

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Year Ended December 31, 2006



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

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization Schedule		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	13
Statement of Activities	Exhibit 2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	17
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	21
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	22
Statement of Changes in Fiduciary Net Assets	Exhibit 8	23
Notes to the Financial Statements		24
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	68
Road and Bridge Special Revenue Fund	Schedule 2	71
Social Services Special Revenue Fund	Schedule 3	72
Notes to the Required Supplementary Information		73

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Nonmajor Governmental Funds		74
Combining Balance Sheet	Statement A-1	75
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement A-2	76
Combining Balance Sheet - Nonmajor Special Revenue Funds	Statement B-1	77
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Special Revenue Funds	Statement B-2	78
Combining Balance Sheet - Nonmajor Debt Service Funds	Statement C-1	79
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Debt Service Funds	Statement C-2	80
Budgetary Comparison Schedules		
Solid Waste Special Revenue Fund	Schedule 4	81
Ditch Special Revenue Fund	Schedule 5	82
Hospital Special Revenue Fund	Schedule 6	83
Hospital Steam Line Debt Service Fund	Schedule 7	84
Nursing Home Revenue Bonds Debt Service Fund	Schedule 8	85
Fiduciary Funds		86
Agency Funds		
Combining Statement of Changes in Assets and Liabilities	Statement D-1	87
Other Schedules		
Schedule of Deposits and Investments	Schedule 9	90
Balance Sheet by Ditch - Ditch Special Revenue Fund	Schedule 10	91
Schedule of Intergovernmental Revenue	Schedule 11	92

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 12	94
Other Required Reports		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		101
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		104
Schedule of Expenditures of Federal Awards	Schedule 13	107

This page was left blank intentionally.

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2006**

Offices	Name	Term Expires
Commissioners		
1st District	Wallace Eid	January 2009
2nd District	Jerry Dahl ¹	January 2007
3rd District	John Peterick	January 2009
4th District	Karen Ahmann ²	January 2007
5th District	Charles Pazdernik	January 2007
Officials		
Elected		
Attorney	Julie Bruggeman	January 2007
Auditor	Frank Thompson	January 2007
County Recorder	Susan Bendickson	January 2007
Registrar of Titles	Susan Bendickson	January 2007
Sheriff	Bradley Athmann ³	January 2007
Treasurer	Brenda London	January 2007
Appointed		
Assessor	Les Finseth	December 2008
Court Administrator	Lori Wiebolt	Indefinite
Highway Engineer	Jonathan Large	May 2009
Veterans Service Officer	Neil Toso	Indefinite
Medical Examiner	Dr. Ed LaDue ⁴	Indefinite
Solid Waste Officer	Mark Diekman	Indefinite
Welfare Board		
Chair	Karen Ahmann	January 2007
Vice Chair	Charles Pazdernik	January 2007
Secretary	Theresa McCollum	July 2008
Member	Wallace Eid	January 2009
Member	John Peterick	January 2009
Member	Jerry Dahl	January 2007
Member	Colleen Blattenbauer	July 2007
Director	Cindy Marihart	Indefinite

¹Chair

²Vice Chair

³Douglas Krier was elected as the new Sheriff effective January 2, 2007.

⁴Dr. Sanjit Dutton was appointed as the new Medical Examiner effective January 17, 2007.

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mahnomen County

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, 2006, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Mahnomen County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mahnomen Health Center, which represent the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mahnomen Health Center, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of 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, 2006, 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise Mahanomen County's basic financial statements. The supplementary information and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of Mahanomen County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(Unaudited)**

INTRODUCTION

Mahnomen County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the current year and past year's activities, resulting changes, and known facts, it should be read in conjunction with Mahnomen County's financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$26,688,586, of which Mahnomen County has invested \$22,160,425 in capital assets, net of related debt, and \$350,032 is restricted to specific purposes/uses by the County.
- The net cost of Mahnomen County's governmental activities for the year ended December 31, 2006, was \$1,136,781. General property tax revenues and other revenues sources totaling \$4,395,255 funded the County's total net cost of \$1,136,781.
- Mahnomen County's governmental funds' fund balances decreased by \$408,348.
- During the year ending December 31, 2006, Mahnomen County did not issue any new general obligation bonded 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 following chart demonstrates how the different pieces are inter-related.

Management’s Discussion and Analysis
(Required Supplementary Information)

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

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

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

Reporting the County’s Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

Mahnomen County's net assets for the year ended December 31, 2006, were \$26,688,586. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

**Table 1
Net Assets**

	Governmental Activities	
	2006	2005
Assets		
Current and other assets	\$ 5,921,728	\$ 6,495,845
Capital assets	22,239,016	18,411,417
Total Assets	\$ 28,160,744	\$ 24,907,262
Liabilities		
Long-term debt outstanding	\$ 843,045	\$ 846,077
Other liabilities	629,113	631,073
Total Liabilities	\$ 1,472,158	\$ 1,477,150
Net Assets		
Invested in capital assets, net of related debt	\$ 22,160,425	\$ 18,375,861
Restricted	350,032	1,239,618
Unrestricted	4,178,129	3,814,633
Total Net Assets	\$ 26,688,586	\$ 23,430,112

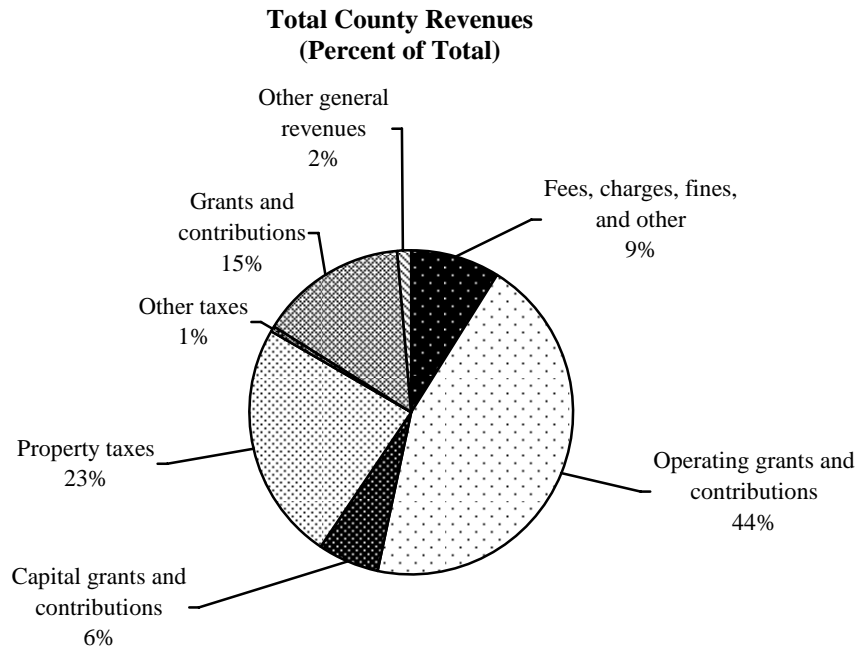
Unrestricted net assets totaling \$4,178,129 are available to Mahnomen County to finance day-to-day operations.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2006	2005
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 948,352	\$ 895,936
Operating grants and contributions	4,828,786	4,451,728
Capital grants and contributions	637,449	514,508
General revenues		
Property taxes	2,597,973	2,847,964
Other taxes	58,679	78,245
Grants and contributions	1,574,967	1,125,721
Other general revenues	163,636	154,358
Total Revenues	\$ 10,809,842	\$ 10,068,460

	Governmental Activities	
	2006	2005
Expenditures		
Program expenses		
General government	\$ 1,633,406	\$ 1,661,187
Public safety	2,003,334	2,037,945
Highways and streets	845,975	2,158,517
Sanitation	224,116	222,462
Human services	2,246,934	2,191,669
Health	62,982	39,364
Culture and recreation	106,829	65,203
Conservation of natural resources	210,581	232,150
Economic development	181,191	128,174
Interest	36,020	34,174
Total Expenses	\$ 7,551,368	\$ 8,770,845
Change in Net Assets	\$ 3,258,474	\$ 1,297,615
Net Assets - Beginning	23,430,112	22,132,497
Net Assets - Ending	\$ 26,688,586	\$ 23,430,112

Mahnomen County's total revenues for the year ended December 31, 2006, were \$10,809,842. The total cost of County programs and services for the year ended December 31, 2006, was \$7,551,368. The net assets for governmental activities increased by \$3,258,474. The following pie chart depicts those revenues in seven categories.



