

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Year Ended December 31, 2007



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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

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MAHNOMEN, MINNESOTA**

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2007**

Offices	Name	Term Expires
Commissioners		
1st District	Wallace Eid	January 2009
2nd District	Jerry Dahl	January 2011
3rd District	John Peterick	January 2009
4th District	Karen Ahmann ¹	January 2011
5th District	Charles Pazdernik ²	January 2011
Officials		
Elected		
Attorney	Julie Bruggeman	January 2011
Auditor	Frank Thompson	January 2011
County Recorder	Susan Bendickson	January 2011
Registrar of Titles	Susan Bendickson	January 2011
Sheriff	Douglas Krier	January 2011
Treasurer	Brenda London	January 2011
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. Sanjit Dutta	Indefinite
Solid Waste Officer	Mark Diekman	Indefinite
Social Services Board		
Chair	Charles Pazdernik	January 2011
Vice Chair	Wallace Eid	January 2009
Secretary	Theresa McCollum	July 2008
Member	Karen Ahmann	January 2011
Member	John Peterick	January 2009
Member	Jerry Dahl	January 2011
Member	Colleen Blattenbauer	July 2009
Director	Cindy Marihart	Indefinite

¹Chair

²Vice Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Mahnomen County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Mahnomen County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mahnomen Health Center, which represent the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mahnomen Health Center, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Mahnomen County as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008, on our consideration of Mahanomen County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 30, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(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, 2007. 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 \$25,306,679, of which Mahnomen County has invested \$21,043,169 in capital assets, net of related debt, and \$602,153 is restricted to specific purposes/uses by the County.
- The net cost of Mahnomen County's governmental activities for the year ended December 31, 2007, was \$5,584,943. General property tax revenues and other revenue sources funded \$4,203,036 of those costs.
- Mahnomen County's governmental funds' fund balances increased by \$1,119,437.
- During the year ending December 31, 2007, Mahnomen County issued new revenue bond debt totaling \$1,260,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Management's Discussion and Analysis (Required Supplementary Information)

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

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

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

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

Reporting the County’s Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

Mahnomen County's combined net assets for the year ended December 31, 2007, were \$25,306,679. 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	
	2007	2006
Assets		
Current and other assets	\$ 6,808,539	\$ 5,921,728
Capital assets	21,089,883	22,239,016
Total Assets	\$ 27,898,422	\$ 28,160,744
Liabilities		
Long-term debt outstanding	\$ 2,021,626	\$ 843,045
Other liabilities	570,117	629,113
Total Liabilities	\$ 2,591,743	\$ 1,472,158
Net Assets		
Invested in capital assets, net of related debt	\$ 21,043,169	\$ 22,160,425
Restricted	602,153	350,032
Unrestricted	3,661,357	4,178,129
Total Net Assets	\$ 25,306,679	\$ 26,688,586

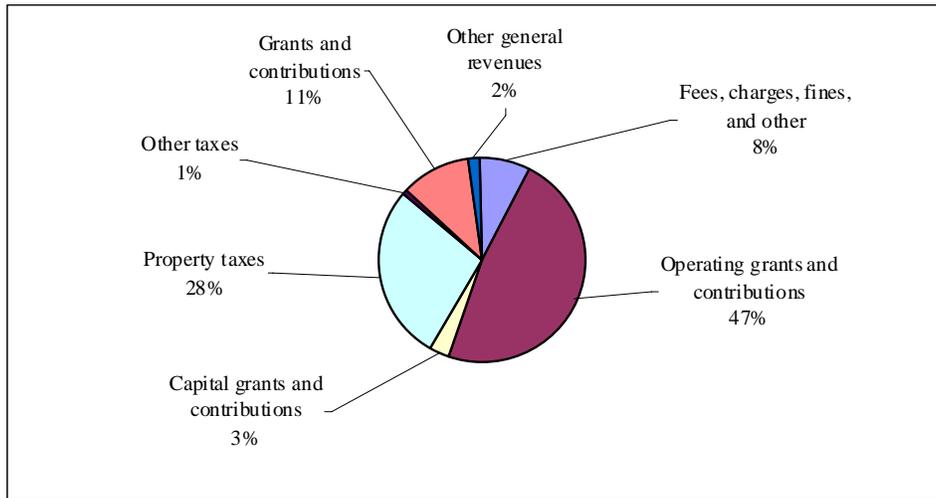
Unrestricted net assets totaling \$3,661,357 are available to Mahnomen County to finance day-to-day operations.

Table 2
Change in Net Assets

	Governmental Activities	
	2007	2006
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 821,171	\$ 948,352
Operating grants and contributions	4,631,257	4,828,786
Capital grants and contributions	300,227	637,449
General revenues		
Property taxes	2,775,361	2,597,973
Other taxes	69,367	58,679
Grants and contributions	1,132,571	1,574,967
Other general revenues	225,737	163,636
Total Revenues	<u>\$ 9,955,691</u>	<u>\$ 10,809,842</u>
Expenses		
General government	\$ 1,771,444	\$ 1,633,406
Public safety	2,072,290	2,003,334
Highways and streets	3,894,371	845,975
Sanitation	232,383	224,116
Human services	2,504,846	2,246,934
Health	62,982	62,982
Culture and recreation	106,965	106,829
Conservation of natural resources	211,518	210,581
Economic development	447,010	181,191
Interest	33,789	36,020
Total Expenses	<u>\$ 11,337,598</u>	<u>\$ 7,551,368</u>
Change in Net Assets	\$ (1,381,907)	\$ 3,258,474
Net Assets - Beginning	<u>26,688,586</u>	<u>23,430,112</u>
Net Assets - Ending	<u><u>\$ 25,306,679</u></u>	<u><u>\$ 26,688,586</u></u>

Mahnomen County's total revenues for the year ended December 31, 2007, were \$9,955,691. The total cost of County programs and services for the year ended December 31, 2007, was \$11,337,598. The net assets for Governmental Activities decreased by \$1,381,907. The pie chart depicts those revenues in seven categories.

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



Governmental Activities

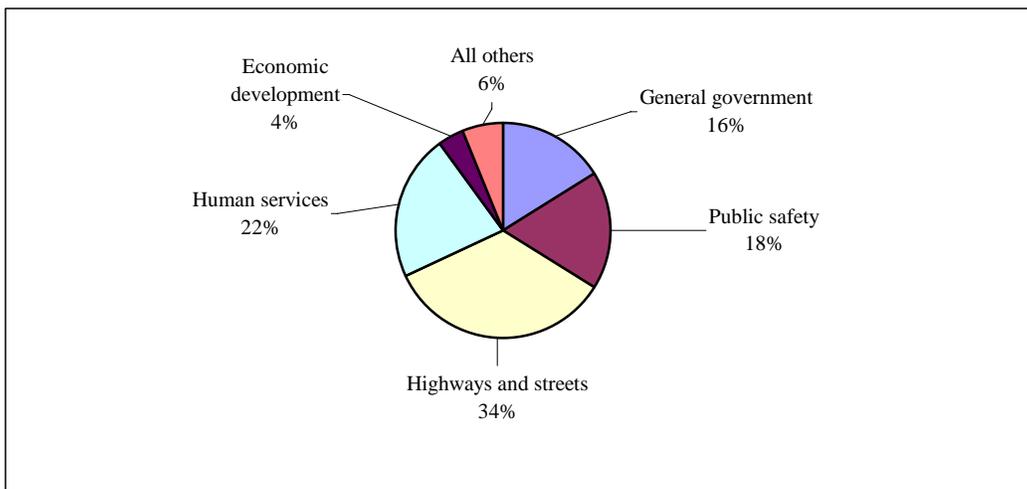
Mahnomen County's costs for all governmental activities for the year ended December 31, 2007, were \$11,337,598 as shown on the Statement of Activities. The net cost of services was ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, and grants.

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

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Program Expenses		
General government	\$ 1,771,444	\$ 1,500,058
Public safety	2,072,290	1,534,956
Highways and streets	3,894,371	1,195,378
Human services	2,504,846	978,109
Economic development	447,010	59,994
All others	647,637	316,448
	<hr/>	<hr/>
Totals	<u>\$ 11,337,598</u>	<u>\$ 5,584,943</u>

Governmental Activities' Expenses



The County's Funds

As Mahnomens County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$5,760,644, which is above last year's total combined fund balance of \$4,641,207. This increase of \$1,119,437 represents a 24.1 percent total increase. Included in this year's total fund balance is the County's General Fund balance of \$2,096,928. The General Fund's change in fund balance (a decrease of \$149,227 from 2006) represented a 6.6 percent decrease in the General Fund balance. Most of the General Fund's decrease was due to the decreases in revenues and increases of expenditures. The Road and Bridge Special Revenue Fund balance increased by \$461,476, or 109.1 percent, and the Social Services Special Revenue Fund was decreased by \$408,090, or 42.2 percent.

