

# STATE OF MINNESOTA

## Office of the State Auditor



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

---

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

**YEAR ENDED DECEMBER 31, 2014**

## **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.

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**Year Ended December 31, 2014**



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

This page was left blank intentionally.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization Schedule		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	14
Statement of Activities	2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	18
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position--Governmental Activities	4	20
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	23
Fiduciary Funds		
Statement of Fiduciary Net Position	7	24
Statement of Changes in Fiduciary Net Position	8	25
Notes to the Financial Statements		26
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedules		
General Fund	A-1	84
Road and Bridge Special Revenue Fund	A-2	87
Social Services Special Revenue Fund	A-3	88
Schedule of Funding Progress - Other Postemployment Benefits	A-4	89
Notes to the Required Supplementary Information		90

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Financial Section (Continued)</b>		
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	B-1	91
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	92
Combining Balance Sheet – Special Revenue Funds	B-3	93
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Special Revenue Funds	B-4	94
Combining Balance Sheet - Debt Service Funds	B-5	95
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Debt Service Funds	B-6	96
Budgetary Comparison Schedules		
Solid Waste Special Revenue Fund	B-7	97
Ditch Special Revenue Fund	B-8	98
Nursing Home Revenue Bonds Debt Service Fund	B-9	99
Fiduciary Funds		
Agency Funds		100
Combining Statement of Changes in Assets and Liabilities	C-1	101
Other Schedules		
Schedule of Deposits and Investments	D-1	102
Balance Sheet by Ditch - Ditch Special Revenue Fund	D-2	105
Schedule of Intergovernmental Revenue	D-3	106
Schedule of Expenditures of Federal Awards	D-4	107
Notes to the Schedule of Expenditures of Federal Awards		109
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs		111
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		113
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		124
		127



This page was left blank intentionally.



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**ORGANIZATION SCHEDULE  
DECEMBER 31, 2014**

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	James Kochmann <sup>1</sup>	January 2017
2nd District	Jerry Dahl <sup>2</sup>	January 2015
3rd District	Everett Kjelbertson	January 2015
4th District	Karen Ahmann	January 2017
5th District	David Geray	January 2017
<b>Officials</b>		
<b>Elected</b>		
Attorney	Darlene Spalla	January 2015
Auditor	Frank Thompson	January 2015
County Recorder	Susan Bendickson	January 2015
Registrar of Titles	Susan Bendickson	January 2015
Sheriff	Douglas Krier	January 2015
Treasurer	Brenda Lundon	January 2015
<b>Appointed</b>		
Assessor	Terrie Johnson	December 2016
Court Administrator	Lori Wiebolt	Indefinite
Highway Engineer	Jonathan Large	May 2017
Veterans Service Officer	John Nelson	Indefinite
Medical Examiner	Dr. Mary Ann Sens	Indefinite
Solid Waste Officer	Mark Diekman	Indefinite
<b>Social Services Board</b>		
Chair	Jerry Dahl	January 2015
Vice Chair	Everett Kjelbertson	January 2015
Secretary	Theresa McCollum	July 2016
Member	Colleen Blattenbauer	July 2015
Member	James Kochmann	January 2017
Member	Karen Ahmann	January 2017
Member	David Geray	January 2017
Director	Julie Hanson	Indefinite

<sup>1</sup>Chair

<sup>2</sup>Vice Chair

This page was left blank intentionally.



This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Mahnomen County

### Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Mahnomen Health Center, the discretely presented component unit. Those statements were audited by other auditors whose report 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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 Mahnomens County as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mahnomens County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit

of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2015, on our consideration of Mahnommen 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* in considering Mahnommen County’s internal control over financial reporting and compliance. It does not include the Mahnommen Health Center which was audited by other auditors.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

July 13, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

This page was left blank intentionally.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This page was left blank intentionally.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014  
(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, 2014. 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 position (assets minus liabilities) are \$35,609,456 of which Mahnomen County has a net investment in capital assets of \$28,572,441; \$3,715,789 is restricted to specific purposes/uses and \$3,321,226 is classified as unrestricted by the County.
- The net costs (expenses) of Mahnomen County's governmental activities for the year ended December 31, 2014, was \$3,510,603. General property tax revenues and other revenue sources funded those costs.
- Mahnomen County's total governmental funds' fund balances decreased by \$261,414.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

<b>Required Supplementary Information</b> (Other than Management's Discussion and Analysis)
--

Mahnomen County presents two government-wide financial statements. They are the Statement of Net Position 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 Position and the Statement of Activities**

The Statement of Net Position 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 position and changes in net position. You can think of the County's net position 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 position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, such as changes in the County's property tax base and the general economic conditions of the State and County, in order to assess the overall financial health of Mahnomen County.

In the Statement of Net Position 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 Position 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 Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. 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 position for the year ended December 31, 2014, was \$35,609,456. The analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

**Table 1**  
**Net Position**

	<u>2014</u>	<u>2013</u>
Assets		
Current and other assets	\$ 9,521,763	\$ 9,021,363
Capital assets	28,649,625	26,629,180
<b>Total Assets</b>	<b>\$ 38,171,388</b>	<b>\$ 35,650,543</b>
Liabilities		
Long-term debt outstanding	\$ 1,807,304	\$ 1,969,271
Other liabilities	754,628	624,837
<b>Total Liabilities</b>	<b>\$ 2,561,932</b>	<b>\$ 2,594,108</b>
Net Position		
Net investment in capital assets	\$ 28,572,441	\$ 26,497,485
Restricted	3,715,789	3,000,091
Unrestricted	3,321,226	3,558,859
<b>Total Net Position</b>	<b>\$ 35,609,456</b>	<b>\$ 33,056,435</b>

Unrestricted net assets totaling \$3,321,226 are available to Mahnomen County to finance day-to-day operations.

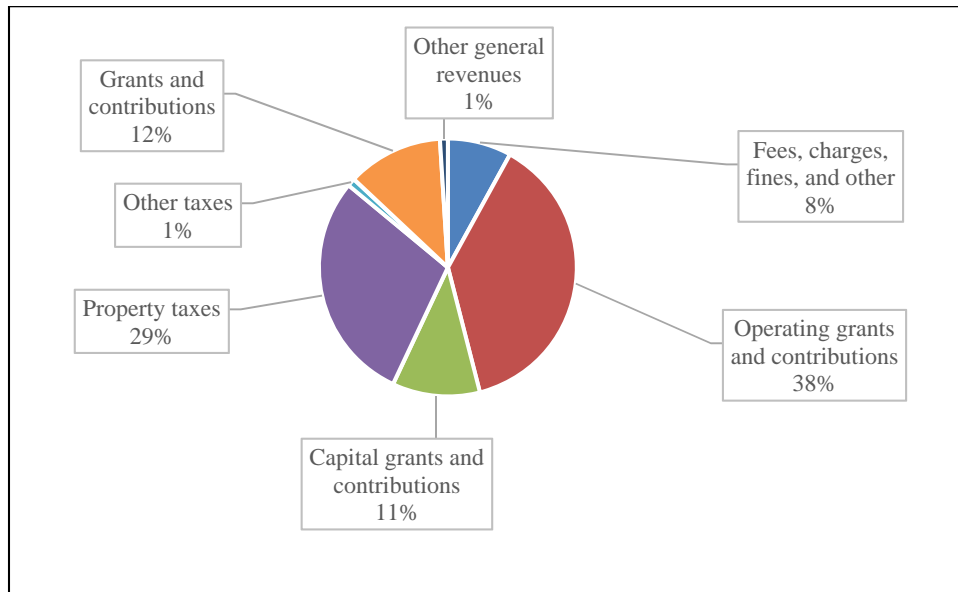
**Table 2**  
**Change in Net Position**