Governmental Activities

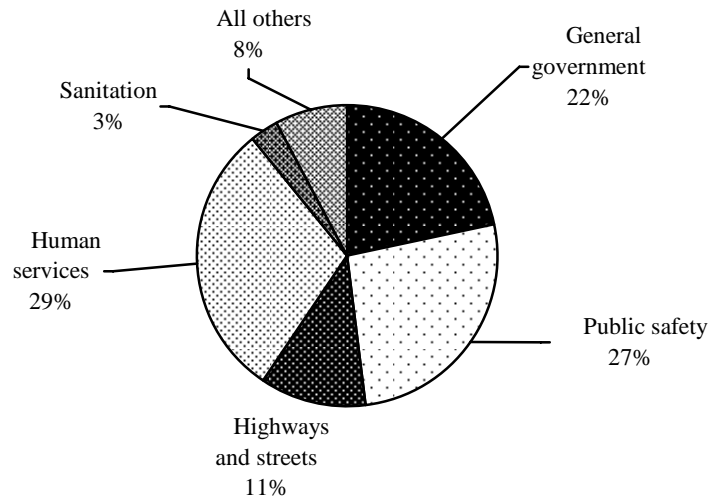
Mahnomen County's costs for all governmental activities for the year ended December 31, 2006, were \$7,551,368 as shown on the Statement of Activities. The net cost of services were ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, and grants.

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

**Table 3
Governmental Activities**

	Total Cost of Services 2006	Net Cost of Services 2006
Program Expenses		
General government	\$ 1,633,406	\$ 1,197,896
Public safety	2,003,334	1,242,311
Highways and streets	845,975	(2,091,521)
Sanitation	224,116	110,859
Human services	2,246,934	613,899
All others	597,603	63,337
Totals	<u>\$ 7,551,368</u>	<u>\$ 1,136,781</u>

Governmental Activities Expenses



The County's Funds

As Mahanomen County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$4,641,207, which is below last year's total combined fund balance of \$5,049,555. This decrease of \$408,348 represents an 8.1 percent total decrease. Included in this year's total fund balance is the County's General Fund balance of \$2,246,155. The General Fund's change in fund balance (an increase of \$550,903 from 2005) represented a 32.5 percent increase in the General Fund balance.

Most of the General Fund's increase was due to increases in revenues and stabilization of expenditures. The Road and Bridge Special Revenue Fund balance decreased by \$682,842, or 61.7 percent, and the Social Services Special Revenue Fund also was decreased by \$258,478, or 21.1 percent.

General Fund Budgetary Highlights

The Mahanomen County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2006, 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 19, 2005, 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 \$105,137. The total actual expenditures in the County's General Fund were under the budgeted expenditures by \$298,543. The General Fund balance increased by a total of \$550,903.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, Mahanomen County had \$22,239,016 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 \$3,827,599, or 20.8 percent, over last year.

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

	2006	2005
Land	\$ 467,347	\$ 383,894
Construction in progress	1,162,160	1,180,971
Land improvements	2,524	2,945
Buildings and improvements	789,777	643,288
Machinery, furniture, and equipment	732,932	380,806
Infrastructure	19,084,276	15,819,513
Totals	\$ 22,239,016	\$ 18,411,417

Mahnomen County's fiscal year 2006 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, 2006, Mahnomen County had \$600,600 in bonds outstanding, compared with \$651,300 as of December 31, 2005, a decrease of 7.8 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	2006	2005
Bonds payable - General Obligation Bonds	\$ 600,600	\$ 651,300

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

Mahnomen County's general obligation bonds are non-rated. The state limits the amount of net debt that the counties can issue to two percent of the market value of all taxable property in the county. Mahnomen County's outstanding net debt is below this \$6,388,500 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 2007 budget, tax rates, and fees that will be charged for governmental activities.

- It now appears that the State of Minnesota has resolved its deficit issue. This may have a significant impact on future Mahnomen County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota significantly reduce these revenues, 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. Of ongoing concern is 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 completed its 2006 and 2007 tax payments. The White Earth Tribal Council has made it publicly known that its intention is not to pay the property taxes and move forward with its trust status application. Mahnomen County was fortunate to receive special legislative reimbursement funding in 2006 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 2005 averaged 5.5 percent. The County's unemployment rate for 2006 also averaged 5.5 percent according to the Department of Employment and Economic Development.
- The 2007 net property tax levies are planned to increase 5.098 percent from 2006.
- Planning and financing for facility needs and the possibility of a new jail/law enforcement center project are continuing to be researched by the County Board.
- Settling union contracts and employment-related issues will affect the 2007 budget.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Mahnomen County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 4,218,870	\$ 559,473
Petty cash and change funds	2,700	-
Departmental cash	37,327	-
Investments	-	769,335
Taxes receivable		
Current - net	65,970	-
Prior - net	38,360	-
Special assessments receivable		
Current - net	6,567	-
Prior - net	5,243	-
Noncurrent - net	47,500	-
Accounts receivable - net	48,288	1,640,269
Accrued interest receivable	28,146	-
Due from other governments	1,021,794	-
Prepaid items	-	88,637
Inventories	132,989	102,946
Contract for deed	267,974	-
Restricted assets		
Due from other governments	-	6,894
Investment in joint venture	-	88,422
Capital assets		
Non-depreciable	1,629,507	36,729
Depreciable - net of accumulated depreciation	20,609,509	2,830,611
Total Assets	\$ 28,160,744	\$ 6,123,316
<u>Liabilities</u>		
Accounts payable	\$ 193,746	\$ 426,401
Salaries payable	162,153	108,640
Contracts payable	180,938	-
Due to other governments	79,301	-
Accrued interest payable	12,606	-
Residents' personal funds	-	19,834
Unearned revenue	369	-
Long-term liabilities		
Due within one year	196,172	109,153
Due in more than one year	646,873	14,787
Total Liabilities	\$ 1,472,158	\$ 678,815

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 22,160,425	\$ 2,845,917
Restricted for general government	48,902	-
Restricted for public safety	68,726	-
Restricted for highways and streets	197,417	-
Restricted for sanitation	34,987	-
Restricted for hospital operations	-	6,894
Unrestricted	4,178,129	2,591,690
Total Net Assets	\$ 26,688,586	\$ 5,444,501

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 1,633,406	\$ 204,684
Public safety	2,003,334	156,733
Highways and streets	845,975	197,248
Sanitation	224,116	100,987
Human services	2,246,934	121,664
Health	62,982	-
Culture and recreation	106,829	-
Conservation of natural resources	210,581	54,136
Economic development	181,191	112,900
Interest	36,020	-
	\$ 7,551,368	\$ 948,352
Total primary government	\$ 7,551,368	\$ 948,352
Component Unit		
Mahnomen Health Center	\$ 6,601,680	\$ 6,699,513

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
\$ 96,697	\$ 134,129	\$ (1,197,896)	
604,290	-	(1,242,311)	
2,236,928	503,320	2,091,521	
12,270	-	(110,859)	
1,511,371	-	(613,899)	
49,079	-	(13,903)	
82,978	-	(23,851)	
41,874	-	(114,571)	
193,299	-	125,008	
-	-	(36,020)	
\$ 4,828,786	\$ 637,449	\$ (1,136,781)	
\$ 124,332	\$ (78,861)		\$ 143,304
		\$ 2,597,973	\$ -
		-	54,707
		805	-
		1,574,967	-
		57,874	-
		153,177	37,987
		10,459	-
		\$ 4,395,255	\$ 92,694
		\$ 3,258,474	\$ 235,998
		23,430,112	5,208,503
		\$ 26,688,586	\$ 5,444,501