General Fund Budgetary Highlights

The Mahnomens County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2007, 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, 2006, these budget amendments/revisions would have fallen into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the County's General Fund, the actual revenues were under the budgeted revenues by \$239,181. The total actual expenditures in the County's General Fund exceeded the budgeted expenditures by \$38,680. The General Fund balance decreased by a total of \$149,227.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, Mahnomen County had \$21,089,883 invested in a broad range of capital assets including land, construction in progress, buildings, highways and streets, and equipment (see Table 4). This amount represents a net decrease (including additions and deductions) of \$1,149,133, or 5.2 percent, over last year.

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

	2007	2006
Land	\$ 468,063	\$ 467,347
Construction in progress	73,811	1,162,160
Land improvements	2,103	2,524
Buildings and improvements	754,869	789,777
Machinery, furniture, and equipment	658,222	732,932
Infrastructure	19,132,815	19,084,276
Totals	<u>\$ 21,089,883</u>	<u>\$ 22,239,016</u>

Mahnomen County's fiscal year 2007 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, 2007, Mahnomen County had \$1,806,000 in bonds outstanding, compared with \$600,600 as of December 31, 2006, an increase of 200.7 percent--as shown in Table 5.

Table 5
Outstanding Debt at Year-End

	2007	2006
Bonds payable - general obligation bonds	\$ 546,000	\$ 600,600
Bonds payable - revenue bonds	1,260,000	-
Total	<u>\$ 1,806,000</u>	<u>\$ 600,600</u>

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

Mahnomen County's general obligation bonds are non-rated. The state limits the amount of net debt that the counties can issue to two percent of the market value of all taxable property in the county. Mahnomen County's outstanding net debt is below this \$7,538,996 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. There continues to be an ongoing concern with 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, 2007, and 2008 tax payments, as of the time of this print. The White Earth Tribal Council has made it publicly known that its intentions are not to pay the property taxes and move forward with its trust status application and litigation. Mahnomen County was unfortunate regarding the special legislative reimbursement funding in 2007 for the shortfall of the Casino taxes owed. However, the County was successful in obtaining permanent ongoing funding in 2008 for the loss of Casino taxes. The County also has a good seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.
- Mahnomen County's unemployment rate for 2006 averaged 5.6 percent. The County's unemployment rate for 2007 averaged 6.7 percent according to the Department of Employment and Economic Development.
- The 2008 net property tax levies are planned to increase 7.945 percent from 2007.
- 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 2008 budget.

- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Mahnomen County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 5,051,510	\$ 1,560,106
Petty cash and change funds	2,700	-
Departmental cash	50,278	-
Taxes receivable		
Current - net	60,705	-
Prior - net	37,638	-
Special assessments receivable		
Current - net	5,583	-
Noncurrent - net	60,000	-
Accounts receivable - net	18,058	967,800
Accrued interest receivable	31,325	-
Due from other governments	1,073,908	-
Inventories	162,262	99,773
Prepaid items	-	104,770
Contract for deed	254,572	-
Investment in joint venture	-	140,711
Other long-term investments	-	378,936
Held by trustee for capital	-	1,260,000
Deferred financing costs	-	33,298
Restricted due from other governments - temporary	-	11,348
Capital assets		
Non-depreciable	541,874	154,246
Depreciable - net of accumulated depreciation	20,548,009	2,864,621
	\$ 27,898,422	\$ 7,575,609
Total Assets	\$ 27,898,422	\$ 7,575,609

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Liabilities</u>		
Accounts payable	\$ 263,014	\$ 429,392
Salaries payable	183,924	118,013
Compensated absences/vacation/sick payable - current	-	133,243
Contracts payable	27,403	-
Due to other governments	82,511	-
Accrued interest payable	13,265	-
Residents' personal funds	-	9,760
Special assessments debt payable - current	-	2,471
Capital leases payable - current	-	4,728
Long-term liabilities		
Special assessments debt payable - noncurrent	-	1,287,737
Due within one year	210,771	-
Due in more than one year	1,810,855	-
	\$ 2,591,743	\$ 1,985,344
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 21,043,169	\$ 1,723,931
Restricted for		
Hospital operations	-	11,348
General government	49,202	-
Public safety	117,776	-
Highways and streets	398,956	-
Sanitation	36,219	-
Unrestricted	3,661,357	3,854,986
	\$ 25,306,679	\$ 5,590,265

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 1,771,444	\$ 166,823
Public safety	2,072,290	176,888
Highways and streets	3,894,371	173,561
Sanitation	232,383	105,223
Human services	2,504,846	150,857
Health	62,982	-
Culture and recreation	106,965	-
Conservation of natural resources	211,518	43,517
Economic development	447,010	4,302
Interest	33,789	-
Total Primary Government	\$ 11,337,598	\$ 821,171
Component unit		
Mahnomen Health Center	\$ 6,462,517	\$ 6,357,428
General Revenues		
Property taxes		
Special assessments		
Gravel taxes		
Grants and contributions not restricted to specific programs		
Payments in lieu of tax		
Unrestricted investment earnings		
Miscellaneous		
Total general revenues		
Change in net assets		
Net Assets - Beginning		
Net Assets - Ending		

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 104,563	\$ -	\$ (1,500,058)	
360,446	-	(1,534,956)	
2,225,205	300,227	(1,195,378)	
12,270	-	(114,890)	
1,375,880	-	(978,109)	
54,039	-	(8,943)	
80,494	-	(26,471)	
35,646	-	(132,355)	
382,714	-	(59,994)	
-	-	(33,789)	
\$ 4,631,257	\$ 300,227	\$ (5,584,943)	
\$ 7,610	\$ 112,047		\$ 14,568
		\$ 2,775,361	\$ -
		-	55,871
		4,336	-
		1,132,571	-
		65,031	-
		214,804	75,325
		10,933	-
		\$ 4,203,036	\$ 131,196
		\$ (1,381,907)	\$ 145,764
		26,688,586	5,444,501
		\$ 25,306,679	\$ 5,590,265

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Assets</u>						
Cash and pooled investments	\$ 1,599,545	\$ 663,231	\$ 501,736	\$ 1,260,000	\$ 961,533	\$ 4,986,045
Petty cash and change funds	2,700	-	-	-	-	2,700
Undistributed cash in agency funds (taxes and other)	43,129	7,981	9,958	-	4,397	65,465
Departmental cash	50,278	-	-	-	-	50,278
Taxes receivable						
Current - net	40,529	7,893	10,692	-	1,591	60,705
Prior - net	25,836	4,145	6,387	-	1,270	37,638
Special assessments						
Current - net	-	804	-	-	4,779	5,583
Noncurrent - net	-	20,000	-	-	40,000	60,000
Accounts receivable	9,431	2,229	5,515	-	883	18,058
Accrued interest receivable	31,325	-	-	-	-	31,325
Due from other funds	1,778	1,871	7,815	-	-	11,464
Due from other governments	511,337	370,915	191,656	-	-	1,073,908
Advance to other funds	-	-	-	-	18,685	18,685
Inventories	-	162,262	-	-	-	162,262
Contract for deed	254,572	-	-	-	-	254,572
Total Assets	<u>\$ 2,570,460</u>	<u>\$ 1,241,331</u>	<u>\$ 733,759</u>	<u>\$ 1,260,000</u>	<u>\$ 1,033,138</u>	<u>\$ 6,838,688</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 136,814	\$ 35,046	\$ 74,855	\$ -	\$ 12,398	\$ 259,113
Salaries payable	100,065	25,280	56,606	-	1,973	183,924
Contracts payable	17,538	9,865	-	-	-	27,403
Due to other funds	8,070	675	4,716	-	1,904	15,365
Due to other governments	43,633	920	25,255	-	12,703	82,511
Deferred revenue - unavailable	167,412	266,309	12,433	-	44,889	491,043
Advance from other funds	-	18,685	-	-	-	18,685
Total Liabilities	\$ 473,532	\$ 356,780	\$ 173,865	\$ -	\$ 73,867	\$ 1,078,044
Fund Balances						
Reserved for						
Inventories	\$ -	\$ 162,262	\$ -	\$ -	\$ -	\$ 162,262
Contract for deed	254,572	-	-	-	-	254,572
Sheriff's contingency	557	-	-	-	-	557
HAVA	13,677	-	-	-	-	13,677
Highway projects	-	147,367	-	-	-	147,367
Gravel pit restoration	-	14,956	-	-	-	14,956
SCORE	-	-	-	-	36,219	36,219
Missing heirs	2,955	-	-	-	-	2,955
Recorder's compliance fund	9,803	-	-	-	-	9,803
Recorder's equipment purchases	25,722	-	-	-	-	25,722
Enhanced 911	115,893	-	-	-	-	115,893
Boat and water	1,326	-	-	-	-	1,326
Unreserved, designated for						
Future expenditures	-	-	-	1,260,000	-	1,260,000
Drug eradication	1,475	-	-	-	-	1,475
County development	2,692	-	-	-	-	2,692
Timber development	150,760	-	-	-	-	150,760
Parks and recreation	83,157	-	-	-	-	83,157
Extension youth grant	595	-	-	-	-	595
Extension programming funds	139	-	-	-	-	139
K-9 unit	157	-	-	-	-	157
Unreserved, undesignated	1,433,448	559,966	559,894	-	-	2,553,308
Unreserved, reported in nonmajor						
Special revenue funds	-	-	-	-	801,353	801,353
Debt service funds	-	-	-	-	121,699	121,699
Total Fund Balances	\$ 2,096,928	\$ 884,551	\$ 559,894	\$ 1,260,000	\$ 959,271	\$ 5,760,644
Total Liabilities and Fund Balances	\$ 2,570,460	\$ 1,241,331	\$ 733,759	\$ 1,260,000	\$ 1,033,138	\$ 6,838,688