	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,198,151	\$ 994,954
Operating grants and contributions	5,403,498	5,023,688
Capital grants and contributions	1,488,000	-
General revenues		
Property taxes	4,085,545	3,968,061
Other taxes	107,513	99,526
Grants and contributions	1,673,564	1,653,587
Other general revenues	197,002	(4,857)
<b>Total Revenues</b>	<b>\$ 14,153,273</b>	<b>\$ 11,734,959</b>

	2014	2013
Expenses		
Program expenses		
General government	\$ 2,175,870	\$ 2,165,388
Public safety	2,677,799	2,492,306
Highways and streets	2,550,771	2,646,681
Sanitation	270,368	277,309
Human services	3,026,104	2,607,961
Health	259,917	235,718
Culture and recreation	142,952	167,289
Conservation of natural resources	181,314	222,763
Economic development	279,869	170,031
Interest	35,288	45,321
<b>Total Expenses</b>	<b>\$ 11,600,252</b>	<b>\$ 11,030,767</b>
<b>Change in Net Position</b>	<b>\$ 2,553,021</b>	<b>\$ 704,192</b>
Net Position - Beginning	33,056,435	32,352,243
<b>Net Position - Ending</b>	<b>\$ 35,609,456</b>	<b>\$ 33,056,435</b>

Mahnomen County's total revenues for the year ended December 31, 2014, were \$14,153,273. The total cost of County programs and services for the year ended December 31, 2014, was \$11,600,252. The net position for governmental activities increased by \$2,553,021. The following pie chart depicts those revenues in seven categories.

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



## Governmental Activities

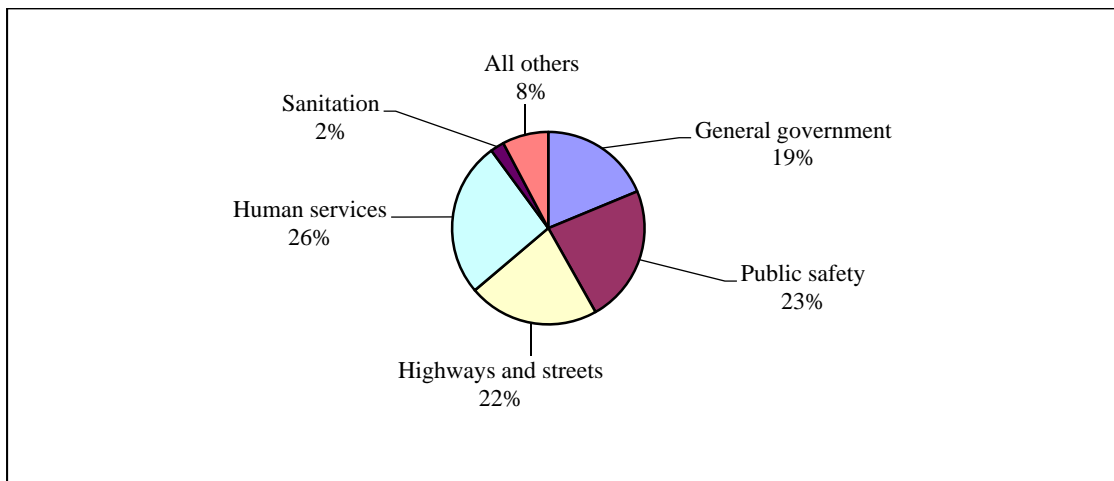
Mahnomen County's costs for all governmental activities for the year ended December 31, 2014, were \$11,600,252 as shown on the Statement of Activities. The net cost of services was ultimately funded through local property taxes and applicable offsetting revenues such as fees, fines, interest income, 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**

	2014	
	Total Cost of Services	Net Cost of Services
Program expenses		
General government	\$ 2,175,870	\$ 1,887,236
Public safety	2,677,799	2,268,517
Highways and streets	2,550,771	(1,614,696)
Human services	3,026,104	1,174,353
Sanitation	270,368	(44,907)
All others	899,340	(159,900)
Totals	<u>\$ 11,600,252</u>	<u>\$ 3,510,603</u>

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





## The County's Funds

As Mahnomen County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$5,292,073, which is below last year's total combined fund balance of \$5,553,487. This decrease of \$261,414 represents a 4.71 percent total decrease. Included in this total fund balance is the County's General Fund balance of \$3,340,819. The General Fund's change in fund balance (an increase of \$361,912 from 2013) represented a 12.15 percent increase in the General Fund balance. The General Fund's increase was due to excess revenues over expenditures of \$361,525 plus other financing sources in the amount of \$387. The Road and Bridge Special Revenue Fund balance decreased by \$344,666 or 30.53 percent, and the Social Services Special Revenue Fund was decreased by \$342,699, or 53.45 percent.

## General Fund Budgetary Highlights

The Mahnomen County Board of Commissioners, over the course of a budget year, may amend/revise the County's General Fund budget; however, in 2014, 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 17, 2013, 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 \$28,712. The total actual expenditures in the County's General Fund were under the budgeted expenditures by \$261,703. The actual General Fund balance increased by a total of \$361,912.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2014, Mahnomen County had \$28,649,625 invested in a broad range of capital assets including land, buildings, highways and streets, and equipment (see Table 4). This amount represents a net increase (including additions and deductions) of \$2,020,445, or 7.59 percent, more than last year.

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

	2014	2013
Land	\$ 534,639	\$ 534,639
Construction in progress	18,308	1,390,832
Land improvements	658,179	33,845
Buildings and improvements	724,371	740,081
Machinery, furniture, and equipment	1,551,794	1,525,320
Infrastructure	25,162,334	22,404,463
Totals	<u>\$ 28,649,625</u>	<u>\$ 26,629,180</u>

(Unaudited)

Page 11

Mahnomen County’s fiscal year 2014 capital budget plans did not call for any other major expenditures outside of the normal equipment, vehicles, and road construction projects. More detailed information about the County’s capital assets can be found in Note 3.A.3. to the Mahnomen County financial statements.

**Debt**

As of December 31, 2014, Mahnomen County had \$675,000 in bonds outstanding, compared with \$900,000 as of December 31, 2013, a decrease of 25.00 percent as shown in Table 5.

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

	2014	2013
Bonds Payable - General Obligation Bonds	\$ 100,000	\$ 195,000
Bonds Payable - Revenue Bonds	575,000	705,000
Totals	\$ 675,000	\$ 900,000

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

Mahnomen County’s general obligation bonds are non-rated. The last scheduled payment on these bonds are due in 2015. The state limits the amount of net debt that the counties can issue to three percent (Minn. Stat. § 475.53) of the market value of all taxable property in the county. Mahnomen County’s outstanding 2014 net debt is below this \$18,102,918 state-imposed limit.

Other obligations may include capital leases, compensated absences and other postemployment benefits. 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 2015 budget, tax rates, and fees that will be charged for governmental activities.

- The State of Minnesota is addressing its budget surplus issues. This may have a significant impact on future Mahnomen County budgets. Major revenue sources for the County are state-paid aids, credits, and grants. Should the State of Minnesota increase revenues, it may have a significant impact on next year’s budget.