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash and pooled investments	\$ 1,988,513	\$ 296,140	\$ 889,817	\$ 972,088	\$ 4,146,558
Petty cash and change funds	2,700	-	-	-	2,700
Undistributed cash in agency funds	52,013	7,383	7,575	5,341	72,312
Departmental cash	37,327	-	-	-	37,327
Taxes receivable					
Current	49,156	7,025	7,602	2,187	65,970
Prior	24,093	4,408	8,519	1,340	38,360
Special assessments receivable					
Current	-	982	-	5,585	6,567
Prior	-	-	-	5,243	5,243
Noncurrent	-	-	-	47,500	47,500
Accounts receivable	26,759	725	17,600	170	45,254
Accrued interest receivable	28,146	-	-	-	28,146
Due from other funds	4,031	993	3,849	-	8,873
Due from other governments	191,268	654,829	171,383	4,314	1,021,794
Advance to other funds	-	-	-	37,526	37,526
Inventories	-	132,989	-	-	132,989
Contract for deed	267,974	-	-	-	267,974
Total Assets	<u>\$ 2,671,980</u>	<u>\$ 1,105,474</u>	<u>\$ 1,106,345</u>	<u>\$ 1,081,294</u>	<u>\$ 5,965,093</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Road and Bridge	Social Services	Nonmajor Funds	Total
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 73,970	\$ 28,635	\$ 76,238	\$ 14,903	\$ 193,746
Salaries payable	101,133	17,433	41,723	1,864	162,153
Contracts payable	50,669	130,269	-	-	180,938
Due to other funds	1,151	228	3,317	1,143	5,839
Due to other governments	71,538	1,976	4,874	913	79,301
Deferred revenue - unavailable	127,364	465,963	12,209	58,478	664,014
Deferred revenue - unearned	-	369	-	-	369
Advance from other funds	-	37,526	-	-	37,526
Total Liabilities	\$ 425,825	\$ 682,399	\$ 138,361	\$ 77,301	\$ 1,323,886
Fund Balances					
Reserved for					
Encumbrances	\$ -	\$ 2,532	\$ -	\$ -	\$ 2,532
Inventories	-	132,989	-	-	132,989
Contract for deed	267,974	-	-	-	267,974
Sheriff's contingency	794	-	-	-	794
HAVA	10,821	-	-	-	10,821
State-aid highway project	-	9,097	-	-	9,097
Gravel pit restoration	-	14,575	-	-	14,575
SCORE	-	-	-	34,987	34,987
Missing heirs	2,955	-	-	-	2,955
Recorder's compliance fund	15,436	-	-	-	15,436
Recorder's equipment purchases	22,645	-	-	-	22,645
Enhanced 911	66,973	-	-	-	66,973
Boat and water safety	959	-	-	-	959
Unreserved					
Designated for drug eradication	1,475	-	-	-	1,475
Designated for County development	2,692	-	-	-	2,692
Designated for timber development	150,471	-	-	-	150,471
Designated for parks and recreation	83,964	-	-	-	83,964
Designated for extension youth grant	2,871	-	-	-	2,871
Designated for drug extension programming	124	-	-	-	124
Designated for K-9 fund	2,412	-	-	-	2,412
Undesignated	1,613,589	263,882	967,984	-	2,845,455
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	842,648	842,648
Debt service funds	-	-	-	126,358	126,358
Total Fund Balances	\$ 2,246,155	\$ 423,075	\$ 967,984	\$ 1,003,993	\$ 4,641,207
Total Liabilities and Fund Balances	\$ 2,671,980	\$ 1,105,474	\$ 1,106,345	\$ 1,081,294	\$ 5,965,093

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	4,641,207
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.		22,239,016
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		664,014
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	\$ (600,600)	
Capital leases	(78,592)	
Compensated absences	(163,853)	
Accrued interest payable	(12,606)	
	(855,651)	(855,651)
Net assets of governmental activities (Exhibit 1)	\$	<u>26,688,586</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues					
Taxes	\$ 1,958,785	\$ 275,004	\$ 302,708	\$ 85,241	\$ 2,621,738
Special assessments	-	18,443	-	115,987	134,430
Licenses and permits	8,055	-	-	-	8,055
Intergovernmental	2,510,569	3,056,126	1,597,105	91,666	7,255,466
Charges for services	281,221	144,206	55,569	4,073	485,069
Fines and forfeits	9,004	-	-	-	9,004
Gifts and contributions	2,390	-	-	-	2,390
Interest on investments	153,177	-	-	-	153,177
Miscellaneous	96,320	31,709	66,095	4,161	198,285
Sale of property held for resale	107,100	-	-	-	107,100
Total Revenues	\$ 5,126,621	\$ 3,525,488	\$ 2,021,477	\$ 301,128	\$ 10,974,714
Expenditures					
Current					
General government	\$ 1,749,810	\$ -	\$ -	\$ -	\$ 1,749,810
Public safety	2,057,426	-	-	-	2,057,426
Highways and streets	-	4,131,834	-	-	4,131,834
Sanitation	-	-	-	220,711	220,711
Human services	3,178	-	2,279,955	-	2,283,133
Health	62,982	-	-	-	62,982
Culture and recreation	106,829	-	-	-	106,829
Conservation of natural resources	196,763	-	-	13,185	209,948
Economic development	425,577	-	-	-	425,577
Intergovernmental					
Highways and streets	-	105,701	-	-	105,701
Debt service					
Principal	28,326	4,104	-	52,614	85,044
Interest	4,537	670	-	31,876	37,083
Total Expenditures	\$ 4,635,428	\$ 4,242,309	\$ 2,279,955	\$ 318,386	\$ 11,476,078
Excess of Revenues Over (Under) Expenditures	\$ 491,193	\$ (716,821)	\$ (258,478)	\$ (17,258)	\$ (501,364)
Other Financing Sources (Uses)					
Transfers in	\$ 673	\$ -	\$ -	\$ -	\$ 673
Transfers out	-	-	-	(673)	(673)
Capital lease issued	59,037	14,526	-	-	73,563
Total Other Financing Sources (Uses)	\$ 59,710	\$ 14,526	\$ -	\$ (673)	\$ 73,563
Net Change in Fund Balances	\$ 550,903	\$ (702,295)	\$ (258,478)	\$ (17,931)	\$ (427,801)
Fund Balances - January 1	1,695,252	1,105,917	1,226,462	1,021,924	5,049,555
Increase (decrease) in reserved for inventories	-	19,453	-	-	19,453
Fund Balances - December 31	\$ 2,246,155	\$ 423,075	\$ 967,984	\$ 1,003,993	\$ 4,641,207

**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, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (427,801)**

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	\$ 664,014	
Deferred revenue - beginning of year	(828,886)	(164,872)

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	\$ 4,659,020	
Current year depreciation	(831,421)	3,827,599

Issuance of debt provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net assets. The new debt issued is shown net of debt traded in.

Capital lease purchases	\$ (73,563)	
Debt reduction for leased items traded on new	5,260	(68,303)

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	1,915	
Capital lease	32,429	85,044

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	\$ 1,063	
Change in compensated absences	(13,709)	
Change in inventories	19,453	6,807

Change in net assets of governmental activities (Exhibit 2) **\$ 3,258,474**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	Family Services Collaborative Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 193,956	\$ 66,959
Receivables		
Accounts	-	6,564
Interest	806	-
	\$ 194,762	\$ 73,523
Total Assets	\$ 194,762	\$ 73,523
<u>Liabilities</u>		
Due to other funds	\$ 3,034	\$ -
Due to other governments	-	73,523
	\$ 3,034	\$ 73,523
Total Liabilities	\$ 3,034	\$ 73,523
<u>Net Assets</u>		
Net assets held in trust for pool participants	\$ 191,728	

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

EXHIBIT 8

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>Additions</u>	
Contributions from participants	\$ 228,261
Investment earnings	
Interest	<u>9,547</u>
Total Additions	\$ 237,808
<u>Deductions</u>	
Distributions to participants	<u>406,463</u>
Change in Net Assets	\$ (168,655)
Net Assets - Beginning of the Year	<u>360,383</u>
Net Assets - End of the Year	<u><u>\$ 191,728</u></u>

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**

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, 2006. 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 joint ventures, jointly-governed organizations, and a related organization, which are described in Notes 5.B., 5.C., and 5.D. respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

**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, 2006, 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 2006 were \$162,724.

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)	\$ 4,325,856
Held for external pool participants (Interagency Collaborative)	<u>193,956</u>
Total	<u>\$ 4,519,812</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 are 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.

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	\$ 4,218,870
Petty cash and change funds	2,700
Departmental cash	37,327
Statement of fiduciary net assets	
Cash and pooled investments	
Investment Trust Fund	193,956
Agency funds	66,959
	<hr/>
Total Cash and Investments	\$ 4,519,812
	<hr/>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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 standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County minimizes its exposure to custodial credit risk by requiring all deposits to be insured or collateralized in accordance with Minn. Stat. § 118A.03. As of December 31, 2006, \$68,363 of the County's bank balance of \$3,240,593 was exposed to custodial credit risk as uninsured and uncollateralized.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

Interest Rate Risk

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

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

Concentration of Credit Risk

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposits and investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Bank	Aaa	Moody's		8/26/2009	\$ 98,748
Federal Home Loan Bank	Aaa	Moody's		6/26/2013	94,940
Federal Home Loan Bank	Aaa	Moody's		6/26/2013	95,313
Federal Home Loan Bank	Aaa	Moody's		7/2/2013	314,035
Total Federal Home Loan Bank			37.6%		\$ 603,036
Negotiable certificates of deposit	N/R		N/A		\$ 1,002,873
Total investments					\$ 1,605,909
Deposits					2,911,203
Petty cash and change funds					2,700
Total Cash and Investments					\$ 4,519,812

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

2. Receivables

Receivables as of December 31, 2006, 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	\$ 104,330	\$ -
Special assessments	59,310	-
Accounts	48,288	-
Interest	28,146	-
Due from other governments	1,021,794	-
Contract for deed	267,974	253,786
Total Governmental Activities	\$ 1,529,842	\$ 253,786