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balances - total governmental funds (Exhibit 3)		\$ 5,760,644
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		21,089,883
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		491,043
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	\$ (546,000)	
Revenue bonds	(1,260,000)	
Capital leases	(46,715)	
Accrued interest payable	(13,265)	
Compensated absences	(168,911)	
	(2,034,891)	(2,034,891)
Net Assets of Governmental Activities (Exhibit 1)		<u><u>\$ 25,306,679</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues						
Taxes	\$ 1,868,209	\$ 361,149	\$ 484,755	\$ -	\$ 72,358	\$ 2,786,471
Special assessments	-	18,803	-	-	147,927	166,730
Licenses and permits	7,056	-	-	-	-	7,056
Intergovernmental	1,992,610	2,810,089	1,425,070	-	71,442	6,299,211
Charges for services	278,088	131,437	74,926	-	5,350	489,801
Fines and forfeits	36,760	-	-	-	-	36,760
Gifts and contributions	953	-	-	-	-	953
Investment earnings	210,126	-	-	-	-	210,126
Miscellaneous	38,417	10,029	75,931	-	7,177	131,554
Total Revenues	\$ 4,432,219	\$ 3,331,507	\$ 2,060,682	\$ -	\$ 304,254	\$ 10,128,662
Expenditures						
Current						
General government	\$ 1,731,388	\$ -	\$ -	\$ -	\$ -	\$ 1,731,388
Public safety	2,035,425	-	-	-	-	2,035,425
Highways and streets	-	2,792,378	-	-	-	2,792,378
Sanitation	-	-	-	-	230,189	230,189
Human services	195	-	2,468,772	-	-	2,468,967
Health	62,982	-	-	-	-	62,982
Culture and recreation	106,965	-	-	-	-	106,965
Conservation of natural resources	177,560	-	-	-	34,060	211,620
Economic development	435,502	-	-	-	-	435,502
Intergovernmental						
Highways and streets	-	103,475	-	-	-	103,475
Debt service						
Principal	29,519	2,358	-	-	54,600	86,477
Interest	2,743	1,093	-	-	29,294	33,130
Total Expenditures	\$ 4,582,279	\$ 2,899,304	\$ 2,468,772	\$ -	\$ 348,143	\$ 10,298,498
Excess of Revenues Over (Under) Expenditures	\$ (150,060)	\$ 432,203	\$ (408,090)	\$ -	\$ (43,889)	\$ (169,836)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

*EXHIBIT 5
(Continued)*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Other Financing Sources (Uses)						
Transfers in	\$ 833	\$ -	\$ -	\$ -	\$ 57	\$ 890
Transfers out	-	-	-	-	(890)	(890)
Bonds issued	-	-	-	1,260,000	-	1,260,000
Total Other Financing Sources (Uses)	<u>\$ 833</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,260,000</u>	<u>\$ (833)</u>	<u>\$ 1,260,000</u>
Net Change in Fund Balance	\$ (149,227)	\$ 432,203	\$ (408,090)	\$ 1,260,000	\$ (44,722)	\$ 1,090,164
Fund Balance - January 1	2,246,155	423,075	967,984	-	1,003,993	4,641,207
Increase (decrease) in reserved for inventories	<u>-</u>	<u>29,273</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,273</u>
Fund Balance - December 31	<u>\$ 2,096,928</u>	<u>\$ 884,551</u>	<u>\$ 559,894</u>	<u>\$ 1,260,000</u>	<u>\$ 959,271</u>	<u>\$ 5,760,644</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 1,090,164

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

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

Deferred revenue - December 31	\$ 491,043	
Deferred revenue - January 1	<u>(664,014)</u>	(172,971)

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	\$ 463,753	
Net book value of assets disposed of	(21,070)	
Current year depreciation	<u>(1,591,816)</u>	(1,149,133)

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

Proceeds of new debt		
Revenue bonds issued		(1,260,000)

Principal repayments		
General obligation bonds	\$ 54,600	
Capital lease	<u>31,877</u>	86,477

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	\$ (659)	
Change in compensated absences	(5,058)	
Change in inventories	<u>29,273</u>	<u>23,556</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ (1,381,907)

FIDUCIARY FUNDS

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007**

	Family Services Collaborative Investment Trust	Agency Funds
<u>Assets</u>		
Cash and pooled investments	\$ 90,406	\$ 50,694
Receivables		
Accounts	-	8,787
Interest	667	-
Due from other funds	3,901	-
Total Assets	\$ 94,974	\$ 59,481
<u>Liabilities</u>		
Due to other governments	-	\$ 59,481
<u>Net Assets</u>		
Net assets held in trust for pool participants	\$ 94,974	

MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA

EXHIBIT 8

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Additions</u>	
Contributions from participants	\$ 145,354
Investment earnings	
Interest	<u>8,917</u>
Total Additions	\$ 154,271
<u>Deductions</u>	
Distributions to participants	<u>251,025</u>
Change in net assets	\$ (96,754)
Net Assets - January 1	<u>191,728</u>
Net Assets - December 31	<u><u>\$ 94,974</u></u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

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

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fiduciary fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 2007 were \$233,721.

2. External Investment Pools

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

Cash and pooled investments	
Held for internal pool participants (County funds)	\$ 5,155,182
Held for external pool participants (Interagency Collaborative)	<u>90,406</u>
Total	<u>\$ 5,245,588</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	\$ 5,051,510
Petty cash and change funds	2,700
Departmental cash	50,278
Statement of fiduciary net assets	
Cash and pooled investments	
Investment Trust Fund	90,406
Agency funds	50,694
	<hr/>
Total Cash and Investments	\$ 5,245,588
	<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, 2007, \$486,284 of the County's bank balance of \$4,266,011 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, 2007, 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		06/26/2013	\$ 100,234
Federal Home Loan Bank	Aaa	Moody's		06/26/2013	99,747
Federal Home Loan Bank	Aaa	Moody's		07/24/2013	328,445
Federal Home Loan Bank	Aaa	Moody's		06/27/2014	200,725
Total Federal Home Loan Bank			43.15%		\$ 729,151
Negotiable certificates of deposit	N/R		N/A		960,778
Total investments					\$ 1,689,929
Deposits					3,552,959
Petty cash and change funds					2,700
Total Cash and Investments					<u>\$ 5,245,588</u>