- Mahnomen County's average net tax capacity rates have remained relatively consistent. The County also has a good seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.
- Mahnomen County's annual unemployment rate for 2014 averaged 5.61 percent. The County's unemployment rate for 2013 averaged 5.73 percent according to the Minnesota Department of Employment and Economic Development.
- The Minnesota state demographer's census data has estimated Mahnomen County's 2014 population at 5,503 residents, which is a decrease of .0056 percent from the estimated 2013 population estimate of 5,534.
- The 2015 net property tax levies are established as of the time of this printing and remained the same from 2014.
- Planning and financing for facility space needs and the possibility of a new jail/law enforcement center project are continuing to be monitored by the County Board.
- Union contracts and employment-related issues have been established for the 2015 budget.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Mahnomen County programs and services will influence the development of future budgets.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

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

This page was left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<b>Primary Government Governmental Activities</b>	<b>Mahnomen Health Center Component Unit</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and pooled investments	\$ 5,004,338	\$ 818,275
Departmental cash	25,094	-
Taxes receivable delinquent	112,097	-
Special assessments receivable		
Prior	28,875	-
Deferred	40,500	-
Accounts receivable - net	63,141	1,059,183
Accrued interest receivable	8,854	-
Due from other governments	3,815,211	-
Inventories	119,066	134,268
Prepaid items	-	68,786
<b>Noncurrent assets</b>		
Advance to other governments	144,541	-
Long-term receivables	22,330	-
Other long-term investments	-	606,182
Contract for deed	137,716	-
Investment in joint venture	-	311,051
Held by trustee for debt service	-	174,644
<b>Capital assets</b>		
Non-depreciable	552,947	65,971
Depreciable - net of accumulated depreciation	28,096,678	4,542,283
	<b>\$ 38,171,388</b>	<b>\$ 7,780,643</b>
<b>Total Assets</b>	<b>\$ 38,171,388</b>	<b>\$ 7,780,643</b>



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2014**

	<b>Primary Government Governmental Activities</b>	<b>Mahnomen Health Center Component Unit</b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 223,591	\$ 850,696
Salaries payable	202,969	171,746
Compensated absences/vacation/sick payable - current	-	156,125
Contracts payable	149,214	-
Due to other governments	165,676	-
Accrued interest payable	13,178	11,021
Residents' personal funds	-	36,460
Gross revenue bonds - current	-	157,215
Capital leases payable - current	-	91,785
Unearned revenue	-	16,900
Long-term liabilities		
Long-term debt payable - noncurrent	-	969,173
Due within one year	383,672	-
Due in more than one year	1,423,632	-
	<b>\$ 2,561,932</b>	<b>\$ 2,461,121</b>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 28,572,441	\$ 3,390,081
Restricted for		
General government	120,642	-
Public safety	165,072	-
Highways and streets	2,831,175	-
Sanitation	37,109	-
Culture and recreation	99,315	-
Economic development	461,976	-
Held in trust for other purposes	500	-
Unrestricted	3,321,226	1,929,441
	<b>\$ 35,609,456</b>	<b>\$ 5,319,522</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>
<b><u>Functions/Programs</u></b>		
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 2,175,870	\$ 182,532
Public safety	2,677,799	110,489
Highways and streets	2,550,771	112,349
Sanitation	270,368	206,802
Human services	3,026,104	319,969
Health	259,917	199,604
Culture and recreation	142,952	-
Conservation of natural resources	181,314	42,675
Economic development	279,869	23,731
Interest	35,288	-
<b>Total Primary Government</b>	<b>\$ 11,600,252</b>	<b>\$ 1,198,151</b>
<b>Component unit</b>		
Mahnomen Health Center	<b>\$ 8,862,142</b>	<b>\$ 7,754,988</b>
<b>General Revenues</b>		
Property taxes		
Special assessments		
Mortgage registry and deed tax		
Grants and contributions not restricted to specific programs		
Payments in lieu of tax		
Unrestricted investment earnings		
Miscellaneous		
<b>Total general revenues</b>		
<b>Change in net position</b>		
<b>Net Position - Beginning</b>		
<b>Net Position - Ending</b>		

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>	
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Primary Government Governmental Activities</b>	<b>Mahnomen Health Center Component Unit</b>
\$ 106,102	\$ -	\$ (1,887,236)	
298,793	-	(2,268,517)	
2,565,118	1,488,000	1,614,696	
108,473	-	44,907	
1,531,782	-	(1,174,353)	
174,904	-	114,591	
56,737	-	(86,215)	
541,869	-	403,230	
19,720	-	(236,418)	
-	-	(35,288)	
<b>\$ 5,403,498</b>	<b>\$ 1,488,000</b>	<b>\$ (3,510,603)</b>	
<b>\$ 122,205</b>	<b>\$ -</b>		<b>\$ (984,949)</b>
		\$ 4,085,545	\$ -
		-	55,741
		2,531	-
		1,673,564	324,005
		104,982	-
		132,268	11,333
		64,734	-
		<b>\$ 6,063,624</b>	<b>\$ 391,079</b>
		\$ 2,553,021	\$ (593,870)
		<b>33,056,435</b>	<b>5,913,392</b>
		<b>\$ 35,609,456</b>	<b>\$ 5,319,522</b>

This page was left blank intentionally.

**FUND FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENTAL FUNDS**

This page was left blank intentionally.



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><u>Assets</u></b>					
<b>Current assets</b>					
Cash and pooled investments	\$ 3,104,589	\$ 686,244	\$ 185,577	\$ 849,563	\$ 4,825,973
Petty cash and change funds	1,700	-	-	-	1,700
Undistributed cash in agency funds - taxes and other	120,397	23,005	22,622	10,641	176,665
Departmental cash	25,094	-	-	-	25,094
Taxes receivable delinquent	77,137	14,816	17,737	2,407	112,097
Special assessments					
Prior	-	345	-	28,530	28,875
Deferred	-	-	-	40,500	40,500
Accounts receivable	16,407	6,300	39,222	1,212	63,141
Accrued interest receivable	8,837	-	-	17	8,854
Due from other funds	3,450	1,367	22,080	-	26,897
Due from other governments	490,906	3,125,492	197,821	992	3,815,211
Inventories	-	119,066	-	-	119,066
<b>Noncurrent assets</b>					
Contract for deed	137,716	-	-	-	137,716
Long-term receivables	-	-	-	22,330	22,330
<b>Total Assets</b>	<b><u>\$ 3,986,233</u></b>	<b><u>\$ 3,976,635</u></b>	<b><u>\$ 485,059</u></b>	<b><u>\$ 956,192</u></b>	<b><u>\$ 9,404,119</u></b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 125,156	\$ 20,650	\$ 72,356	\$ 5,429	\$ 223,591
Salaries payable	119,167	20,998	60,811	1,993	202,969
Contracts payable	30,110	119,104	-	-	149,214
Due to other funds	22,685	660	19,811	1,149	44,305
Due to other governments	113,038	6,659	18,994	9,577	148,268
<b>Total Liabilities</b>	<b><u>\$ 410,156</u></b>	<b><u>\$ 168,071</u></b>	<b><u>\$ 171,972</u></b>	<b><u>\$ 18,148</u></b>	<b><u>\$ 768,347</u></b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue	<b><u>\$ 235,258</u></b>	<b><u>\$ 3,024,342</u></b>	<b><u>\$ 14,604</u></b>	<b><u>\$ 69,495</u></b>	<b><u>\$ 3,343,699</u></b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b> (Continued)					
<b>Fund Balances</b>					
Nonspendable					
Inventories	\$ -	\$ 119,066	\$ -	\$ -	\$ 119,066
Contract for deed	137,716	-	-	-	137,716
Restricted for					
Debt service	-	-	-	304,326	304,326
Recorder's technology equipment	52,855	-	-	-	52,855
E-911	125,350	25,016	-	-	150,366
Recorder's compliance	67,787	-	-	-	67,787
Boat and water safety	1,775	-	-	-	1,775
Extension youth grant	395	-	-	-	395
Handgun permits	12,553	-	-	-	12,553
SCORE	-	-	-	37,109	37,109
Highway projects	-	149,857	-	-	149,857
Gravel pit restoration	-	19,770	-	-	19,770
Ditch maintenance and construction	-	-	-	286,644	286,644
DARE	378	-	-	-	378
Missing heirs	500	-	-	-	500
Timber development	174,937	-	-	-	174,937
Parks and recreation	99,315	-	-	-	99,315
Committed to					
Sheriff's contingencies	5,000	-	-	-	5,000
Assigned to					
Highways and streets	-	470,513	-	-	470,513
Social services	-	-	298,483	-	298,483
Solid waste	-	-	-	129,184	129,184
Drug eradication	1,475	-	-	-	1,475
County development	2,692	-	-	-	2,692
Extension programming funds	139	-	-	-	139
Hospital reserve	-	-	-	111,286	111,286
Unassigned	2,657,952	-	-	-	2,657,952
<b>Total Fund Balances</b>	<b>\$ 3,340,819</b>	<b>\$ 784,222</b>	<b>\$ 298,483</b>	<b>\$ 868,549</b>	<b>\$ 5,292,073</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 3,986,233</b>	<b>\$ 3,976,635</b>	<b>\$ 485,059</b>	<b>\$ 956,192</b>	<b>\$ 9,404,119</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2014**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>5,292,073</b>
---	-----------	------------------

Amounts reported for governmental activities in the statement of net position 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.		28,649,625
--	--	------------

Advances to other governments result in long-term assets not available to pay for current period expenditures. Therefore, advances made are not reported in the funds as assets but rather as expenditures. Collections on the advance are reported as intergovernmental revenue.