**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, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 383,894	\$ 83,453	\$ -	\$ 467,347
Construction in progress	1,180,971	43,189	62,000	1,162,160
Total capital assets not depreciated	\$ 1,564,865	\$ 126,642	\$ 62,000	\$ 1,629,507
Capital assets depreciated				
Land improvements	\$ 28,015	\$ -	\$ -	\$ 28,015
Buildings	2,582,405	177,333	-	2,759,738
Machinery, furniture, and equipment	1,588,309	489,375	156,371	1,921,313
Infrastructure	22,488,677	3,927,670	-	26,416,347
Total capital assets depreciated	\$ 26,687,406	\$ 4,594,378	\$ 156,371	\$ 31,125,413
Less: accumulated depreciation for				
Land improvements	\$ 25,070	\$ 421	\$ -	\$ 25,491
Buildings	1,939,117	30,844	-	1,969,961
Machinery, furniture, and equipment	1,207,503	137,249	156,371	1,188,381
Infrastructure	6,669,164	662,907	-	7,332,071
Total accumulated depreciation	\$ 9,840,854	\$ 831,421	\$ 156,371	\$ 10,515,904
Total capital assets depreciated, net	\$ 16,846,552	\$ 3,762,957	\$ -	\$ 20,609,509
Governmental Activities Capital Assets, Net	\$ 18,411,417	\$ 3,889,599	\$ 62,000	\$ 22,239,016

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

Governmental Activities	
General government	\$ 37,783
Public safety	38,349
Highways and streets, including depreciation of infrastructure assets	719,661
Sanitation	3,259
Human services	24,416
Economic development	7,953
Total Depreciation Expense - Governmental Activities	\$ 831,421

**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, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and Bridge	\$ 228
	Social Services	3,130
	Other governmental	673
	Total Due to General Fund	\$ 4,031
Road and Bridge	General	\$ 336
	Social Services	187
	Other governmental	470
	Total Due to Road and Bridge Fund	\$ 993
Social Services	General	\$ 815
	Investment Trust	3,034
	Total Due to Social Services Fund	\$ 3,849
Total Due To/From Other Funds		\$ 8,873

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 in 2005. The advance was paid from special assessments. In 2006, the Road and Bridge Special Revenue Fund paid back \$17,474 to the Solid Waste Special Revenue Fund.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale			
Special Revenue Fund	\$	673	Settlement of proceeds

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

		<u>Governmental Activities</u>
Accounts	\$	193,746
Salaries		162,153
Contracts		180,938
Due to other governments		79,301
Accrued interest payable		12,606
Total Payables	\$	628,744

2. Deferred Revenue

Deferred revenue as of December 31, 2006, for the County's governmental funds and activities are as follows:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Governmental funds		
Taxes and special assessments	\$ 130,364	\$ -
State-aid highway allotments	409,509	369
Charges for services	7,713	-
Grants	116,428	-
Total Governmental Funds	\$ 664,014	\$ 369

**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, 2006. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 45,742	\$ 2,532

4. Other Postemployment Benefits - Retirees

The County provides postretirement 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 2006, the County expended \$19,311 for these benefits.

5. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2006:

Lease	Maturity	Installment	Payment Amount	Original	Balance
2005 AS400	2008	Monthly	\$ 1,043	\$ 34,985	\$ 22,910
2005 Phone System	2010	Monthly	249	12,820	8,984
2006 Network Server	2009	Monthly	1,396	46,217	32,896
2006 Copier	2011	Monthly	288	14,544	13,802
Total Capital Leases					\$ 78,592

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

5. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

Year Ending December 31	Governmental Activities
2007	\$ 35,713
2008	34,669
2009	7,842
2010	4,450
2011	3,163
Total minimum lease payments	\$ 85,837
Less: amount representing interest	(7,245)
Present Value of Minimum Lease Payments	\$ 78,592

6. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation bonds					
1999 G.O. Nursing Home		\$60,000 -	2.75 -		
Revenue Bonds	2015	\$105,000	5.20	\$ 1,100,000	\$ 770,000
Less: City of Mahnomen's share					(169,400)
Total General Obligation Bonds					\$ 600,600

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2007	\$ 70,000	\$ 37,125
2008	75,000	33,663
2009	75,000	30,025
2010	80,000	26,138
2011	85,000	21,909
2012 - 2015	385,000	40,616
Total	\$ 770,000	\$ 189,476
Less: City of Mahnomen's share	(169,400)	(41,685)
Total	\$ 600,600	\$ 147,791

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities					
General obligation bonds	\$ 651,300	\$ -	\$ 50,700	\$ 600,600	\$ 54,600
Loans payable	1,915	-	1,915	-	-
Capital leases	42,718	73,563	37,689	78,592	31,877
Compensated absences	150,144	153,376	139,667	163,853	109,695
Total Long-Term Liabilities	\$ 846,077	\$ 226,939	\$ 229,971	\$ 843,045	\$ 196,172

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007:

	2006	2007
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2006, 2005, and 2004, 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
2006	\$ 142,816	\$ 53,531	\$ 17,997
2005	124,832	45,419	16,980
2004	121,488	44,982	14,970

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

B. Defined Contribution Plan

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

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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, 2006, 2005, and 2004, were \$858, \$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.

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 \$390,000 per claim in 2006 and \$400,000 per claim in 2007. 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigation.

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

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

The final settlement of these matters is not yet known.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

B. Joint Ventures

Norman-Mahnomen Community Health Board

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

Control of 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 \$29,931 at December 31, 2006. Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Mahnomen County's contribution for 2006 was \$62,982.

Complete financial information can be obtained from:

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Joint County Natural Resources Board

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

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

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
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Mahnomen County Interagency Collaborative

The Mahnomen County Interagency Collaborative (MCIC) was established in 1998, pursuant to Minn. Stat. § 124D.23, between Mahnomen County Human Services, Mahnomen County Sheriff's Department, Independent School District Nos. 432 and 435, Minnesota Department of Corrections, Multi-County Nursing Service (now Norman-Mahnomen Community Health Services), Northwestern Mental Health Center, Stellher Human Services, University of Minnesota Mahnomen County Extension Office, Mahnomen Health Center, MAHUBE Community Council, White Earth Human Services, and White Earth Mental Health. Mahnomen County Human Services is the acting fiscal agent of the 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 2006, 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwestern Counties Data Processing Security Association (Continued)

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

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

Clearwater County Auditor
213 North Main Avenue
Bagley, Minnesota 56621

C. Jointly-Governed Organizations

Wild Rice Watershed District

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

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

Complete financial information can be obtained from:

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Red River Basin of the North Joint Powers Agreement

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

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

In the event of termination of the Agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. Mahnomen County did not contribute anything for 2006.

Complete financial statements can be obtained from:

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

Minnesota Rural Counties Caucus

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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

D. Related Organization

Sand Hill River Watershed District

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

6. Mahnomen Health Center

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

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

Reporting Entity

Mahnomen Health Center (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, 2006, 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 Commission is the ultimate governing body of the Organization. The Commission shall acquire the necessary property to establish, construct, enlarge, improve, maintain, equip, operate, and control of the facilities subject to the other terms of the Joint Powers Agreement.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Reporting Entity (Continued)

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

Enterprise Fund Accounting

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

Method of Accounting

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Use of Estimates

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

Risk Management

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

Cash and Cash Equivalents

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

Patient and Resident Receivables, Net

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Description of Reporting Entity and Significant Accounting Policies

Patient and Resident Receivables, Net (Continued)

estimated bad debt provision. At December 31, 2006, the allowance for doubtful accounts was approximately \$345,000. When all collection efforts have been exhausted, the account is written off against the related allowance.

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 and have estimated lives as follows:

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

Noncurrent Cash and Investments

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

Investment in Joint Venture

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Vacation and Sick

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

Net Assets

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 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 Expendable Net Assets."

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

A. Description of Reporting Entity and Significant Accounting Policies

Net Patient and Resident Service Revenue (Continued)

services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

To fulfill its mission of community service, the Organization provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue. Charges forgone for charity care were \$39,738 for the year ended December 31, 2006.

Operating Revenues and Expenses

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

Grants and Contributions

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Advertising Costs

The Organization expenses advertising costs as they are incurred.

B. Net Patient and Resident Service Revenue

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

Medicare

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

Medicaid

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

Blue Cross

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Nursing Home Medicare

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

Nursing Home Medicaid

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

Other Payors

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue

Other Payors (Continued)

Patient and resident service revenue and contractual adjustments for the year ended December 31, 2006, is as follows:

Total Patient Service Revenue	\$ 8,709,397
Contractual Adjustments	
Medicare	\$ (1,015,967)
Medicaid	(527,067)
Indian Health Service	(5,664)
Other	(287,873)
Provision for bad debts	(361,403)
Total Contractual Adjustments	\$ (2,197,974)
Net Patient and Resident Service Revenue	\$ 6,511,423

C. Noncurrent Cash and Investments

Deposits

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

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

C. Noncurrent Cash and Investments

Deposits (Continued)

The deposits at one financial institution of approximately \$586,000 were not properly collateralized as of December 31, 2006. The Organization made arrangements with the custodial bank subsequent to year-end to ensure that the Organization's deposits in banks were covered by federal depository insurance or by collateral.