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

2. Receivables

Receivables as of December 31, 2007, 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	\$ 98,343	\$ -
Special assessments	65,583	-
Accounts	18,058	-
Interest	31,325	-
Due from other governments	1,073,908	-
Contract for deed	254,572	240,788
Total Governmental Activities	<u>\$ 1,541,789</u>	<u>\$ 240,788</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 467,347	\$ 716	\$ -	\$ 468,063
Construction in progress	1,162,160	44,620	1,132,969	73,811
Total capital assets not depreciated	\$ 1,629,507	\$ 45,336	\$ 1,132,969	\$ 541,874
Capital assets depreciated				
Land improvements	\$ 28,015	\$ -	\$ 9,600	\$ 18,415
Buildings	2,759,738	-	-	2,759,738
Machinery, furniture, and equipment	1,921,313	86,804	111,595	1,896,522
Infrastructure	26,416,347	1,464,582	21,070	27,859,859
Total capital assets depreciated	\$ 31,125,413	\$ 1,551,386	\$ 142,265	\$ 32,534,534
Less: accumulated depreciation for				
Land improvements	\$ 25,491	\$ 421	\$ 9,600	\$ 16,312
Buildings	1,969,961	34,908	-	2,004,869
Machinery, furniture, and equipment	1,188,381	161,514	111,595	1,238,300
Infrastructure	7,332,071	1,394,973	-	8,727,044
Total accumulated depreciation	\$ 10,515,904	\$ 1,591,816	\$ 121,195	\$ 11,986,525
Total capital assets depreciated, net	\$ 20,609,509	\$ (40,430)	\$ 21,070	\$ 20,548,009
Governmental Activities Capital Assets, Net	\$ 22,239,016	\$ 4,906	\$ 1,154,039	\$ 21,089,883

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

Governmental Activities	
General government	\$ 65,537
Public safety	43,239
Highways and streets, including depreciation of infrastructure assets	1,440,327
Sanitation	2,221
Human services	28,476
Economic development	12,016
Total Depreciation Expense - Governmental Activities	\$ 1,591,816

**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, 2007, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Road and Bridge	\$ 675
	Social Services	270
	Other governmental	833
Total due to General Fund		<u>\$ 1,778</u>
Road and Bridge	General	\$ 255
	Social Services	545
	Other governmental	1,071
Total due to Road and Bridge Fund		<u>\$ 1,871</u>
Social Services	General	\$ 7,815
Investment Trust	Social Services	\$ 3,901
Total Due To/From Other Funds		<u><u>\$ 15,365</u></u>

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

2. Advance From/To Other Funds

The Solid Waste Special Revenue Fund advanced \$55,000 to the Road and Bridge Special Revenue Fund to pay for costs related to an E-911 signage project in 2005. The advance was paid from special assessments. In 2007 and 2006, the Road and Bridge Special Revenue Fund paid back \$18,841 and \$17,474, respectively, to the Solid Waste Special Revenue Fund, leaving a balance of \$18,685.

**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, 2007, consisted of the following:

Transfer to General Fund from Forfeited Tax Sale Special Revenue Fund	\$	833	Settlement of proceeds
Transfer to Nursing Home Revenue Bonds Debt Service Fund from Watershed Project No. 27-34 Debt Service Fund		57	Close out fund
Total Transfers Between Funds	\$	890	

C. Liabilities

1. Payables

Payables at December 31, 2007, were as follows:

		Governmental Activities
Accounts	\$	263,014
Salaries		183,924
Contracts		27,403
Due to other governments		82,511
Accrued interest payable		13,265
Total Payables	\$	570,117

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2007, for the County's governmental funds and activities are as follows:

		Deferred Unavailable
Governmental funds		
Taxes and special assessments	\$	130,385
State-shared revenue		95,616
State-aid highway allotments		236,633
Charges for services		1,121
Grants		22,610
Interest on investment		4,678
Total Governmental Funds	\$	491,043

3. Construction Commitments

The government has active construction projects as of December 31, 2007. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
General Fund	\$ 8,769	\$ 5,566
Roads and bridges	11,145	2,235
Total Governmental Activities	\$ 19,914	\$ 7,801

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities

4. Other Postemployment Benefits - Retirees (Continued)

As of year-end, the County has four eligible participants. The County finances the plan on a pay-as-you-go basis. During 2007, the County expended \$21,853 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, 2007:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
2005 AS400	2008	Monthly	\$ 1,043	\$ 34,985	\$ 11,211
2005 Phone System	2010	Monthly	249	12,820	6,483
2006 Network Server	2009	Monthly	1,396	46,217	17,577
2006 Copier	2011	Monthly	288	14,544	11,444
Total Capital Leases					<u>\$ 46,715</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2008	\$ 34,670
2009	7,841
2010	4,449
2011	3,164
Total minimum lease payments	\$ 50,124
Less: amount representing interest	<u>(3,409)</u>
Present Value of Minimum Lease Payments	<u>\$ 46,715</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
General obligation bonds					
1999 G.O. Nursing Home		\$75,000 -	2.75 -		
Revenue Bonds	2015	\$105,000	5.2175	\$ 1,100,000	\$ 700,000
Less: City of Mahnomen's share					(154,000)
Total General Obligation Bonds					<u>\$ 546,000</u>
Revenue bonds					
2007 Gross Revenue		\$95,000 -			
Hospital Facilities Bond	2018	\$155,000	4.60	\$ 1,260,000	<u>\$ 1,260,000</u>

7. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 75,000	\$ 33,663	\$ -	\$ 35,581
2009	75,000	30,025	95,000	55,775
2010	80,000	26,138	105,000	51,175
2011	85,000	21,909	110,000	46,230
2012	90,000	17,425	120,000	40,940
2013 - 2017	295,000	23,191	675,000	115,575
2018	-	-	155,000	3,565
Total	<u>\$ 700,000</u>	<u>\$ 152,351</u>	<u>\$ 1,260,000</u>	<u>\$ 348,841</u>
Less: City of Mahnomen's share	(154,000)	(33,517)		
Total	<u>\$ 546,000</u>	<u>\$ 118,834</u>		

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

2. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities					
General obligation bonds	\$ 600,600	\$ -	\$ 54,600	\$ 546,000	\$ 58,500
Revenue bonds	-	1,260,000	-	1,260,000	-
Capital leases	78,592	-	31,877	46,715	32,629
Compensated absences	163,853	161,321	156,263	168,911	119,642
Total Long-Term Liabilities	<u>\$ 843,045</u>	<u>\$ 1,421,321</u>	<u>\$ 242,740</u>	<u>\$ 2,021,626</u>	<u>\$ 210,771</u>

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2).

Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Public Employees Retirement Fund	\$ 150,435	\$ 142,816	\$ 124,832
Public Employees Police and Fire Fund	61,484	53,531	45,419
Public Employees Correctional Fund	17,928	17,997	16,980

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

B. Defined Contribution Plan

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

3. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 909	\$ 909
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

4. Risk Management

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

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 \$400,000 per claim in 2007 and \$410,000 per claim in 2008. 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 March 7, 2008, Laws 2006, Chapter 259, Article 11, Section 3, was amended by Laws 2008, Chapter 154, Article 1, Section 4, to provide property tax reimbursement payments in the amount of \$450,000 to Mahnomen County in July 2008 and each subsequent year. On July 3, 2008, Mahnomen County was notified that its appeal to reverse the decision to grant tax-exempt status to the Shooting Star Casino was denied.

On January 24, 2007, the County received a letter from the White Earth Tribe stating the property taxes paid for the Shooting Star Casino were made in protest and in contrast to federal law. On February 26, 2007, the County received a petition/objection to the real property tax and, on March 23, 2007, received a notice of filing of order seeking repayment of taxes paid for the Shooting Star Casino for years 1993 through 2005. The final settlement of this matter 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 is vested in the Norman-Mahnomen Community Health Board, which consists of six members. Norman and Mahnomen Counties each appoint three members.

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

The Norman-Mahnomen Community Health Board's long-term liabilities are \$29,931 at December 31, 2006 (most recent available information). Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Mahnomen County's contribution for 2007 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.

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 2007, 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

Northwest Minnesota Regional Radio Board

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

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

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Northwest Minnesota Regional Radio Board (Continued)

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

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

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

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Wild Rice Watershed District (Continued)

Complete financial information can be obtained from:

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

Minnesota Red River Basin of the North Joint Powers Agreement

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

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

In the event of termination of the agreement, any unexpended funds and surplus property shall be disposed of equally among the member counties. Mahnomen County did not contribute to the Joint Powers Agreement for 2007.

Complete financial statements can be obtained from:

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Rural Counties Caucus

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

Agassiz Regional Library

The Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Becker, Clay, Clearwater, Mahnomen, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, which is composed of 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. Mahnomen County contributed \$12,736 to the Agassiz Regional Library during 2007.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Mahnomen County expended \$52,898 to the Cooperative.

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

The HSEM Region 3 Emergency Managers Joint Powers Board was formed pursuant to Minn. Stat. § 471.59, and includes Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomen, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The Board was established to engage in planning, training, and/or the purchase and use of equipment in order to better respond to

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

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

emergencies and other disasters within the HSEM Region 3, specifically, within the jurisdictional boundaries of the 14 member counties. Control is vested in the HSEM Region 3 Emergency Managers Board, which is composed of 14 representatives appointed by each Board of County Commissioners. Mahnomen County's responsibility does not extend beyond making this appointment.