Advance to Mahnomen Health Center	\$ 319,445	
Repayments on advance	<u>(174,904)</u>	144,541

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,343,699
---	--	-----------

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	\$ (100,000)	
Revenue bonds	(575,000)	
Capital leases	(77,183)	
Accrued interest payable	(13,178)	
Compensated absences	(170,968)	
Net OPEB liability	<u>(884,153)</u>	<u>(1,820,482)</u>

<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>35,609,456</u></b>
--	-----------	--------------------------

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT 5*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>					
Taxes	\$ 2,865,255	\$ 572,079	\$ 563,359	\$ 84,353	\$ 4,085,046
Special assessments	-	193	-	230,874	231,067
Licenses and permits	8,830	-	-	-	8,830
Intergovernmental	2,956,216	3,173,628	1,639,073	291,563	8,060,480
Charges for services	271,137	64,168	145,246	16,238	496,789
Fines and forfeits	5,455	-	-	-	5,455
Gifts and contributions	354	-	-	-	354
Investment earnings	129,654	-	-	188	129,842
Miscellaneous	285,639	49,484	171,256	750	507,129
<b>Total Revenues</b>	<b>\$ 6,522,540</b>	<b>\$ 3,859,552</b>	<b>\$ 2,518,934</b>	<b>\$ 623,966</b>	<b>\$ 13,524,992</b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 2,219,002	\$ -	\$ -	\$ -	\$ 2,219,002
Public safety	2,602,317	-	-	-	2,602,317
Highways and streets	-	4,087,171	-	-	4,087,171
Sanitation	-	-	-	276,634	276,634
Human services	-	-	2,861,633	-	2,861,633
Health	259,917	-	-	-	259,917
Culture and recreation	142,952	-	-	-	142,952
Conservation of natural resources	157,165	-	-	23,785	180,950
Economic development	720,240	-	-	-	720,240
<b>Intergovernmental</b>					
Highways and streets	-	137,732	-	-	137,732
<b>Debt service</b>					
Principal	54,513	-	-	225,000	279,513
Interest	4,909	-	-	33,770	38,679
Administrative (fiscal) charges	-	-	-	351	351
<b>Total Expenditures</b>	<b>\$ 6,161,015</b>	<b>\$ 4,224,903</b>	<b>\$ 2,861,633</b>	<b>\$ 559,540</b>	<b>\$ 13,807,091</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 5  
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 361,525</b>	<b>\$ (365,351)</b>	<b>\$ (342,699)</b>	<b>\$ 64,426</b>	<b>\$ (282,099)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 387	\$ -	\$ -	\$ -	\$ 387
Transfers out	-	-	-	(387)	(387)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 387</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (387)</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 361,912</b>	<b>\$ (365,351)</b>	<b>\$ (342,699)</b>	<b>\$ 64,039</b>	<b>\$ (282,099)</b>
<b>Fund Balance - January 1</b>	<b>2,978,907</b>	<b>1,128,888</b>	<b>641,182</b>	<b>804,510</b>	<b>5,553,487</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>20,685</b>	<b>-</b>	<b>-</b>	<b>20,685</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,340,819</b>	<b>\$ 784,222</b>	<b>\$ 298,483</b>	<b>\$ 868,549</b>	<b>\$ 5,292,073</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (282,099)**

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

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

Unavailable revenue - December 31	\$ 3,343,699	
Unavailable revenue - January 1	<u>(2,540,514)</u>	803,185

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

Expenditures for general capital assets and infrastructure	\$ 3,610,405	
Current year depreciation	<u>(1,589,960)</u>	2,020,445

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 position. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position.

Principal repayments		
General obligation bonds	\$ 95,000	
Revenue bonds	130,000	
Capital lease	<u>54,513</u>	279,513

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

Change in accrued interest payable	\$ 3,742	
Change in compensated absences	1,061	
Change in net OPEB liability	(118,607)	
Change in inventories	20,685	
Change in advance to other governments	<u>(174,904)</u>	<u>(268,023)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,553,021**

**FIDUCIARY FUNDS**

This page was left blank intentionally.



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2014**

	<b>Family Services Collaborative Investment Trust Fund</b>	<b>Agency Funds</b>
	<hr/>	<hr/>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 136,724	\$ 123,572
Receivables		
Interest	18	-
Due from other funds	<hr/> 17,408	<hr/> -
<b>Total Assets</b>	<b>\$ 154,150</b>	<b><u><u>\$ 123,572</u></u></b>
<b><u>Liabilities</u></b>		
Due to other governments	<hr/> -	<b><u><u>\$ 123,572</u></u></b>
<b><u>Net Position</u></b>		
Net position held in trust for pool participants	<b><u><u>\$ 154,150</u></u></b>	

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FAMILY SERVICES COLLABORATIVE INVESTMENT TRUST FIDUCIARY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u><b>Additions</b></u>	
Contributions from participants	\$ 67,298
Interest earnings	<u>354</u>
<b>Total Additions</b>	<b>\$ 67,652</b>
<u><b>Deductions</b></u>	
Distributions to participants	<u>91,128</u>
<b>Change in net position</b>	<b>\$ (23,476)</b>
<b>Net Position - January 1</b>	<u>177,626</u>
<b>Net Position - December 31</b>	<u><u>\$ 154,150</u></u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

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, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). 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.

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 and may be obliged to finance a deficit or debt of the Health Center.	Mahnomen Health Center 414 West Jefferson P. O. Box 396 Mahnomen, Minnesota 56557

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position 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 position, 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 position is reported in three parts: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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 accounted for in another fund.

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

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

Additionally, the County reports the following fund types:

The Debt Service funds account for the resources accumulated and payments made for principal and interest on long term debt of governmental funds.

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.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Mahnomen County considers all revenues 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.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position 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, 2014, 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. The pooled investment income for 2014 was \$129,842.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

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 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)	\$ 5,153,004
Held for external pool participants (Interagency Collaborative)	<u>136,724</u>
Total	<u>\$ 5,289,728</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).

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.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

1. Summary of Significant Accounting Policies-

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

4. Special Assessments Receivable

Special assessments receivable consist of delinquent special assessments and deferred special assessments. All special assessments receivable are shown net of an allowance for uncollectibles.

5. Advance to Other Governments

The noncurrent portion of an intergovernmental advance, reported as “Advance to other governments,” is offset by revenue bonds payable - noncurrent at the government-wide level.

In 2008, an advance of \$1,260,000 was made to the Mahnomen Health Center to cover capital expenditures to remodel its facilities. During 2014, the Mahnomen Health Center repaid \$174,904. The balance of \$144,541 as of December 31, 2014, will be repaid in monthly installments through 2018. The County will use these payments to cover the principal and interest due on \$1,260,000 Gross Revenue Hospital Facilities Bonds issued for the purpose of funding the Mahnomen Health Center remodeling project.

6. Inventories, Prepaid Items, and Property Held for Resale

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.

Real property acquired for subsequent resale as a result of a default of a contract for deed and not as an investment program is recorded at the lesser of cost or net realizable value. Property held for resale is offset by a nonspendable fund balance account in the General Fund. For 2014, there were no properties held for resale.