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

The Organization has no investments as of December 31, 2006. All of the Organization's deposits are insured or registered in the Organization's name and held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

D. Accounts Receivable

Patient and resident receivables reported as current assets by the Organization at December 31, 2006, consist of these amounts:

Receivables from patients and their insurance carriers	\$ 1,208,516
Receivable from Medicare	432,576
Receivable from Medicaid	<u>326,364</u>
Total patient and resident receivables	\$ 1,967,456
Less: allowance for uncollectible amounts	<u>(345,000)</u>
Total Patient and Resident Receivables, Net	<u>\$ 1,622,456</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

E. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2006, are as follows:

	Balance January 1, 2006	Additions	Retirements/ Transfers	Balance December 31, 2006
Land	\$ 36,729	\$ -	\$ -	\$ 36,729
Land improvement	86,126	-	-	86,126
Buildings	4,566,570	-	-	4,566,570
Movable equipment	1,770,165	184,594	-	1,954,759
Totals at historical cost	\$ 6,459,590	\$ 184,594	\$ -	\$ 6,644,184
Less: accumulated depreciation for				
Land improvements	\$ 58,617	\$ 2,009	\$ -	\$ 60,626
Buildings	2,065,112	139,795	-	2,204,907
Movable equipment	1,362,818	148,493	-	1,511,311
Total accumulated depreciation	\$ 3,486,547	\$ 290,297	\$ -	\$ 3,776,844
Capital Assets, Net	\$ 2,973,043	\$ (105,703)	\$ -	\$ 2,867,340

F. Long-Term Debt

The Organization leases certain equipment under noncancelable long-term lease agreements. The capitalized leased assets consist of:

Movable equipment	\$ 110,164
Less: accumulated amortization (included as depreciation on the accompanying financial statements)	(100,377)
Net Value of Leased Equipment	\$ 9,787

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

F. Long-Term Debt (Continued)

Long-term debt as of December 31, 2006, consists of the following:

	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
1990 Special Assessments	\$ 12,423	\$ -	\$ 2,118	\$ 10,305
Capital Lease Obligations	8,336	14,137	11,355	11,118
Total long-term debt	<u>\$ 20,759</u>	<u>\$ 14,137</u>	<u>\$ 13,473</u>	\$ 21,423
Less: current maturities				<u>(6,636)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 14,787</u>

The 1990 Special Assessments are due in annual installments through 2010.

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

Year Ending December 31	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2007	\$ 2,286	\$ -	\$ 3,566	\$ 784
2008	2,471	-	3,871	479
2009	2,667	-	3,681	147
2010	2,881	-	-	-
Total	<u>\$ 10,305</u>	<u>\$ -</u>	<u>\$ 11,118</u>	<u>\$ 1,410</u>

G. Investment in Joint Venture

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

CMDI provides the equipment for CT scans for Mahnomen Health Center patients. Mahnomen Health Center billed and collected the revenue for these services to patients and paid CMDI \$172,118 in 2006 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2006, amounted to \$13,800. At December 31, 2006, Mahnomen Health Center owned 0.31 percent of CMDI.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

G. Investment in Joint Venture (Continued)

Summarized financial information from the financial statements of CMDI at December 31, 2006, and for the year then ended is presented below:

Total Assets	\$ 38,451,737
Total Liabilities	\$ 10,089,685
Members' Equity Retained Earnings	<u>28,362,052</u>
Total Liabilities and Members' Equity	<u>\$ 38,451,737</u>
Total Operating Revenue	<u>\$ 32,968,565</u>
Net Income	<u>\$ 14,481,722</u>

H. Defined Benefit Pension Plan

All full-time and certain part-time employees of the Organization are covered by a defined benefit plan administered by 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.

Policy

The Hospital's contributions to the Public Employees Retirement Fund for the years ended December 31, 2006, 2005, and 2004, were \$152,430, \$105,687, and \$120,068, respectively. The Organization's contributions were equal to the contractually required contributions for each year as set by state statute.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

I. Concentrations of Credit Risk

The Organization grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2006, was as follows:

Medicare	25%
Blue Cross	9
Medicaid	19
Commercial insurance	32
Other third-party payors, patients, and residents	<u>15</u>
Total	<u><u>100%</u></u>

J. Restricted Expendable Net Assets

Restricted, expendable net assets are available for the following purposes as of December 31, 2006:

Expendable for Operations	<u>\$ 6,894</u>
---------------------------	-----------------

K. Related-Party Transactions

The Organization received certain data processing services from the County during the fiscal year ended December 31, 2006. The estimated value of these services approximated \$33,000.

In August 1999, the County issued \$1,100,000 of General Obligation Nursing Home Revenue Bonds, Series 1999, to finance improvements to the nursing home portion of the Organization. The bonds are general obligations of the County for which the County pledged its full faith, credit, and taxing powers. The County made a principal payment of \$65,000 for the year ended December 31, 2006, and made an interest payment of \$39,023 related to the Series 1999 Bonds.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

L. Commitments and Contingencies

Malpractice Claims

The Organization's malpractice insurance is a claims-made policy subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$5,000,000. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

Litigation, Claims, and Other Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position of the Organization. The Organization identified what they believe to be some potential billing errors which were reported to the fiscal intermediary subsequent to year-end. It is possible that Medicare or Medicaid may request repayment of some claims submitted or assess fines based on the errors. As of December 31, 2006, no such requests or assessments have been made and any potential liability is unknown at this time.

Other

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,456,716	\$ 2,456,716	\$ 1,958,785	\$ (497,931)
Licenses and permits	7,325	7,325	8,055	730
Intergovernmental	1,987,896	1,987,896	2,510,569	522,673
Charges for services	287,170	287,170	281,221	(5,949)
Fines and forfeits	11,000	11,000	9,004	(1,996)
Gifts and contributions	4,000	4,000	2,390	(1,610)
Investment earnings	100,000	100,000	153,177	53,177
Miscellaneous	167,377	167,377	96,320	(71,057)
Sale of property held for resale	-	-	107,100	107,100
Total Revenues	\$ 5,021,484	\$ 5,021,484	\$ 5,126,621	\$ 105,137
Expenditures				
Current				
General government				
Commissioners	\$ 157,205	\$ 157,205	\$ 147,569	\$ 9,636
Courts	10,000	10,000	8,850	1,150
Law library	16,000	16,000	16,210	(210)
County auditor	205,445	205,445	189,910	15,535
License bureau	75,986	75,986	73,174	2,812
County treasurer	114,657	114,657	113,372	1,285
County assessor	99,807	99,807	112,740	(12,933)
Elections	188,562	188,562	158,535	30,027
Accounting and auditing	45,000	45,000	66,481	(21,481)
Data processing	167,998	167,998	186,457	(18,459)
Attorney	307,545	307,545	267,932	39,613
Contracted legal services	10,000	10,000	1,350	8,650
Recorder	98,144	98,144	97,926	218
Planning and zoning	20,756	20,756	21,301	(545)
Buildings and plant	176,596	176,596	163,667	12,929
Veterans service officer	19,817	19,817	20,187	(370)
Unallocated	222,150	222,150	104,149	118,001
Total general government	\$ 1,935,668	\$ 1,935,668	\$ 1,749,810	\$ 185,858
Public safety				
Sheriff	\$ 1,788,841	\$ 1,788,841	\$ 1,448,638	\$ 340,203
Boat and water safety	1,325	1,325	1,816	(491)
Emergency services	15,374	15,374	72,713	(57,339)
Coroner	6,000	6,000	7,284	(1,284)
E-911 system	37,190	37,190	54,476	(17,286)
Victim resources	60,000	60,000	60,240	(240)
Probation and parole	100,987	100,987	111,675	(10,688)
County safety program	15,200	15,200	11,534	3,666
Weed and seed	46,303	46,303	287,579	(241,276)
Snowmobile safety	3,140	3,140	1,471	1,669
Total public safety	\$ 2,074,360	\$ 2,074,360	\$ 2,057,426	\$ 16,934