D. Related Organization

Sand Hill River Watershed District

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

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, 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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Reporting Entity (Continued)

ending December 31, 2007, 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 the facilities subject to the other terms of the Joint Powers Agreement.

For financial reporting purposes, the Organization has included all funds, organizations, agencies, boards, commissions, and authorities. The Organization has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Organization are such that the exclusion would cause the Organization's financial situation to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of 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 GASB 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Method of Accounting

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

Use of Estimates

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

Risk Management

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

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Patient and Resident Receivables, Net (Continued)

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write-off and recovery information in determining the estimated bad debt provision. At December 31, 2007 and 2006, the allowance for doubtful accounts was approximately \$300,000 and \$345,000, respectively. When all collection efforts have been exhausted, the account is written off against the related allowance.

Supplies

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

Capital Assets

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

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

Noncurrent Cash and Investments

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

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.

Deferred Financing Costs, Net

Deferred financing costs as of December 31, 2007, of \$33,298 will be amortized over the period the obligation is outstanding, using the effective interest rate method, which approximates to the straight-line method. Accumulated amortization and amortization expense was \$0 as of December 31, 2007.

Vacation and Sick

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

Net Assets

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

Net Patient and Resident Service Revenue

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

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 \$22,066 for the year ended December 31, 2007.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

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

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 that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants receivable are reported in the statement of net assets at net realizable value.

Advertising Costs

The Organization expenses advertising costs as they are incurred.

Reclassifications

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

B. Net Patient and Resident Service Revenue

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

Medicare

The Organization became a Critical Access Hospital (CAH) as of April 1999 for Medicare reimbursement purposes. There are certain criteria that the Organization must meet to be a CAH. Once met, the reimbursement method changed to cost based for both inpatient and outpatient services. The Organization is reimbursed for

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue

Medicare (Continued)

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.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Other Payors

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The December 31, 2007 and 2006, net patient service revenue increased approximately \$17,000 and \$153,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Patient and resident service revenue and contractual adjustments for the year ended December 31, 2007, is as follows:

Total patient service revenue	\$ 8,617,199
Contractual adjustments	
Medicare	\$ (1,188,354)
Medicaid	(721,223)
Indian Health Service	(23,300)
Other	(259,578)
Provision for bad debts	(270,870)
Total contractual adjustments	\$ (2,463,325)
Net Patient and Resident Service Revenue	\$ 6,153,874

C. Noncurrent Cash and Investments

Deposits

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

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

C. Noncurrent Cash and Investments

Deposits (Continued)

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.

The Organization's deposits in banks at December 31, 2007, were covered by federal depository insurance or by collateral held by the Organization's custodial bank in the Organization's name.

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

Noncurrent Cash and Investments

The Organization has no investments as of December 31, 2007. 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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

D. Accounts Receivable

Patient and resident receivables reported as current assets by the Organization at December 31, 2007, consist of these amounts:

Receivables from patients and their insurance carriers	\$ 789,704
Receivable from Medicare	217,847
Receivable from Medicaid	<u>254,699</u>
 Total patient and resident receivables	 \$ 1,262,250
 Less: allowance for uncollectible amounts	 <u>(300,000)</u>
 Total Patient and Resident Receivables, Net	 <u>\$ 962,250</u>

E. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2007, are as follows:

	Balance December 31, 2006	Additions	Retirements/ Transfers	Balance December 31, 2007
Land	\$ 36,729	\$ -	\$ -	\$ 36,729
Land improvements	86,126	-	-	86,126
Buildings	4,566,570	130,474	-	4,697,044
Movable equipment	1,954,760	218,048	(74,768)	2,098,040
Construction in progress	<u>-</u>	<u>117,517</u>	<u>-</u>	<u>117,517</u>
 Totals at historical cost	 <u>\$ 6,644,185</u>	 <u>\$ 466,039</u>	 <u>\$ (74,768)</u>	 <u>\$ 7,035,456</u>
 Less: accumulated depreciation for				
Land improvements	\$ 60,626	\$ 2,009	\$ -	\$ 62,635
Buildings	2,204,906	152,853	-	2,357,759
Movable equipment	<u>1,511,313</u>	<u>148,064</u>	<u>(63,182)</u>	<u>1,596,195</u>
 Total accumulated depreciation	 <u>\$ 3,776,845</u>	 <u>\$ 302,926</u>	 <u>\$ (63,182)</u>	 <u>\$ 4,016,589</u>
 Capital Assets, Net	 <u>\$ 2,867,340</u>	 <u>\$ 163,113</u>	 <u>\$ (11,586)</u>	 <u>\$ 3,018,867</u>

Construction in progress at December 31, 2007, consists of costs to remodel the existing emergency room space. Total cost of the project is estimated at \$1,200,000 and will be funded through the new debt issuance (see Note 6.F.). The project is anticipated to be completed during fiscal year 2008.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

F. Long-Term Debt

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

Movable equipment	\$	27,295
Less: accumulated amortization (included as depreciation on the accompanying financial statements)		(910)
Net Value of Leased Equipment	\$	26,385

Long-term debt as of December 31, 2007, consists of the following:

	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
1990 Special Assessments	\$ 10,305	\$ -	\$ 2,285	\$ 8,020
2007 Gross Revenue Bond	-	1,260,000	-	1,260,000
Capital Lease Obligations	11,118	27,295	11,497	26,916
Total long-term debt	\$ 21,423	\$ 1,287,295	\$ 13,782	\$ 1,294,936
Less: current maturities				(7,199)
Total Long-Term Debt, Net of Current Maturities				\$ 1,287,737

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

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

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

Year Ending December 31	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2008	\$ 2,471	\$ 35,581	\$ 4,728	\$ 1,796
2009	97,667	55,775	5,082	1,442
2010	107,882	51,175	5,463	1,061
2011	110,000	46,230	5,873	651
2012	120,000	40,940	5,770	211
Thereafter	830,000	119,140	-	-
Total	\$ 1,268,020	\$ 348,841	\$ 26,916	\$ 5,161

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center (Continued)

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 \$167,700 in 2007 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2007, amounted to \$27,600. At December 31, 2007, Mahnomen Health Center owned 0.30 percent of CMDI.

Summarized financial information from the financial statements of CMDI at December 31, 2007, and for the year then ended is presented below:

Total Assets	<u>\$ 44,269,257</u>
Total Liabilities	\$ 12,902,348
Members' equity	
Retained earnings	<u>31,366,909</u>
Total Liabilities and Members' Equity	<u>\$ 44,269,257</u>
Total Operating Revenue	<u>\$ 34,243,882</u>
Net Income	<u>\$ 14,971,272</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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

H. Defined Benefit Pension Plan (Continued)

Funding Policy

The Hospital's contributions to the Public Employees Retirement Fund for the years ended December 31, 2007, 2006, and 2005, were \$135,658, \$152,430, and \$105,687, respectively. The Organization's contributions were equal to the contractually required contributions for each year as set by state statute.

I. Concentrations of Credit Risk

The Organization grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2007, was as follows:

Medicare	17%
Blue Cross	7
Medicaid	22
Commercial insurance	20
Other third-party payors, patients, and residents	<u>34</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, 2007:

Expendable for operations	<u><u>\$ 11,348</u></u>
---------------------------	-------------------------

K. Related-Party Transactions

The Organization received certain data processing services from the County during the fiscal year ended December 31, 2007. The estimated value of these services approximated \$33,000.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

K. Related-Party Transactions (Continued)

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 \$70,000 for the year ended December 31, 2007, and made an interest payment of \$37,124 related to the Series 1999 Bonds.

L. Commitments and Contingencies

Malpractice Claims

The Organization's malpractice insurance is a claims-made policy subject to a limit of \$1,000,000 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.

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.