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

1. Summary of Significant Accounting Policies-

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

7. Capital Assets

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

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, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

8. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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. The government-wide statement of net position reports both current and noncurrent portions of compensated absences. The current portion consists of an amount based upon what the employee can accrue within one year, or their balance, whatever is smaller. The noncurrent portion consists of the remaining amount of vacation leave.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the County has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

10. 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 position. Bond premiums and discounts 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.

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.

11. Classification of Net Position

Net position in the government-wide statements is classified in the following components:

Net investment in capital assets - represents capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

12. Classifications of Fund Balances

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

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

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

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

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

12. Classifications of Fund Balances (Continued)

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

13. Minimum Fund Balance

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

Any budget revision that will result in the unrestricted fund balance dropping below the minimum level will require the approval of a 3/5 vote of the County Board.

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

14. 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.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

1. Summary of Significant Accounting Policies (Continued)

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2014:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Social Services Special Revenue Fund	\$ 2,861,633	\$ 2,695,499	\$ 166,134
Solid Waste Special Revenue Fund	276,634	264,427	12,207
Nursing Home Revenue Bonds Debt Service Fund	99,681	77,477	22,204

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net position	
Governmental activities	
Cash and pooled investments	\$ 5,004,338
Departmental cash	25,094
Statement of fiduciary net position	
Cash and pooled investments	
Investment trust fund	136,724
Agency funds	<u>123,572</u>
Total Cash and Investments	<u>\$ 5,289,728</u>

a. Deposits

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize its exposure to custodial credit risk by requiring all deposits to be insured or collateralized in accordance with Minn. Stat. § 118A.03. As of December 31, 2014, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

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.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy is to minimize custodial credit risk by limiting investments to the types of securities permitted by Minn. Stat. ch. 118A and by obtaining broker certification forms and documentation of perfected security interest in pledged collateral from authorized financial institutions, brokers/dealers, and intermediaries or advisors. As of December 31, 2014, the County's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposits and investment balances at December 31, 2014, 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 National Mortgage Association	Aaa	Moody's	4.09%	03/13/2018	\$ 98,965
Federal Home Loan Mortgage Corporation	Aaa	Moody's	6.20%	12/17/2019	\$ 149,969
Federal Home Loan Bank	Aaa	Moody's		12/30/2019	\$ 199,974
Federal Home Loan Bank	Aaa	Moody's		05/08/2023	299,751
Federal Home Loan Bank	Aaa	Moody's		05/16/2023	244,860
Federal Home Loan Bank	Aaa	Moody's		05/23/2023	99,941
Federal Home Loan Bank	Aaa	Moody's		07/10/2024	200,040
Total Federal Home Loan Bank			43.20%		\$ 1,044,566
Negotiable certificates of deposit			N/A		\$ 1,124,661
Total investments					\$ 2,418,161
Deposits					2,869,867
Change funds					1,700
Total Cash and Investments					\$ 5,289,728

N/A - Not Applicable

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, 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	\$ 112,097	\$ -
Special assessments	69,375	-
Accounts	63,141	-
Interest	8,854	-
Due from other governments	3,815,211	-
Long-term receivable	22,330	-
Contract for deed	137,716	117,928
Total Governmental Activities	\$ 4,228,724	\$ 117,928

Long-Term Receivable

The long-term receivable is the City of Mahnomen's 22 percent share of the 2009A G.O. Nursing Home Revenue Refunding Bonds. The amount is the final amount to be paid over during 2015.

Contract for Deed

Contract for Deed	Date	Interest Rate (%)	Due Date	Monthly Payment	Balance December 31
MMRL1D1	January 1, 2004	-	January 1, 2024	\$ 588	\$ 51,556
MMRL4D1	June 1, 2004	-	June 1, 2019	500	39,859
MMRL2D1	September 1, 2013	-	September 1, 2022	612	46,301
Total Contract for Deed					\$ 137,716

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 534,639	\$ -	\$ -	\$ 534,639
Construction in progress	1,390,832	-	1,372,524	18,308
Total capital assets not depreciated	\$ 1,925,471	\$ -	\$ 1,372,524	\$ 552,947
Capital assets depreciated				
Land improvements	\$ 65,354	\$ 655,654	\$ -	\$ 721,008
Buildings	3,004,344	32,903	-	3,037,247
Machinery, furniture, and equipment	3,548,266	492,066	283,843	3,756,489
Infrastructure	36,200,007	3,802,306	-	40,002,313
Total capital assets depreciated	\$ 42,817,971	\$ 4,982,929	\$ 283,843	\$ 47,517,057
Less: accumulated depreciation for				
Land improvements	\$ 31,509	\$ 31,320	\$ -	\$ 62,829
Buildings	2,264,263	48,613	-	2,312,876
Machinery, furniture, and equipment	2,022,946	465,592	283,843	2,204,695
Infrastructure	13,795,544	1,044,435	-	14,839,979
Total accumulated depreciation	\$ 18,114,262	\$ 1,589,960	\$ 283,843	\$ 19,420,379
Total capital assets depreciated, net	\$ 24,703,709	\$ 3,392,969	\$ -	\$ 28,096,678
Governmental Activities Capital Assets, Net	\$ 26,629,180	\$ 3,392,969	\$ 1,372,524	\$ 28,649,625

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

Governmental Activities	
General government	\$ 64,789
Public safety	131,849
Highways and streets, including depreciation of infrastructure assets	1,137,351
Human services	118,751
Economic development	137,220
Total Depreciation Expense - Governmental Activities	\$ 1,589,960

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

The composition of interfund balances as of December 31, 2014, is as follows:

Receivable Fund	Payable Fund	Amount
General	Road and Bridge Special Revenue	\$ 660
	Social Services Special Revenue	2,403
	Other governmental	387
		\$ 3,450
Special Revenue Funds		
Road and Bridge	General	\$ 605
	Other governmental	762
Total due to Road and Bridge		\$ 1,367
Social Services	General	22,080
Total Special Revenue Funds		\$ 23,447
Investment Trust	Social Services Special Revenue	\$ 17,408
Total Due To/From Other Funds		\$ 44,305

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2014, consisted of the following:

Transfers to General Fund from Forfeited Tax Sale Special Revenue Fund	\$ 387	Settlement of proceeds
---	--------	------------------------

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2014, were as follows:

	Governmental Activities
Accounts	\$ 223,591
Salaries	202,969
Due to other governments	165,676
Total Payables	\$ 592,236

2. Other Postemployment Benefits - Retirees

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

As of year-end, the County has six eligible participants. The County finances the plan on a pay-as-you-go basis. During 2014, the County expended \$65,356 for these benefits.

3. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment and facilities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Payments on these lease agreements are made from the General Fund. These capital leases consist of the following at December 31, 2014:

Lease	Maturity	Installment	Payment Amount	Original	Balance
2010 service center	2020	Semi-Annually	\$ 6,264	\$ 100,000	\$ 60,353
2012 server upgrade	2015	Monthly	3,675	125,000	7,314
2013 copier	2018	Monthly	233	11,995	9,517
Total Capital Leases					\$ 77,184

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Capital Leases (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014, were as follows:

Year Ending December 31	Governmental Activities
2015	\$ 22,673
2016	15,322
2017	15,322
2018	14,858
2019	12,529
2020	6,172
Total minimum lease payments	\$ 86,876
Less: amount representing interest	(9,692)
Present Value of Minimum Lease Payments	\$ 77,184

4. Long-Term Debt

Bonds Payable

The payments on the 2009A G.O. Nursing Home Revenue Refunding Bonds are being made from the Nursing Home Revenue Bonds Debt Service Fund and the payments on the 2007 Gross Revenue Hospital Facilities Bonds are being made from the Mahnomen Health Center Bonds Debt Service Fund.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
General obligation bonds					
2009A G.O. Nursing Home Revenue Refunding Bonds	2015	\$95,000 - \$100,000	2.00 - 3.00	\$ 560,000	\$ 100,000
Revenue bonds					
2007 Gross Revenue Hospital Facilities Bond	2018	\$125,000 - \$155,000	4.60	\$ 1,260,000	\$ 575,000