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**Schedule 1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Human services				
Social services	\$ -	\$ -	\$ 3,178	\$ (3,178)
Health				
Nursing service	\$ 40,545	\$ 40,545	\$ 62,982	\$ (22,437)
Culture and recreation				
Regional library	\$ 23,851	\$ 23,851	\$ 23,851	\$ -
Snowmobile trails	-	-	82,978	(82,978)
Total culture and recreation	\$ 23,851	\$ 23,851	\$ 106,829	\$ (82,978)
Conservation of natural resources				
County extension	\$ 93,571	\$ 93,571	\$ 92,884	\$ 687
Soil and water conservation	56,112	56,112	55,835	277
Agricultural inspections	15,888	15,888	15,554	334
Agricultural society/County fair	10,500	10,500	10,500	-
Predator control	1,500	1,500	254	1,246
Water planning	21,736	21,736	21,736	-
Total conservation of natural resources	\$ 199,307	\$ 199,307	\$ 196,763	\$ 2,544
Economic development				
Housing Authority	\$ -	\$ -	\$ 100,988	\$ (100,988)
Airports	660,240	660,240	324,589	335,651
Total economic development	\$ 660,240	\$ 660,240	\$ 425,577	\$ 234,663
Debt service				
Principal	\$ -	\$ -	\$ 28,326	\$ (28,326)
Interest	-	-	4,537	(4,537)
Total Expenditures	\$ 4,933,971	\$ 4,933,971	\$ 4,635,428	\$ 298,543
Excess of Revenues Over (Under) Expenditures	\$ 87,513	\$ 87,513	\$ 491,193	\$ 403,680

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 673	\$ 673
Capital lease issued	-	-	59,037	59,037
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 59,710	\$ 59,710
Net Change in Fund Balance	\$ 87,513	\$ 87,513	\$ 550,903	\$ 463,390
Fund Balance - January 1	1,695,252	1,695,252	1,695,252	-
Fund Balance - December 31	\$ 1,782,765	\$ 1,782,765	\$ 2,246,155	\$ 463,390

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 350,500	\$ 350,500	\$ 275,004	\$ (75,496)
Special assessments	20,000	20,000	18,443	(1,557)
Intergovernmental	3,280,544	3,280,544	3,056,126	(224,418)
Charges for services	120,000	120,000	144,206	24,206
Miscellaneous	-	-	31,709	31,709
Total Revenues	\$ 3,771,044	\$ 3,771,044	\$ 3,525,488	\$ (245,556)
Expenditures				
Current				
Highways and streets				
Administration	\$ 200,861	\$ 200,861	\$ 228,204	\$ (27,343)
Maintenance	799,279	799,279	671,660	127,619
Construction	2,264,095	2,264,095	2,716,190	(452,095)
Equipment maintenance and shop	203,242	203,242	185,661	17,581
Materials and services for resale	120,000	120,000	129,331	(9,331)
Other	27,500	27,500	43,892	(16,392)
Unallocated	156,067	156,067	156,896	(829)
Total highways and streets	\$ 3,771,044	\$ 3,771,044	\$ 4,131,834	\$ (360,790)
Intergovernmental				
Highways and streets	-	-	105,701	(105,701)
Debt service				
Principal	-	-	4,104	(4,104)
Interest	-	-	670	(670)
Total Expenditures	\$ 3,771,044	\$ 3,771,044	\$ 4,242,309	\$ (471,265)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (716,821)	\$ (716,821)
Other Financing Sources (Uses)				
Capital lease/installment purchase	-	-	14,526	14,526
Net Change in Fund Balance	\$ -	\$ -	\$ (702,295)	\$ (702,295)
Fund Balance - January 1	1,105,917	1,105,917	1,105,917	-
Increase (decrease) in reserved for inventories	-	-	19,453	19,453
Fund Balance - December 31	\$ 1,105,917	\$ 1,105,917	\$ 423,075	\$ (682,842)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 379,255	\$ 379,255	\$ 302,708	\$ (76,547)
Intergovernmental	1,381,706	1,381,706	1,597,105	215,399
Charges for services	48,700	48,700	55,569	6,869
Miscellaneous	23,100	23,100	66,095	42,995
Total Revenues	\$ 1,832,761	\$ 1,832,761	\$ 2,021,477	\$ 188,716
Expenditures				
Current				
Human services				
Income maintenance	\$ 687,774	\$ 687,774	\$ 760,309	\$ (72,535)
Social services	1,426,087	1,426,087	1,319,541	106,546
Transportation	136,900	136,900	200,105	(63,205)
Total Expenditures	\$ 2,250,761	\$ 2,250,761	\$ 2,279,955	\$ (29,194)
Excess of Revenues Over (Under) Expenditures	\$ (418,000)	\$ (418,000)	\$ (258,478)	\$ 159,522
Fund Balance - January 1	1,226,462	1,226,462	1,226,462	-
Fund Balance - December 31	\$ 808,462	\$ 808,462	\$ 967,984	\$ 159,522

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Forfeited Tax Sale Special Revenue Fund and the Watershed Project No. 27-34 Debt Service Fund. All annual appropriations lapse at fiscal year-end.

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

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

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

2. Excess of Expenditures Over Budget

The following is a summary of individual major funds which had expenditures in excess of budget for the year ended December 31, 2006.

	Expenditures	Final Budget	Excess
Special Revenue Funds			
Road and Bridge	\$ 4,242,309	\$ 3,771,044	\$ 471,265
Social Services	2,279,955	2,250,761	29,194

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Solid Waste 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.

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	Special Revenue (Statement B-1)	Debt Service (Statement C-1)	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 852,628	\$ 119,460	\$ 972,088
Undistributed cash in agency funds	3,598	1,743	5,341
Taxes receivable			
Current	400	1,787	2,187
Prior	196	1,144	1,340
Special assessments receivable			
Current	5,585	-	5,585
Prior	5,243	-	5,243
Noncurrent	47,500	-	47,500
Accounts receivable	170	-	170
Due from other governments	-	4,314	4,314
Advance to other funds	37,526	-	37,526
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 952,846	\$ 128,448	\$ 1,081,294
	<hr/>	<hr/>	<hr/>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 14,903	\$ -	\$ 14,903
Salaries payable	1,864	-	1,864
Due to other funds	1,143	-	1,143
Due to other governments	913	-	913
Deferred revenue - unavailable	56,388	2,090	58,478
	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ 75,211	\$ 2,090	\$ 77,301
	<hr/>	<hr/>	<hr/>
Fund Balances			
Reserved for SCORE	\$ 34,987	\$ -	\$ 34,987
Unreserved			
Designated for debt service	-	126,358	126,358
Undesignated	842,648	-	842,648
	<hr/>	<hr/>	<hr/>
Total Fund Balances	\$ 877,635	\$ 126,358	\$ 1,003,993
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 952,846	\$ 128,448	\$ 1,081,294
	<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, 2006**

	Special Revenue (Statement B-2)	Debt Service (Statement C-2)	Total (Exhibit 5)
Revenues			
Taxes	\$ 15,552	\$ 69,689	\$ 85,241
Special assessments	115,987	-	115,987
Intergovernmental	71,963	19,703	91,666
Charges for services	4,073	-	4,073
Miscellaneous	4,160	1	4,161
	\$ 211,735	\$ 89,393	\$ 301,128
Expenditures			
Current			
Sanitation	\$ 220,711	\$ -	\$ 220,711
Conservation of natural resources	13,185	-	13,185
Debt service			
Principal	-	52,614	52,614
Interest	-	31,876	31,876
	\$ 233,896	\$ 84,490	\$ 318,386
Excess of Revenues Over (Under) Expenditures	\$ (22,161)	\$ 4,903	\$ (17,258)
Other Financing Sources (Uses)			
Transfers out	(673)	-	(673)
Net Change in Fund Balance	\$ (22,834)	\$ 4,903	\$ (17,931)
Fund Balance - January 1	900,469	121,455	1,021,924
Fund Balance - December 31	\$ 877,635	\$ 126,358	\$ 1,003,993

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement B-1

**COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2006**

	Solid Waste	Ditch	Hospital	Forfeited Tax Sale	Total (Statement A-1)
<u>Assets</u>					
Cash and pooled investments	\$ 513,305	\$ 228,090	\$ 110,271	\$ 962	\$ 852,628
Undistributed cash in agency funds	3,095	119	384	-	3,598
Taxes receivable					
Current	-	-	400	-	400
Prior	-	-	196	-	196
Special assessments receivable					
Current	5,556	29	-	-	5,585
Prior	5,243	-	-	-	5,243
Noncurrent	-	47,500	-	-	47,500
Accounts receivable	170	-	-	-	170
Advance to other funds	37,526	-	-	-	37,526
Total Assets	<u>\$ 564,895</u>	<u>\$ 275,738</u>	<u>\$ 111,251</u>	<u>\$ 962</u>	<u>\$ 952,846</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 14,903	\$ -	\$ -	\$ -	\$ 14,903
Salaries payable	1,864	-	-	-	1,864
Due to other funds	470	-	-	673	1,143
Due to other governments	624	-	-	289	913
Deferred revenue - unavailable	8,470	47,505	413	-	56,388
Total Liabilities	<u>\$ 26,331</u>	<u>\$ 47,505</u>	<u>\$ 413</u>	<u>\$ 962</u>	<u>\$ 75,211</u>
Fund Balances					
Reserved for SCORE	\$ 34,987	\$ -	\$ -	\$ -	\$ 34,987
Unreserved					
Undesignated	503,577	228,233	110,838	-	842,648
Total Fund Balances	<u>\$ 538,564</u>	<u>\$ 228,233</u>	<u>\$ 110,838</u>	<u>\$ -</u>	<u>\$ 877,635</u>
Total Liabilities and Fund Balances	<u>\$ 564,895</u>	<u>\$ 275,738</u>	<u>\$ 111,251</u>	<u>\$ 962</u>	<u>\$ 952,846</u>