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

6. Mahnomen Health Center

L. Commitments and Contingencies

Other (Continued)

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,313,622	\$ 2,313,622	\$ 1,868,209	\$ (445,413)
Licenses and permits	6,820	6,820	7,056	236
Intergovernmental	1,763,675	1,763,675	1,992,610	228,935
Charges for services	263,275	263,275	278,088	14,813
Fines and forfeits	20,000	20,000	36,760	16,760
Gifts and contributions	4,000	4,000	953	(3,047)
Investment earnings	125,000	125,000	210,126	85,126
Miscellaneous	175,008	175,008	38,417	(136,591)
Total Revenues	\$ 4,671,400	\$ 4,671,400	\$ 4,432,219	\$ (239,181)
Expenditures				
Current				
General government				
Commissioners	\$ 159,100	\$ 159,100	\$ 160,349	\$ (1,249)
Courts	12,000	12,000	13,844	(1,844)
County auditor	202,220	202,220	205,775	(3,555)
License bureau	78,067	78,067	73,398	4,669
County treasurer	117,962	117,962	117,608	354
County assessor	137,019	137,019	127,049	9,970
Elections	2,750	2,750	519	2,231
Accounting and auditing	50,000	50,000	42,886	7,114
Data processing	186,152	186,152	115,643	70,509
Attorney	313,512	313,512	295,475	18,037
Contracted legal services	10,000	10,000	166,975	(156,975)
Law library	17,000	17,000	21,341	(4,341)
Recorder	108,860	108,860	113,368	(4,508)
Planning and zoning	23,170	23,170	20,669	2,501
Buildings and plant	180,287	180,287	166,099	14,188
Veterans service officer	21,270	21,270	21,607	(337)
Unallocated	175,300	175,300	68,783	106,517
Total general government	\$ 1,794,669	\$ 1,794,669	\$ 1,731,388	\$ 63,281

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,648,480	\$ 1,648,480	\$ 1,631,803	\$ 16,677
Boat and water safety	1,400	1,400	2,299	(899)
Emergency services	15,224	15,224	21,540	(6,316)
Coroner	6,000	6,000	12,242	(6,242)
E-911 system	75,396	75,396	27,517	47,879
Victim assistance	51,358	51,358	61,636	(10,278)
Probation and parole	128,328	128,328	143,849	(15,521)
County safety program	15,243	15,243	12,196	3,047
Weed and seed	-	-	122,043	(122,043)
Snowmobile safety	5,399	5,399	300	5,099
Total public safety	\$ 1,946,828	\$ 1,946,828	\$ 2,035,425	\$ (88,597)
Human services				
Social services	\$ -	\$ -	\$ 195	\$ (195)
Health				
Nursing service	\$ 63,000	\$ 63,000	\$ 62,982	\$ 18
Culture and recreation				
Parks	\$ -	\$ -	\$ 1,000	\$ (1,000)
County/regional library	25,471	25,471	25,471	-
Snowmobile trails	65,000	65,000	80,494	(15,494)
Total culture and recreation	\$ 90,471	\$ 90,471	\$ 106,965	\$ (16,494)
Conservation of natural resources				
County extension	\$ 65,676	\$ 65,676	\$ 75,453	\$ (9,777)
Soil and water conservation	56,868	56,868	55,079	1,789
Agricultural inspections	16,289	16,289	16,093	196
Agricultural society/County fair	8,500	8,500	8,500	-
Predator control	1,000	1,000	541	459
Water planning	21,894	21,894	21,894	-
Total conservation of natural resources	\$ 170,227	\$ 170,227	\$ 177,560	\$ (7,333)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Housing authority	\$ -	\$ -	\$ 496	\$ (496)
Airports	478,404	478,404	435,006	43,398
Total economic development	\$ 478,404	\$ 478,404	\$ 435,502	\$ 42,902
Debt service				
Principal	\$ -	\$ -	\$ 29,519	\$ (29,519)
Interest	-	-	2,743	(2,743)
Total debt service	\$ -	\$ -	\$ 32,262	\$ (32,262)
Total Expenditures	\$ 4,543,599	\$ 4,543,599	\$ 4,582,279	\$ (38,680)
Excess of Revenues Over (Under)				
Expenditures	\$ 127,801	\$ 127,801	\$ (150,060)	\$ (277,861)
Other Financing Sources (Uses)				
Transfers in	-	-	833	833
Net Change in Fund Balance	\$ 127,801	\$ 127,801	\$ (149,227)	\$ (277,028)
Fund Balance - January 1	2,246,155	2,246,155	2,246,155	-
Fund Balance - December 31	\$ 2,373,956	\$ 2,373,956	\$ 2,096,928	\$ (277,028)

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 449,000	\$ 449,000	\$ 361,149	\$ (87,851)
Special assessments	20,000	20,000	18,803	(1,197)
Intergovernmental	2,208,110	2,208,110	2,810,089	601,979
Charges for services	120,000	120,000	131,437	11,437
Miscellaneous	-	-	10,029	10,029
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 2,797,110	\$ 2,797,110	\$ 3,331,507	\$ 534,397
Expenditures				
Current				
Highways and streets				
Administration	\$ 271,446	\$ 271,446	\$ 245,056	\$ 26,390
Maintenance	723,798	723,798	741,120	(17,322)
Construction	1,218,120	1,218,120	1,501,615	(283,495)
Equipment maintenance and shop	238,573	238,573	223,244	15,329
Materials and services for resale	123,758	123,758	81,343	42,415
	<hr/>	<hr/>	<hr/>	<hr/>
Total highways and streets	\$ 2,575,695	\$ 2,575,695	\$ 2,792,378	\$ (216,683)
Intergovernmental				
Highways and streets	-	-	103,475	(103,475)
Debt service				
Principal	-	-	2,358	(2,358)
Interest	-	-	1,093	(1,093)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 2,575,695	\$ 2,575,695	\$ 2,899,304	\$ (323,609)
Excess of Revenues Over (Under) Expenditures	\$ 221,415	\$ 221,415	\$ 432,203	\$ 210,788
Fund Balance - January 1	423,075	423,075	423,075	-
Increase (decrease) in reserved for inventories	-	-	29,273	29,273
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ 644,490	\$ 644,490	\$ 884,551	\$ 240,061

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 608,207	\$ 608,207	\$ 484,755	\$ (123,452)
Intergovernmental	1,361,882	1,361,882	1,425,070	63,188
Charges for services	62,204	62,204	74,926	12,722
Miscellaneous	40,603	40,603	75,931	35,328
Total Revenues	\$ 2,072,896	\$ 2,072,896	\$ 2,060,682	\$ (12,214)
Expenditures				
Current				
Human services				
Income maintenance	\$ 723,668	\$ 723,668	\$ 805,951	\$ (82,283)
Social services	1,499,708	1,499,708	1,498,243	1,465
Transportation	149,500	149,500	164,578	(15,078)
Total Expenditures	\$ 2,372,876	\$ 2,372,876	\$ 2,468,772	\$ (95,896)
Excess of Revenues Over (Under)				
Expenditures	\$ (299,980)	\$ (299,980)	\$ (408,090)	\$ (108,110)
Fund Balance - January 1	967,984	967,984	967,984	-
Fund Balance - December 31	\$ 668,004	\$ 668,004	\$ 559,894	\$ (108,110)

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Forfeited Tax Sale Special Revenue Fund, the Hospital Special Revenue Fund, the Mahnomen Health Center Capital Projects Fund, the Hospital Stream Line Debt Service 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, 2007.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 4,582,279	\$ 4,543,599	\$ 38,680
Special Revenue Funds			
Road and Bridge	2,899,304	2,575,695	323,609
Social Services	2,468,772	2,372,876	95,896

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SUPPLEMENTARY INFORMATION

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

DEBT SERVICE FUNDS

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

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

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	Special Revenue (Statement B-1)	Debt Service (Statement C-1)	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 842,150	\$ 119,383	\$ 961,533
Undistributed cash in agency funds	2,909	1,488	4,397
Taxes receivable			
Current - net	-	1,591	1,591
Prior - net	211	1,059	1,270
Special assessments receivable			
Current - net	4,779	-	4,779
Noncurrent - net	40,000	-	40,000
Accounts receivable	883	-	883
Advance to other funds	18,685	-	18,685
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 909,617	\$ 123,521	\$ 1,033,138
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
 <u>Liabilities and Fund Balances</u> 			
Liabilities			
Accounts payable	\$ 12,398	\$ -	\$ 12,398
Salaries payable	1,973	-	1,973
Due to other funds	1,904	-	1,904
Due to other governments	12,703	-	12,703
Deferred revenue - unavailable	43,067	1,822	44,889
	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ 72,045	\$ 1,822	\$ 73,867
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Fund Balances			
Reserved for SCORE	\$ 36,219	\$ -	\$ 36,219
Unreserved			
Designated for debt service	-	121,699	121,699
Undesignated	801,353	-	801,353
	<hr/>	<hr/>	<hr/>
Total Fund Balances	\$ 837,572	\$ 121,699	\$ 959,271
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total Liabilities and Fund Balances	\$ 909,617	\$ 123,521	\$ 1,033,138
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue (Statement B-2)	Debt Service (Statement C-2)	Total (Exhibit 5)
Revenues			
Taxes	\$ 218	\$ 72,140	\$ 72,358
Special assessments	147,927	-	147,927
Intergovernmental	64,347	7,095	71,442
Charges for services	5,350	-	5,350
Miscellaneous	7,177	-	7,177
Total Revenues	\$ 225,019	\$ 79,235	\$ 304,254
Expenditures			
Current			
Sanitation	\$ 230,189	\$ -	\$ 230,189
Conservation of natural resources	34,060	-	34,060
Debt service			
Principal	-	54,600	54,600
Interest	-	29,294	29,294
Total Expenditures	\$ 264,249	\$ 83,894	\$ 348,143
Excess of Revenues Over (Under) Expenditures	\$ (39,230)	\$ (4,659)	\$ (43,889)
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 57	\$ 57
Transfers out	(833)	(57)	(890)
Total Other Financing Sources (Uses)	\$ (833)	\$ -	\$ (833)
Net Change in Fund Balance	\$ (40,063)	\$ (4,659)	\$ (44,722)
Fund Balance - January 1	877,635	126,358	1,003,993
Fund Balance - December 31	\$ 837,572	\$ 121,699	\$ 959,271