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Year Ending December 31	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 100,000	\$ 1,500	\$ 135,000	\$ 23,345
2016	-	-	140,000	17,020
2017	-	-	145,000	10,465
2018	-	-	155,000	3,565
Total	<u>\$ 100,000</u>	<u>\$ 1,500</u>	<u>\$ 575,000</u>	<u>\$ 54,395</u>

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
General obligation bonds	\$ 195,000	\$ -	\$ 95,000	\$ 100,000	\$ 100,000
Revenue bonds	705,000	-	130,000	575,000	135,000
Capital leases	131,696	-	54,513	77,183	19,503
Compensated absences	172,029	188,421	189,482	170,968	129,169
Other postemployment benefits	765,546	118,607	-	884,153	-
Total Long-Term Liabilities	<u>\$ 1,969,271</u>	<u>\$ 307,028</u>	<u>\$ 468,995</u>	<u>\$ 1,807,304</u>	<u>\$ 383,672</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Unearned Revenues/Deferred Inflows of Resources

Unearned revenues consist of state and/or federal grants received but not earned. Deferred inflows of resources - unavailable revenue consists of taxes, special assessments, state and/or federal grants and state highway users tax allotments, and other receivables not collected soon enough after year-end to pay liabilities of the current period. For 2014, Mahnomen County did not have unearned revenue.

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Grants and Allotments</u>	<u>Other</u>	<u>Total</u>
Major governmental funds					
General	\$ 58,234	\$ -	\$ 36,148	\$ 140,876	\$ 235,258
Road and Bridge	11,892	342	3,011,644	464	3,024,342
Social Services	14,604	-	-	-	14,604
Nonmajor governmental funds					
Solid Waste	16,081	-	-	-	16,081
Ditch	-	51,448	-	-	51,448
Hospital Reserve	20	-	-	-	20
Nursing Home Revenue Bonds	1,946	-	-	-	1,946
 Total	 <u>\$ 102,777</u>	 <u>\$ 51,790</u>	 <u>\$ 3,047,792</u>	 <u>\$ 141,340</u>	 <u>\$ 3,343,699</u>
 Deferred inflows of resources					
Unavailable revenue	<u>\$ 102,777</u>	<u>\$ 51,790</u>	<u>\$ 3,047,792</u>	<u>\$ 141,340</u>	<u>\$ 3,343,699</u>

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's 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 General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2014	2013	2012
General Employees Retirement Fund	\$ 201,197	\$ 183,535	\$ 164,189
Public Employees Police and Fire Fund	98,149	93,819	85,265
Public Employees Correctional Fund	23,939	22,909	22,018

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

B. Defined Contribution Plan

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 1,911	\$ 1,911
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Mahnomen County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2014, there were 82 participants in the plan, including 6 retirees.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

---

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

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

ARC	\$ 289,949
Interest on net OPEB obligation	30,622
Adjustment to ARC	<u>(45,148)</u>
Annual OPEB cost (expense)	\$ 275,423
Contributions made	<u>(156,816)</u>
Increase in net OPEB obligation	\$ 118,607
Net OPEB Obligation - Beginning of Year	<u>765,546</u>
Net OPEB Obligation - End of Year	<u><u>\$ 884,153</u></u>

The County's annual OPEB cost for December 31, 2014, was \$275,423. The percentage of OPEB cost contributed to the plan was 56.9 percent, and the net OPEB obligation for 2014 was \$884,153.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

---

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012, 2013, and 2014 were as follows:

<u>Fiscal Year-End</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 281,209	\$ 140,232	49.9%	\$ 633,655
December 31, 2013	278,326	146,435	52.7	765,546
December 31, 2014	275,423	156,816	56.9	884,153

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$2,341,568, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,341,568. The covered payroll (annual payroll of active employees covered by the plan) was \$3,118,242, and the ratio of the UAAL to the covered payroll was 75.1 percent.

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



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a four percent investment rate of return (net of investment expenses), which is Mahnomen County's implicit rate of return on the General Fund. The annual health care cost trend is ten percent initially, reduced by decrements to an ultimate rate of five percent over 10 years. Both rates included a four percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2014, was 24 years.

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 per claim in 2014 and \$490,000 per claim in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Norman-Mahnomen Public Health

The Multi-County Nursing Service was established in 1997 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and included Becker, Mahnomen, and Norman Counties. On June 24, 2003, the Becker County Board passed a resolution to withdraw from the Multi-County Nursing Service as of January 1, 2005. On January 1, 2005, Norman and Mahnomen Counties amended the joint powers agreement forming the Multi-County Nursing Service and started doing business as Norman-Mahnomen Public Health. Effective December 31, 2012, the Norman-Mahnomen Community Health Board was dissolved. Effective January 1, 2013, the Norman-Mahnomen Board of Health was created and will do business under the name 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.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Norman-Mahnomen Public Health (Continued)

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

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

Financing is provided by state and federal grants, appropriations from member counties, charges for services, and miscellaneous revenues. Mahnomen County's contribution for 2014 was \$76,390.

Complete financial information can be obtained from:

Norman-Mahnomen Board of Health  
15 East 2nd Avenue, Room 107  
Ada, Minnesota 56510

Joint County Natural Resources Board

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Joint County Natural Resources Board (Continued)

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

In the event of dissolution of the Joint County Natural Resources Board, the net assets of the Natural Resources Board at that time shall be distributed to the respective member counties in proportion to the contribution of each. Mahnomen County contributed \$500 during 2014 to the Joint County Natural Resources Board.

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

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

Mahnomen County Interagency Collaborative

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Mahnomen County Interagency Collaborative (Continued)

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

Financing is provided by state and federal grants. During 2014, 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 backup system.

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

The NCDPSA has no long-term debt. Financing is provided by grants from the State of Minnesota and appropriations from member counties.

Complete financial information can be obtained from:

Clearwater County Auditor  
213 North Main Avenue  
Bagley, Minnesota 56621

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Northwest Minnesota Regional Radio Board

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

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

Control of the Northwest Minnesota Regional Radio Board is vested in the Northwest Minnesota Regional Radio Board, which is composed of one Commissioner 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 bylaws.

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 appropriations from member parties and by state and federal grants.

Complete financial information can be obtained from:

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rural Minnesota Concentrated Employment Programs, Inc. (WIA - Rural Minnesota Workforce Service Area 2)

Rural Minnesota Concentrated Employment Programs, Inc., was established to create job training and employment opportunities for economically disadvantaged, underemployed and unemployed persons, and youthful persons in both the private and the public sector.

During 2014, the County did not contribute any funds to this organization.

Land of the Dancing Sky Area Agency on Aging

The Land of the Dancing Sky Area Agency on Aging provides services to a 21-county service area. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. This combined area on aging was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area.

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards of the two areas on aging continue to meet monthly to make decisions affecting their local counties.

Paul Bunyan Task Force

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Paul Bunyan Task Force (Continued)

The Paul Bunyan Task Force has no long-term debt. During 2014, Mahnomen County did not contribute to the Paul Bunyan Task Force. Financing is provided by the profits from forfeitures and seizures pursuant to Minn. Stat. § 609.531. The City of Bemidji, in an agent capacity, reports the cash transactions of the Paul Bunyan Task Force on its financial statements. Complete financial information can be obtained from:

Ms. JoDee Treat, Auditor-Treasurer  
Beltrami County  
701 Minnesota Avenue, Suite 220  
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 Watershed District is vested in the Board of Managers, which is composed of seven members appointed by the County Commissioners of Becker, Clay, Mahnomen, and Norman Counties. Becker County appoints one member, Clay County appoints one member, Mahnomen County appoints two members, and Norman County appoints three members.