**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, 2006**

	Solid Waste	Ditch	Hospital	Forfeited Tax Sale	Total (Statement A-2)
Revenues					
Taxes	\$ -	\$ -	\$ 15,552	\$ -	\$ 15,552
Special assessments	98,215	17,772	-	-	115,987
Intergovernmental	61,349	6,228	4,386	-	71,963
Charges for services	4,073	-	-	-	4,073
Miscellaneous	3,192	-	-	968	4,160
Total Revenues	\$ 166,829	\$ 24,000	\$ 19,938	\$ 968	\$ 211,735
Expenditures					
Current					
Sanitation	\$ 220,711	\$ -	\$ -	\$ -	\$ 220,711
Conservation of natural resources	-	12,890	-	295	13,185
Total Expenditures	\$ 220,711	\$ 12,890	\$ -	\$ 295	\$ 233,896
Excess of Revenues Over (Under) Expenditures	\$ (53,882)	\$ 11,110	\$ 19,938	\$ 673	\$ (22,161)
Other Financing Sources (Uses)					
Transfers out	-	-	-	(673)	(673)
Net Change in Fund Balance	\$ (53,882)	\$ 11,110	\$ 19,938	\$ -	\$ (22,834)
Fund Balance - January 1	592,446	217,123	90,900	-	900,469
Fund Balance - December 31	\$ 538,564	\$ 228,233	\$ 110,838	\$ -	\$ 877,635

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement C-1

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2006**

	Hospital Steam Line	Nursing Home Revenue Bonds	Watershed Project No. 27-34	Total (Statement A-1)
<u>Assets</u>				
Cash and pooled investments	\$ 14,828	\$ 104,575	\$ 57	\$ 119,460
Undistributed cash in agency funds	-	1,743	-	1,743
Taxes receivable				
Current	-	1,787	-	1,787
Prior	-	1,144	-	1,144
Due from other governments	-	4,314	-	4,314
Total Assets	\$ 14,828	\$ 113,563	\$ 57	\$ 128,448
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Deferred revenue - unavailable	\$ -	\$ 2,090	\$ -	\$ 2,090
Fund Balances				
Unreserved				
Designated for debt service	14,828	111,473	57	126,358
Total Liabilities and Fund Balances	\$ 14,828	\$ 113,563	\$ 57	\$ 128,448

**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, 2006**

	<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	\$ 9	\$ 69,680	\$ -	\$ 69,689
Intergovernmental	-	19,703	-	19,703
Miscellaneous	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total Revenues	\$ 10	\$ 89,383	\$ -	\$ 89,393
Expenditures				
Debt service				
Principal	\$ 1,914	\$ 50,700	\$ -	\$ 52,614
Interest	<u>107</u>	<u>31,769</u>	<u>-</u>	<u>31,876</u>
Total Expenditures	\$ 2,021	\$ 82,469	\$ -	\$ 84,490
Excess of Revenues Over (Under) Expenditures	\$ (2,011)	\$ 6,914	\$ -	\$ 4,903
Fund Balance - January 1	<u>16,839</u>	<u>104,559</u>	<u>57</u>	<u>121,455</u>
Fund Balance - December 31	<u><u>14,828</u></u>	<u><u>111,473</u></u>	<u><u>57</u></u>	<u><u>126,358</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 100,000	\$ 100,000	\$ 98,215	\$ (1,785)
Intergovernmental	61,348	61,348	61,349	1
Charges for services	4,000	4,000	4,073	73
Miscellaneous	100	100	3,192	3,092
Total Revenues	\$ 165,448	\$ 165,448	\$ 166,829	\$ 1,381
Expenditures				
Current				
Sanitation				
Solid waste	227,217	227,217	220,711	6,506
Excess of Revenues Over (Under)				
Expenditures	\$ (61,769)	\$ (61,769)	\$ (53,882)	\$ 7,887
Fund Balance - January 1	592,446	592,446	592,446	-
Fund Balance - December 31	\$ 530,677	\$ 530,677	\$ 538,564	\$ 7,887

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 17,500	\$ 17,500	\$ 17,772	\$ 272
Intergovernmental	-	-	6,228	6,228
Total Revenues	\$ 17,500	\$ 17,500	\$ 24,000	\$ 6,500
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 47,500	\$ 47,500	\$ 12,872	\$ 34,628
Other	-	-	18	(18)
Total Expenditures	\$ 47,500	\$ 47,500	\$ 12,890	\$ 34,610
Excess of Revenues Over (Under)				
Expenditures	\$ (30,000)	\$ (30,000)	\$ 11,110	\$ 41,110
Fund Balance - January 1	217,123	217,123	217,123	-
Fund Balance - December 31	\$ 187,123	\$ 187,123	\$ 228,233	\$ 41,110

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
HOSPITAL SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<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	\$ 15,552	\$ (4,448)
Intergovernmental	-	-	4,386	4,386
Total Revenues	\$ 20,000	\$ 20,000	\$ 19,938	\$ (62)
Fund Balance - January 1	90,900	90,900	90,900	-
Fund Balance - December 31	<u>\$ 110,900</u>	<u>\$ 110,900</u>	<u>\$ 110,838</u>	<u>\$ (62)</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
HOSPITAL STEAM LINE DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ -	\$ -	\$ 9	\$ 9
Miscellaneous	-	-	1	1
Total Revenues	\$ -	\$ -	\$ 10	\$ 10
Expenditures				
Debt service				
Principal	\$ 1,914	\$ 1,914	\$ 1,914	\$ -
Interest	214	214	107	107
Total Expenditures	\$ 2,128	\$ 2,128	\$ 2,021	\$ 107
Excess of Revenues Over (Under) Expenditures	\$ (2,128)	\$ (2,128)	\$ (2,011)	\$ 117
Fund Balance - January 1	16,839	16,839	16,839	-
Fund Balance - December 31	\$ 14,711	\$ 14,711	\$ 14,828	\$ 117

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
NURSING HOME REVENUE BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 89,154	\$ 89,154	\$ 69,680	\$ (19,474)
Intergovernmental	-	-	19,703	19,703
Total Revenues	\$ 89,154	\$ 89,154	\$ 89,383	\$ 229
Expenditures				
Debt service				
Principal	\$ 50,700	\$ 50,700	\$ 50,700	\$ -
Interest	31,433	31,433	31,769	(336)
Total Expenditures	\$ 82,133	\$ 82,133	\$ 82,469	\$ (336)
Excess of Revenues Over (Under) Expenditures	\$ 7,021	\$ 7,021	\$ 6,914	\$ (107)
Fund Balance - January 1	104,559	104,559	104,559	-
Fund Balance - December 31	\$ 111,580	\$ 111,580	\$ 111,473	\$ (107)

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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

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

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

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

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

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

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>HEADWATERS COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 9,066	\$ 9,066	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 9,066	\$ 9,066	\$ -
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 772	\$ 737,931	\$ 732,182	\$ 6,521
<u>Liabilities</u>				
Due to other governments	\$ 772	\$ 737,931	\$ 732,182	\$ 6,521
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,013	\$ 276,119	\$ 275,907	\$ 1,225
Accounts receivable	7,648	6,922	8,721	5,849
Total Assets	\$ 8,661	\$ 283,041	\$ 284,628	\$ 7,074
<u>Liabilities</u>				
Due to other governments	\$ 8,661	\$ 283,041	\$ 284,628	\$ 7,074

**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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 20,662	\$ 4,639,444	\$ 4,606,438	\$ 53,668
<u>Liabilities</u>				
Due to other governments	\$ 20,662	\$ 4,639,444	\$ 4,606,438	\$ 53,668
 <u>TOWNSHIPS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 414	\$ 824,601	\$ 823,385	\$ 1,630
Accounts receivable	-	1,060	345	715
Total Assets	\$ 414	\$ 825,661	\$ 823,730	\$ 2,345
<u>Liabilities</u>				
Due to other governments	\$ 414	\$ 825,661	\$ 823,730	\$ 2,345
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 176,772	\$ 176,772	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 176,772	\$ 176,772	\$ -

**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, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ADVANCED LIFE SUPPORT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 78	\$ 53,657	\$ 53,735	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 78	\$ 53,657	\$ 53,735	\$ -
 <u>CAFETERIA PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,402	\$ 8,919	\$ 8,406	\$ 3,915
<u>Liabilities</u>				
Due to other governments	\$ 3,402	\$ 8,919	\$ 8,406	\$ 3,915
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 26,341	\$ 6,726,509	\$ 6,685,891	\$ 66,959
Accounts receivable	7,648	7,982	9,066	6,564
Total Assets	\$ 33,989	\$ 6,734,491	\$ 6,694,957	\$ 73,523
<u>Liabilities</u>				
Due to other governments	\$ 33,989	\$ 6,734,491	\$ 6,694,957	\$ 73,523

This page was left blank intentionally.