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
DECEMBER 31, 2007**

	Solid Waste	Ditch	Hospital	Forfeited Tax Sale	Total (Statement A-1)
<u>Assets</u>					
Cash and pooled investments	\$ 484,362	\$ 242,926	\$ 111,060	\$ 3,802	\$ 842,150
Undistributed cash in agency funds	2,456	449	4	-	2,909
Taxes receivable					
Prior - net	-	-	211	-	211
Special assessments receivable					
Current - net	4,746	33	-	-	4,779
Noncurrent - net	-	40,000	-	-	40,000
Accounts receivable	883	-	-	-	883
Advance to other funds	18,685	-	-	-	18,685
	\$ 511,132	\$ 283,408	\$ 111,275	\$ 3,802	\$ 909,617
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 12,398	\$ -	\$ -	\$ -	\$ 12,398
Salaries payable	1,973	-	-	-	1,973
Due to other funds	650	421	-	833	1,904
Due to other governments	9,734	-	-	2,969	12,703
Deferred revenue - unavailable	2,867	40,019	181	-	43,067
	\$ 27,622	\$ 40,440	\$ 181	\$ 3,802	\$ 72,045
Fund Balances					
Reserved for SCORE	\$ 36,219	\$ -	\$ -	\$ -	\$ 36,219
Unreserved					
Undesignated	447,291	242,968	111,094	-	801,353
	\$ 483,510	\$ 242,968	\$ 111,094	\$ -	\$ 837,572
	\$ 511,132	\$ 283,408	\$ 111,275	\$ 3,802	\$ 909,617

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Solid Waste</u>	<u>Ditch</u>	<u>Hospital</u>	<u>Forfeited Tax Sale</u>	<u>Total (Statement A-2)</u>
Revenues					
Taxes	\$ -	\$ -	\$ 218	\$ -	\$ 218
Special assessments	102,460	45,467	-	-	147,927
Intergovernmental	64,309	-	38	-	64,347
Charges for services	5,350	-	-	-	5,350
Miscellaneous	3,016	-	-	4,161	7,177
Total Revenues	\$ 175,135	\$ 45,467	\$ 256	\$ 4,161	\$ 225,019
Expenditures					
Current					
Sanitation	\$ 230,189	\$ -	\$ -	\$ -	\$ 230,189
Conservation of natural resources	-	30,732	-	3,328	34,060
Total Expenditures	\$ 230,189	\$ 30,732	\$ -	\$ 3,328	\$ 264,249
Excess of Revenues Over (Under)					
Expenditures	\$ (55,054)	\$ 14,735	\$ 256	\$ 833	\$ (39,230)
Other Financing Sources (Uses)					
Transfers out	-	-	-	(833)	(833)
Net Change in Fund Balance	\$ (55,054)	\$ 14,735	\$ 256	\$ -	\$ (40,063)
Fund Balance - January 1	538,564	228,233	110,838	-	877,635
Fund Balance - December 31	\$ 483,510	\$ 242,968	\$ 111,094	\$ -	\$ 837,572

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement C-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
DECEMBER 31, 2007**

	Hospital Steam Line	Nursing Home Revenue Bonds	Total (Statement A-1)
<u>Assets</u>			
Cash and pooled investments	\$ 14,830	\$ 104,553	\$ 119,383
Undistributed cash in agency funds	-	1,488	1,488
Taxes receivable			
Current - net	-	1,591	1,591
Prior - net	-	1,059	1,059
Total Assets	\$ 14,830	\$ 108,691	\$ 123,521
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Deferred revenue - unavailable	\$ -	\$ 1,822	\$ 1,822
 Fund Balances			
Unreserved			
Designated for debt service	14,830	106,869	121,699
Total Liabilities and Fund Balances	\$ 14,830	\$ 108,691	\$ 123,521

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement C-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<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	\$ 2	\$ 72,138	\$ -	\$ 72,140
Intergovernmental	-	7,095	-	7,095
Total Revenues	\$ 2	\$ 79,233	\$ -	\$ 79,235
Expenditures				
Debt service				
Principal	\$ -	\$ 54,600	\$ -	\$ 54,600
Interest	-	29,294	-	29,294
Total Expenditures	\$ -	\$ 83,894	\$ -	\$ 83,894
Excess of Revenues Over (Under) Expenditures	\$ 2	\$ (4,661)	\$ -	\$ (4,659)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 57	\$ -	\$ 57
Transfers out	-	-	(57)	(57)
Total Other Financing Sources (Uses)	\$ -	\$ 57	\$ (57)	\$ -
Net Change in Fund Balance	\$ 2	\$ (4,604)	\$ (57)	\$ (4,659)
Fund Balance - January 1	14,828	111,473	57	126,358
Fund Balance - December 31	\$ 14,830	\$ 106,869	\$ -	\$ 121,699

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 100,000	\$ 100,000	\$ 102,460	\$ 2,460
Intergovernmental	61,348	61,348	64,309	2,961
Charges for services	3,000	3,000	5,350	2,350
Miscellaneous	100	100	3,016	2,916
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 164,448	\$ 164,448	\$ 175,135	\$ 10,687
Expenditures				
Current				
Sanitation				
Solid waste	238,930	238,930	230,189	8,741
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under)				
Expenditures	\$ (74,482)	\$ (74,482)	\$ (55,054)	\$ 19,428
Fund Balance - January 1	538,564	538,564	538,564	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance - December 31	\$ 464,082	\$ 464,082	\$ 483,510	\$ 19,428
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 47,500	\$ 47,500	\$ 45,467	\$ (2,033)
Expenditures				
Current				
Conservation of natural resources				
Drainage ditches	\$ 47,500	\$ 47,500	\$ 30,698	\$ 16,802
Other	-	-	34	(34)
Total Expenditures	\$ 47,500	\$ 47,500	\$ 30,732	\$ 16,768
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 14,735	\$ 14,735
Fund Balance - January 1	228,233	228,233	228,233	-
Fund Balance - December 31	\$ 228,233	\$ 228,233	\$ 242,968	\$ 14,735

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
NURSING HOME REVENUE BONDS DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 90,480	\$ 90,480	\$ 72,138	\$ (18,342)
Intergovernmental	-	-	7,095	7,095
Total Revenues	\$ 90,480	\$ 90,480	\$ 79,233	\$ (11,247)
Expenditures				
Current				
Debt service				
Principal	\$ 61,522	\$ 61,522	\$ 54,600	\$ 6,922
Interest	28,958	28,958	29,294	(336)
Total Expenditures	\$ 90,480	\$ 90,480	\$ 83,894	\$ 6,586
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (4,661)	\$ (4,661)
Other Financing Sources (Uses)				
Transfers in	-	-	57	57
Net Change in Fund Balance	\$ -	\$ -	\$ (4,604)	\$ (4,604)
Fund Balance - January 1	111,473	111,473	111,473	-
Fund Balance - December 31	\$ 111,473	\$ 111,473	\$ 106,869	\$ (4,604)

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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

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

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

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

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

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

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Statement D-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>HEADWATERS COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 9,221	\$ 9,221	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 9,221	\$ 9,221	\$ -
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,521	\$ 818,752	\$ 825,273	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 6,521	\$ 818,752	\$ 825,273	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,225	\$ 340,996	\$ 341,555	\$ 666
Accounts receivable	5,849	7,766	5,849	7,766
Total Assets	\$ 7,074	\$ 348,762	\$ 347,404	\$ 8,432
<u>Liabilities</u>				
Due to other governments	\$ 7,074	\$ 348,762	\$ 347,404	\$ 8,432