Complete financial information can be obtained from:

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



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Minnesota Red River Basin of the North Joint Powers Agreement

The Minnesota Red River Basin of the North Joint Powers Board was established November 29, 1999, by an agreement between Mahnomen County and 17 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 comprised of 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. During 2014, the County contributed \$130 to the Joint Powers Board.

Complete financial statements can be obtained from:

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

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Aitkin, Beltrami, Clay, Clearwater, Cook, Douglas, Grant, Itasca, Kittson, Koochiching, Lake of the Woods, Mahnomen, Marshall, McLeod, Mille Lacs, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Roseau, Stevens, Todd and Traverse 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. The County's responsibility does not extend beyond making this appointment.

During 2014, the County contributed \$2,100 to this organization.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Lake Agassiz Regional Library

The Lake Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1961, and includes Becker, Clay, Clearwater, Mahnomen, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, with 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. In 2014, Mahnomen County provided \$38,535 in the form of an appropriation.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During 2014, Mahnomen County expended \$80,859 to the Cooperative.

Region Three - Northwest Minnesota Homeland Security Emergency Management Organization

The Region Three - Northwest Minnesota Security Emergency Management Organization (NWRHSEM) was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59 and Minn. Stat. ch. 12. Members include 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 provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the NWRHSEM region.

Control is vested in the 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.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Communities Caring for Children

The Communities Caring for Children (CCC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. The County did not contribute to the CCC during 2014.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

Sentence to Service

Mahnomen County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program.

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

D. Related Organization

Sand Hill River Watershed District (Continued)

resources. Control of the District is vested in the Sand Hill River Watershed District Board of Managers, composed of five members appointed by the Polk County Board for staggered terms of three years each.

7. Mahnomen Health Center

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

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

Reporting Entity

The Mahnomen Health Center consists of a hospital, nursing home, and clinic located in Mahnomen, Minnesota. The Health Center is an operating entity under the ownership of Mahnomen County (County) and the City of Mahnomen (City), Minnesota, and is a component unit of Mahnomen County. The Health Center is governed under a Joint Powers Agreement between the County and City. For the year ending December 31, 2014, the County owned 78 percent of the Health Center, while the City owned 22 percent. The County and City each appoint Mahnomen Health Center Commission members who are responsible for the operation of the hospital, nursing home, and clinic. The Mahnomen Health Center Commission (the Commission) consists of nine members. The Commission is the ultimate governing body of the Health Center. The Commission shall acquire the necessary property to establish, construct, enlarge, improve, maintain, equip, operate, and control the facilities subject to the other terms of the Joint Powers Agreement.

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

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

Reporting Entity (Continued)

majority of the other organization's governing body and (1) the ability of the Health Center to impose its will on that organization, or (2) the potential for the Health Center to provide specific benefits to or impose specific financial burdens on the Health Center. The Health Center does not have a component unit which meets GASB criteria.

Method of Accounting

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

Use of Estimates

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

Risk Management

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

Cash and Cash Equivalents

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

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

Patient and Resident Receivables, Net

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

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write-off and recovery information in determining the estimated bad debt provision. At December 31, 2014, the allowance for doubtful accounts was approximately \$392,000. When all collection efforts have been exhausted, the account is written off against the related allowance.

Supplies

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

Capital Assets

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

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

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

Noncurrent Cash and Investments

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

Investment in Joint Venture

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

Vacation and Sick Leave

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

Net Position

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

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

Net Patient and Resident Service Revenue

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

Charity Care

To fulfill its mission of community service, the Health Center provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue. Charges foregone for charity care were approximately \$3,000 for the year ended December 31, 2014.

Operating Revenues and Expenses

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



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

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

Grants and Contributions

From time to time, the Health Center receives grants from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized as revenue when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts 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 position at net realizable value.

Electronic Health Record Incentive Payments

The Medical Center has recorded revenue related to Electronic Health Records (EHR) Incentive Program during 2014. The Center recognizes revenue at the completion of the EHR reporting period and all meaningful use objectives and any other specific grant requirements that are applicable (such as, electronic transmission of quality measures to CMS). This revenue has been presented as other nonoperating revenue in the statements of revenues, expenses, and changes in net position.

Advertising Costs

The Health Center expenses advertising costs as they are incurred.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

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

Other Postemployment Benefits

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

B. Net Patient and Resident Service Revenue

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

Medicare

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

Medicaid

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue (Continued)

Blue Cross

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient 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.

Other Payors

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

Revenue from Medicare and Medicaid programs accounted for approximately 37 percent and 32 percent, respectively, of the Health Center's net patient revenue for the year ended December 31, 2014.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

---

7. Mahnomen Health Center

B. Net Patient and Resident Service Revenue

Other Payors (Continued)

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, 2014, net patient service revenue increased by approximately \$100,000 due to prior year retroactive adjustments in excess of amounts previously estimated as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Patient and resident service revenue and contractual adjustments for the year ended December 31, 2014, are as follows:

Total patient service revenue	\$ 11,845,610
Contractual adjustments	
Medicare	\$ (1,953,870)
Medicaid	(1,338,442)
Indian Health Service	(116,214)
Other	(491,281)
Provision for bad debts	(364,244)
Total contractual adjustments	\$ (4,264,051)
Net Patient and Resident Service Revenue	\$ 7,581,559

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center (Continued)

C. Noncurrent Cash and Investments

Deposits

Custodial Credit Risk

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

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

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

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

The Health Center's deposits in banks at December 31, 2014, were covered by federal depository insurance or by collateral held by the Health Center's custodial bank in the Health Center's name.

Interest Rate Risk

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

Noncurrent cash and investments consist of certificates of deposit. The Health Center has no investments as of December 31, 2014. All of the Health Center's deposits are insured or registered in the Health Center's name and held in safekeeping by the Treasurer or in a financial institution other than that furnishing collateral.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

D. Accounts Receivable

Patient and resident receivables reported as current assets by the Health Center at December 31, 2014, consist of these amounts:

Receivables from patients and their insurance carriers	\$ 838,519
Receivable from Medicare	364,202
Receivable from Medicaid	<u>248,462</u>
 Total patient and resident receivables	 \$ 1,451,183
 Less: allowance for uncollectible amounts	 <u>(392,000)</u>
 Total Patient and Resident Receivables, Net	 <u>\$ 1,059,183</u>

E. Capital Assets

Capital asset additions, retirements, and balances for the year ended December 31, 2014, are as follows:

	Balance December 31, 2013	Additions	Retirements/ Transfers	Balance December 31, 2014
Land	\$ 44,229	\$ -	\$ -	\$ 44,229
Land improvements	289,342	-	-	289,342
Buildings	5,612,318	12,534	-	5,624,852
Movable equipment	4,766,538	46,180	212,483	5,025,201
Construction in progress	<u>221,086</u>	<u>13,139</u>	<u>(212,483)</u>	<u>21,742</u>
 Totals at historical cost	 <u>\$ 10,933,513</u>	 <u>\$ 71,853</u>	 <u>\$ -</u>	 <u>\$ 11,005,366</u>
Less: accumulated depreciation for				
Land improvements	\$ 102,690	\$ 20,798	\$ -	\$ 123,488
Buildings	2,769,614	242,141	-	3,011,755
Movable equipment	<u>2,902,762</u>	<u>359,107</u>	<u>-</u>	<u>3,261,869</u>
 Total accumulated depreciation	 <u>\$ 5,775,066</u>	 <u>\$ 622,046</u>	 <u>\$ -</u>	 <u>\$ 6,397,112</u>
 Capital Assets, Net	 <u>\$ 5,158,447</u>	 <u>\$ (550,193)</u>	 <u>\$ -</u>	 <u>\$ 4,608,254</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

7. Mahnomen Health Center (Continued)

F. Long-Term Debt

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

Movable equipment	\$ 784,417
Less: accumulated depreciation	<u>(104,390)</u>
Total Capital Assets, Net	<u>\$ 680,027</u>

Long-term debt as of December 31, 2014, consists of the following:

	Balance December 31, 2013	Additions	Reductions	Balance December 31, 2014
2007 gross revenue bond <sup>1</sup>	\$ 705,000	\$ -	\$ 130,000	\$ 575,000
USDA ambulance loans	135,767	-	21,509	114,258
Capital lease obligations <sup>2</sup>	<u>622,877</u>	<u>-</u>	<u>93,962</u>	<u>528,915</u>
Total long-term debt	<u>\$ 1,463,644</u>	<u>\$ -</u>	<u>\$ 245,471</u>	\$ 1,218,173
Less: current maturities				<u>(249,000)</u>
Total Long-Term Debt, Net of Current Maturities				<u>\$ 969,173</u>

<sup>1</sup>County of Mahnomen, Minnesota, Gross Revenue Hospital Facilities Bond, Series 2007, matures in February 2018. Bond bears interest rate coupon at 4.6 percent.