OTHER SCHEDULES

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 9

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2006**

	<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	31,031
Interest-bearing checking	Three	Various	Continuous	813,317
Passbook savings	Three	1.00	Continuous	111,819
Certificates of deposit	One	5.00	September 28, 2007	5,000
Money market savings	Four	Various	Continuous	1,950,036
Certificates of deposit with broker	Eleven	5.0 to 5.25	January 26, 2007, to November 20, 2012	1,002,873
FHLB	Four	4.00	August 26, 2009, to July 24, 2013	603,036
Total Cash and Pooled Investments				<u>\$ 4,519,812</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 10

**BALANCE SHEET BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2006**

	<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	\$ 10,023	\$ 107,129	\$ 110,938	\$ 228,090
Undistributed cash in agency funds	112	7	-	119
Special assessments receivable				
Current	29	-	-	29
Noncurrent	2,500	15,000	30,000	47,500
Total Assets	<u>\$ 12,664</u>	<u>\$ 122,136</u>	<u>\$ 140,938</u>	<u>\$ 275,738</u>
<u>Liabilities and Fund Balance</u>				
Liabilities				
Deferred revenue - unavailable	\$ 2,505	\$ 15,000	\$ 30,000	\$ 47,505
Fund Balance				
Unreserved				
Undesignated	10,159	107,136	110,938	228,233
Total Liabilities and Fund Balance	<u>\$ 12,664</u>	<u>\$ 122,136</u>	<u>\$ 140,938</u>	<u>\$ 275,738</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 11

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

Shared Revenue

State

Highway users tax	\$	2,439,557
HACA		710,685
PERA rate reimbursement		10,235
Disparity reduction aid		66,695
Police aid		46,217
Market value credit (MVC)		259,943
Mobile home MVC		981
Indian casino aid		103,686
Property tax reimbursement - Casino		450,000
		450,000

Total Shared Revenue **\$ 4,087,999**

Reimbursement for Services

Minnesota Department of Human Services **\$ 739,318**

Payments

Local

Local contributions	\$	74,006
Payments in lieu of taxes		57,874
		57,874

Total Payments **\$ 131,880**

Grants

State

Minnesota Department of Corrections	\$	17,245
Public Safety		189,954
Transportation		85,534
Natural Resources		168,893
Human Services		506,810
Housing and Finance		37,395
Pollution Control Agency		49,079
Water and Soil Resources Board		49,359
Peace Officer Standards and Training Board		4,341
		4,341

Total State **\$ 1,108,610**

Federal

Department of Justice	\$	195,208
Transportation		665,938
Health and Human Services		184,872
Homeland Security		7,512
Election Assistance Commission		134,129
		134,129

Total Federal **\$ 1,187,659**

Total State and Federal Grants **\$ 2,296,269**

Total Intergovernmental Revenue **\$ 7,255,466**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 11
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

Revenues on this schedule differ from expenditures on the Schedule of Expenditures of Federal Awards (Schedule 13) due to timing differences in revenue recognition under the modified accrual basis of accounting. The individual grants affected are:

Total Federal Revenue per Schedule of Intergovernmental Revenue (Schedule 11)	\$ 1,187,659
Help America Vote Act	<u>(10,821)</u>
Total Federal Awards per Schedule of Expenditures of Federal Awards (Schedule 13)	<u>\$ 1,176,838</u>

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 12

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Mahnomen County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Mahnomen County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- 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 program 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 program 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 program is:
 - Highway Planning and Construction CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Mahnomen County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED 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 procedures to ensure that internal control policies and procedures are being implemented by staff.

Client's Response:

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

ITEMS ARISING THIS YEAR

06-1 Payroll Procedures

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

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

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

Client's Response:

The County Board is aware and understands the issue. However, the County does not currently have a cost-effective procedure for the taxpayers of the County in place to resolve this. The County is also under financial constraints which limits its ability to offer a solution. The County Board will continue to seek a solution.

06-2 Preparation of Financial Statements

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

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

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

necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

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

Client's Response:

The County does not currently have the resources to prepare its own annual financial statement in accordance with GAAP. With its limited funds available, the County may consider prescribed alternatives for a solution to this matter.

06-3 Audit Adjustment

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal control even if management subsequently corrects the misstatement.

During our audit, we identified a material adjustment in the Road and Bridge Special Revenue Fund. At the fund level, revenues for state-aid allotments were decreased by \$282,955 due to a reduction in receivables of \$29,494 and an increase in deferred revenue of \$253,461 for receivables not available during the revenue recognition period.

County officials are aware that audit adjustments are made for the state-aid highway project allotments each year, and they rely on the independent external auditors to assist in making the necessary adjustments to correctly reflect the state-aid highway allotments in the financial statements. Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the County establish internal procedures for analyzing state-aid highway project allotments so that they are reported in accordance with GAAP in the County's annual financial statements.

Client's Response:

The Mahnomens County Highway Department will work on providing a schedule to reflect the change in fund balance due to revenues not available in the recognition period.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

06-4 Collateral Pledged to Secure Deposits

At December 31, 2006, deposits with First National Bank of Mahnomens exceeded the amount of federal deposit insurance and collateral pledged by \$174,680. Minn. Stat. § 118A.03, subd. 3, sets forth the requirement that, "[t]he total amount of the collateral computed at its market value 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."

We recommend that the County Treasurer monitor deposits and the market values of pledged collateral in designated depositories to ensure that County funds are fully protected at all times as required by Minn. Stat. § 118A.03.

Client's Response:

We are monitoring the level of pledged collateral on a weekly basis now. We have informed the bank staff that we need to go by the market value of pledged collateral. Also, we have reiterated to them the importance of having pledged collateral of at least 110% of our total deposits.

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 Mahnomon 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.

Client's Response:

The County Attorney Office and Minnesota Counties Insurance Trust (MCIT) continue to work with the former County Engineer in reaching a final settlement.

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

This page was left blank intentionally.

OTHER REQUIRED REPORTS

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

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

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, 2006, and have issued our report thereon dated September 27, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Mahnomen Health Center, as described in our report on Mahnomen County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Mahnomen County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 06-4.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe these recommendations and information to be of benefit to Mahnomen County and are reported for that purpose.

Mahnomen County's written responses to the significant deficiencies, legal compliance finding, and management practices finding identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2007

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

REPORT ON COMPLIANCE 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 its major federal program for the year ended December 31, 2006. Mahnomen County's major federal program is 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 its major federal program 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 its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 27, 2007. We did not audit the financial statements of the Mahnomen 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 Mahnomen County's basic financial statements. The

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

This report is intended solely for the information and use of the Board of County Commissioners, management, others within 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/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2007

This page was left blank intentionally.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 13

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Executive Office for Weed and Seed	16.595	\$ <u>195,208</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 152,040
Highway Planning and Construction	20.205	432,213
Federal Transit Metro Planning Grant	20.505	241
Public Transportation for Non-Urbanized Areas	20.509	<u>81,444</u>
Total U.S. Department of Transportation		\$ <u>665,938</u>
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act	90.401	\$ <u>123,308</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families Title IV-B-2	93.556	\$ 4,981
Temporary Assistance for Needy Families (TANF)	93.558	45,045
Child Care Mandatory and Matching Funds	93.596	1,710
Child Welfare Services - State Grants	93.645	5,501
Foster Care Title IV-E	93.658	41,728
Social Services Block Grant Title XX	93.667	80,772
Chafee Foster Care Independent Living	93.674	2,439
Community Mental Health Block Grant	93.958	<u>2,696</u>
Total U.S. Department of Health and Human Services		\$ <u>184,872</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	\$ <u>7,512</u>
Total Federal Awards		\$ <u><u>1,176,838</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Mahnomen County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Of CFDA #90.401, \$10,821 remains unspent in the General Fund.
3. Pass-through grant numbers were not assigned by the pass-through agencies.