**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, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>53,668</u>	\$ <u>4,904,635</u>	\$ <u>4,911,266</u>	\$ <u>47,037</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>53,668</u>	\$ <u>4,904,635</u>	\$ <u>4,911,266</u>	\$ <u>47,037</u>
 <u>TOWNSHIPS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,630	\$ 830,266	\$ 831,896	\$ -
Accounts receivable	<u>715</u>	<u>702</u>	<u>715</u>	<u>702</u>
Total Assets	\$ <u>2,345</u>	\$ <u>830,968</u>	\$ <u>832,611</u>	\$ <u>702</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>2,345</u>	\$ <u>830,968</u>	\$ <u>832,611</u>	\$ <u>702</u>
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ <u>202,217</u>	\$ <u>202,217</u>	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ <u>202,217</u>	\$ <u>202,217</u>	\$ -

**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, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ADVANCED LIFE SUPPORT</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 54,066	\$ 54,066	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 54,066	\$ 54,066	\$ -
 <u>CAFETERIA PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,915	\$ 8,597	\$ 9,521	\$ 2,991
Accounts receivable	-	319	-	319
Total Assets	\$ 3,915	\$ 8,916	\$ 9,521	\$ 3,310
<u>Liabilities</u>				
Due to other governments	\$ 3,915	\$ 8,916	\$ 9,521	\$ 3,310
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 66,959	\$ 7,168,750	\$ 7,185,015	\$ 50,694
Accounts receivable	6,564	8,787	6,564	8,787
Total Assets	\$ 73,523	\$ 7,177,537	\$ 7,191,579	\$ 59,481
<u>Liabilities</u>				
Due to other governments	\$ 73,523	\$ 7,177,537	\$ 7,191,579	\$ 59,481

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OTHER SCHEDULES

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 7

**SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<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	42,755
Interest-bearing checking	Three	0.40 to 1.00	Continuous	159,705
Passbook savings	Three	1.00	Continuous	130,134
Certificates of deposit	One	4.70	September 28, 2008	5,000
Money market savings	Five	3.00 to 4.16	Continuous	3,215,365
Certificates of deposit with broker	Ten	4.60 to 5.00	April 17, 2008, to November 20, 2012	960,778
FHLB	Four	4.00 to 6.00	June 26, 2013, to June 27, 2014	729,151
Total Cash and Pooled Investments				<u>\$ 5,245,588</u>

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 8

**BALANCE SHEET BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2007**

	County Ditch No. 3	Joint Ditch No. 55	County Ditch No. 91-91A	Total
<u>Assets</u>				
Cash and pooled investments	\$ 9,746	\$ 120,061	\$ 113,119	\$ 242,926
Undistributed cash in agency funds	12	-	437	449
Special assessments receivable				
Current - net	13	-	20	33
Noncurrent - net	2,500	7,500	30,000	40,000
Total Assets	\$ 12,271	\$ 127,561	\$ 143,576	\$ 283,408
 <u>Liabilities and Fund Balance</u>				
Liabilities				
Due to other funds	\$ 144	\$ -	\$ 277	\$ 421
Deferred revenue - unavailable	2,499	7,500	30,020	40,019
Total Liabilities	\$ 2,643	\$ 7,500	\$ 30,297	\$ 40,440
 Fund Balance				
Unreserved				
Undesignated	9,628	120,061	113,279	242,968
Total Liabilities and Fund Balance	\$ 12,271	\$ 127,561	\$ 143,576	\$ 283,408

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 9

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Shared Revenue

State

Highway users tax	\$ 2,631,300
County program aid	695,829
PERA rate reimbursement	10,235
Disparity reduction aid	66,508
Police aid	53,531
Market value credit	263,436
Market value credit - MH	947
Indian casino aid	76,428
	76,428

Total Shared Revenue **\$ 3,798,214**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 676,177
	676,177

Payments

Local

Local contributions	\$ 23,249
Payments in lieu of taxes	65,031
	65,031

Total Payments **\$ 88,280**

Grants

State

Minnesota Department of Corrections	\$ 15,114
Public Safety	243,936
Transportation	71,335
Natural Resources	84,701
Human Services	456,276
Pollution Control Agency	52,039
Water and Soil Resources Board	49,474
Peace Officer Standards and Training Board	4,422
Veterans Affairs	1,400
	1,400

Total State **\$ 978,697**

Federal

Department of Justice	\$ 19,390
Transportation	522,303
Health and Human Services	208,236
Homeland Security	7,914
	7,914

Total Federal **\$ 757,843**

Total State and Federal Grants **\$ 1,736,540**

Total Intergovernmental Revenue **\$ 6,299,211**

**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

**Schedule 9
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Below is a reconciliation between the federal awards granted on the Schedule of Intergovernmental Revenue, which is based on modified accrual, to the Schedule of Expenditures of Federal Awards, which is based on full accrual accounting.

Total Federal Revenue per Schedule of Intergovernmental Revenue (Schedule 9)		\$ 757,843
Airport Improvement Program	CFDA #20.106	<u>21,915</u>
Total Federal Awards per Schedule of Expenditures of Federal Awards (Schedule 11)		<u><u>\$ 779,758</u></u>

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 10

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Segregation of Duties

Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Mahanomen County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

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

Client's Response:

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

06-1 Payroll Procedures

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

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

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

Client's Response:

The County Board is aware and understands the issue. However, the County does not currently have a cost-effective procedure for the taxpayers of the County in place to resolve this. The County is also under financial constraints which limits its ability to offer a solution. The County 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 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 statements in accordance with GAAP. With its limited funds available, the County may consider prescribed alternatives for a solution to this matter.

06-3 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards 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 material adjustments in the Road and Bridge Special Revenue Fund. An entry was made to record prior audit additional assets and liabilities, increasing the beginning fund balance by \$101,557 to agree with the prior year audited ending fund balance. An adjustment was made to recognize revenues and expenditures in the amount of \$103,475 for town road allotments.

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

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

Client's Response:

Adjustments will be made to the County's Integrated Financial System so that the Road and Bridge Special Revenue Fund balances agree with the 2007 audit balances. For 2008, we will reflect revenues and expenditures in the Road and Bridge Special Revenue Fund for town road allotments.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-4 Collateral Pledged to Secure Deposits

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

Former Engineer's Travel Expenses (04-4)

The County had not reached a settlement with the former Engineer relating to questionable payments for travel expenses detailed in a report by the Office of the State Auditor issued on October 4, 2004.

Resolution

The County reached an agreement with the former Engineer and has received payments from the former Engineer in accordance with the agreement.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

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

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

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

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

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OTHER REQUIRED REPORTS

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REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioner
Mahnomen County

We have audited the financial statements of 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, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 30, 2008. 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, a discretely presented component unit, as described in our report on Mahnomen County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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 an other item for consideration. We believe this information to be of benefit to Mahnomen County, and it is reported for that purpose.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 30, 2008

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

Board of County Commissioners
Mahnomen County

Compliance

We have audited the compliance of Mahnomen County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. 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, Mahanomen 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, 2007.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Mahanomen County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 30, 2008. We did not audit the financial statements of the Mahanomen Health Center, a discretely presented component unit. Those financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the County's basic financial statements.

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

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

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 30, 2008

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**MAHNOMEN COUNTY
MAHNOMEN, MINNESOTA**

Schedule 11

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Passed through Minnesota Department of Public Safety Community Capacity Development Office	16.595	\$ 19,390
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 378,850
Highway Planning and Construction	20.205	102,136
Formula Grants for Other Than Urbanized Areas	20.509	56,360
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	2,000
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	4,872
Total U.S. Department of Transportation		\$ 544,218
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	\$ 5,661
Temporary Assistance for Needy Families (TANF)	93.558	62,976
Child Care Mandatory and Matching Funds	93.596	4,830
Foster Care Title IV-E	93.658	51,481
Social Services Block Grant Title XX	93.667	80,768
Chafee Foster Care Independent Living	93.674	721
Community Mental Health Block Grant	93.958	1,799
Total U.S. Department of Health and Human Services		\$ 208,236
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.067	\$ 7,914
Total Federal Awards		\$ 779,758

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Mahnomen County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Under the modified accrual basis, expenditures may differ from revenues due to timing of reimbursements requested and received.
3. Pass-through grant numbers were not assigned by the pass-through agencies.
4. During 2007, the County did not pass any federal money to subrecipients.