revenue

State

Highway users tax	\$	2,848,573
HACA		688,257
PERA rate reimbursement		10,235
Disparity reduction aid		66,695
Police aid		44,982
Market value credit (MVC)		255,758
Mobile home MVC		1,090
Indian casino aid		128,021
		128,021

Total Shared Revenue **\$ 4,043,611**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	639,756
		639,756

Payments

Local

Local contributions	\$	114,264
Payments in lieu of taxes		75,133
		75,133

Total Payments **\$ 189,397**

Grants

State

Minnesota Department of		
Corrections	\$	13,471
Public Safety		157,173
Transportation		69,901
Natural Resources		59,787
Human Services		411,613
Housing and Finance		70,251
Office of Environmental Assistance		49,850
Water and Soil Resources Board		40,974
Peace Officer Standards and Training Board		4,229
		4,229

Total State **\$ 877,249**

Federal

Department of		
Justice	\$	296,607
Transportation		152,502
Health and Human Services		186,541
Homeland Security		160,419
		160,419

Total Federal **\$ 796,069**

Total State and Federal Grants **\$ 1,673,318**

Total Intergovernmental Revenue **\$ 6,546,082**

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 12

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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 was disclosed by the audit of financial statements of Mahnomen County and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." 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. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Mahnomen County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|--|--------------|
| Executive Office for Weed and Seed | CFDA #16.595 |
| Highway Planning and Construction | CFDA #20.205 |
| Social Services Block Grant – Title XX | CFDA #93.667 |
- 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 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 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.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Subrecipient Monitoring (04-1)

The County did not have a subrecipient certify it was not suspended or debarred from being able to work on a federal program. The County could not provide documentation that supported monitoring of the subrecipient.

Resolution

The County had the subrecipient certify it was not suspended or debarred for the grant period January 1, 2004, through December 31, 2005. The County obtained a copy of the subrecipient's 2004 audit report, which documented that the subrecipient was not required to have a single audit.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Credit Card Policy (03-3)

The County did not have a credit card policy.

Resolution

The County now has a credit card policy in use.

Collateral Pledged to Secure Deposits (04-2)

The County had three securities pledged as collateral held at Vining Sparks (broker/dealer), which is not a legal place to hold pledged collateral for the County, resulting in under-collateralized deposits at the First National Bank in Mahnommen.

Resolution

The pledged collateral is now held by United Banker's Bank, which is an acceptable place to hold pledged collateral.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-4 Former 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 our 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.

PREVIOUSLY REPORTED ITEMS RESOLVED

Consolidated General Ledger (01-1)

The County did not have a centralized general ledger system in place. Separate detailed general ledgers were maintained by the County Auditor for all funds except the Road and Bridge Special Revenue Fund. The Highway Department had a general ledger for the Road and Bridge Special Revenue Fund.

Resolution

Starting in 2006, the Road and Bridge detail was entered in the detailed general ledger maintained by the County Auditor.

Bank Overdrafts (04-3)

The County had a checking account with a deficit book and bank balance.

Resolution

All checking accounts had positive balances at December 31, 2005.

C. **OTHER ITEM FOR CONSIDERATION**

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and

plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

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

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

If applicable for Mahanomen County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2008 and 2009, respectively.

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

Board of County Commissioners
Mahnomen County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 17, 2006. 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. 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. 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.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 17, 2006



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, 2005. 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, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahanomen County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 17, 2006. We did not audit the financial statements of the Mahanomen Health Center, a discretely presented component unit. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Mahanomen 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 and management of Mahanomen County and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 17, 2006

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 13

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety		
Byrne Formula Grant Program	16.579	\$ 44,053
Executive Office for Weed and Seed	16.595	252,554
		<hr/>
Total U.S. Department of Justice		\$ 296,607
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Airport Improvement Program	20.106	\$ 9,815
Highway Planning and Construction	20.205	101,451
Federal Transit Metro Planning Grant	20.505	4,759
Public Transportation for Non-Urbanized Areas	20.509	35,590
Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	887
		<hr/>
Total U.S. Department of Transportation		\$ 152,502
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	\$ 12,375
Temporary Assistance for Needy Families	93.558	40,384
Community Based Family Resource and Support	93.590	500
Child Care Mandatory and Matching Funds	93.596	5,788
Foster Care Title IV-E	93.658	41,949
Social Services Block Grant Title XX	93.667	79,758
Chafee Foster Care Independent Living	93.674	5,787
		<hr/>
Total U.S. Department of Health and Human Services		\$ 186,541
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	\$ 50,000
Hazard Mitigation Grant	97.039	32,572
Homeland Security Grant Program	97.067	3,347
		<hr/>
Passed Through Minnesota Department of Public Safety and Norman County		
Homeland Security Grant Program	97.067	74,500
		<hr/>
Total U.S. Department of Homeland Security		\$ 160,419
		<hr/>
Total Federal Awards		\$ 796,069

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***Schedule 13
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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 2005, \$44,053 of CFDA #16.579 was passed through to subrecipients.