<sup>2</sup>The Health Center entered into a five-year capital lease through Mahnomen County during the fiscal year ended December 31, 2012, for the purchase of an electric boiler with an interest rate of 2.75 percent.

The following is a maturity schedule of long-term debt and capital lease obligations as of December 31, 2014:

Year Ending December 31	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2015	\$ 157,215	\$ 26,702	\$ 91,785	\$ 20,906
2016	162,944	19,648	95,764	17,607
2017	168,698	12,339	98,860	14,231
2018	179,475	4,662	38,037	11,489
2019	19,603	341	39,983	9,542
Thereafter	<u>1,323</u>	<u>3</u>	<u>164,486</u>	<u>16,692</u>
Total	<u>\$ 689,258</u>	<u>\$ 63,695</u>	<u>\$ 528,915</u>	<u>\$ 90,467</u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

---

7. Mahnomen Health Center (Continued)

G. Investment in Joint Venture

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

CMDI provides the equipment for CT scans for the Health Center's patients. The Health Center billed and collected the revenue for these services to patients and paid CMDI \$243,405 in 2014 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2014, amounted to \$19,635. At December 31, 2014, the Health Center owned 0.84 percent of CMDI.

Summarized financial information from the financial statements of CMDI at December 31, 2014, and for the year then ended, is presented below:

Total Assets	<u>\$ 49,712,107</u>
Total Liabilities	\$ 12,777,791
Members' equity	
Retained earnings	<u>36,934,316</u>
Total Liabilities and Members' Equity	<u>\$ 49,712,107</u>
Total Operating Revenue	<u>\$ 39,069,267</u>
Net Income	<u>\$ 11,367,167</u>

H. Defined Benefit Pension Plan

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



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

H. Defined Benefit Pension Plan (Continued)

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

Funding Policy

Plan members are required to contribute 6.25 percent of the annual covered salary, and the Health Center is required to contribute at an actuarially determined rate. The Health Center's current rate is 7.25 percent of annual covered payroll. The contribution requirements of plan members and the Health Center are established and may be amended by state statute. The Health Center's contributions, equal to the required contributions, to the General Employees Retirement Fund for the year ended December 31, 2014, were \$232,739. The Health Center's contributions were equal to the contractually required contributions for each year as set by state statute.

I. Leases

The Health Center leases certain space under a long-term lease agreement. The lease has been recorded as an operating lease. Total lease expense for the year ended December 31, 2014, was \$10,386. Minimum future lease payments for the long-term operating lease are as follows:

Year Ending December 31	Principal
2015	\$ 62,316
2016	62,316
2017	62,316
2018	62,316
2019	51,930
Total	\$ 301,194

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

---

7. Mahnomen Health Center (Continued)

J. Concentrations of Credit Risk

The Health Center grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2014, was as follows:

Medicare	30%
Blue Cross	6
Medicaid	21
Commercial insurance	5
Other third-party payors, patients, and residents	<u>38</u>
Total	<u><u>100%</u></u>

K. Related-Party Transactions

In March 2009, the County issued \$560,000 of General Obligation Nursing Home Revenue Refunding Bonds, Series 2009A, which refunded the Series 1999 Bonds that were used to finance improvements to the nursing home portion of the Health Center. 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 \$95,000 for the year ended December 31, 2014, and made an interest payment of \$4,330 related to the Series 2009A Bonds.

L. Management Service Agreement

The Health Center has a management service agreement with Sanford Health (formerly Meritcare), a nonprofit corporation (Manager). The Manager has the full authority to implement and fulfill the policy decisions of the Hospital Board. Total management fee expense for the year ended December 31, 2014, was \$364,391. Accounts payable to Sanford Health for these services at December 31, 2014, were \$232,732.

M. Electronic Health Record

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

M. Electronic Health Record (Continued)

eligible health care organizations that demonstrate meaningful use of certified EHR technology. The Medicare incentive payments for Critical Access Hospitals are made based on Medicare utilization and actual costs incurred to attain meaningful use and are contingent on the Center continuing to meet the escalating meaningful use criteria. For the first payment year, the Center must attest, subject to audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Center must demonstrate meaningful use for the entire year. The incentive payments under Medicare for Critical Access Hospitals are made in one lump sum. The State of Minnesota Medicaid incentive payments follow the same initial meaningful use requirements as the Medicare incentive, as well as certain Medicaid volume requirements. The Medicaid incentive payment is calculated using the Center's Medicaid volume applied to a base incentive amount. The Medicaid incentive is paid in three lump sums over the course of three years with 50 percent in year one, 40 percent in year two, and 10 percent in year three.

The Health Center demonstrated meaningful use for a continuous 90-day period during the year ended December 31, 2014. During the year ended December 31, 2014, the Center recorded \$303,000 related to the Medicaid program in nonoperating revenue in the statement of revenues, expenses, and changes in net position. These incentives have been recognized when received. The Medicare incentive payment had not yet been received as of December 31, 2014. The final amount of the Medicare payment will be determined based on information from the Health Center's Medicare cost report for the year ended December 31, 2014. Events could occur that would cause the final payment to differ materially upon final settlement.

N. Commitments and Contingencies

Malpractice Claims

The Health Center's malpractice insurance is a claims-made policy subject to a limit of \$1.0 million per claim and an annual aggregate limit of \$5.0 million. Should this policy lapse and not be replaced with equivalent coverage, claims based upon occurrence during its term, but reported subsequent thereto, will be uninsured.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

7. Mahnomen Health Center

N. Commitments and Contingencies (Continued)

Litigation, Claims, and Other Disputes

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

Other

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

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

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

**REQUIRED SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,849,228	\$ 2,849,228	\$ 2,865,255	\$ 16,027
Licenses and permits	8,320	8,320	8,830	510
Intergovernmental	3,180,732	3,180,732	2,956,216	(224,516)
Charges for services	246,565	246,565	271,137	24,572
Fines and forfeits	10,000	10,000	5,455	(4,545)
Gifts and contributions	800	800	354	(446)
Investment earnings	30,700	30,700	129,654	98,954
Miscellaneous	224,907	224,907	285,639	60,732
<b>Total Revenues</b>	<b>\$ 6,551,252</b>	<b>\$ 6,551,252</b>	<b>\$ 6,522,540</b>	<b>\$ (28,712)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 207,937	\$ 207,937	\$ 192,073	\$ 15,864
Courts	40,100	40,100	67,316	(27,216)
County auditor	253,052	253,052	236,945	16,107
License bureau	76,608	76,608	73,263	3,345
County treasurer	134,370	134,370	112,345	22,025
County assessor	248,392	248,392	195,840	52,552
Elections	38,000	38,000	44,610	(6,610)
Accounting and auditing	50,000	50,000	66,337	(16,337)
Data processing	153,110	153,110	124,343	28,767
Attorney	483,825	483,825	464,782	19,043
Contracted legal services	40,000	40,000	31,347	8,653
Law library	13,000	13,000	14,621	(1,621)
Recorder	115,264	115,264	105,022	10,242
Planning and zoning	24,634	24,634	21,451	3,183
Buildings and plant	308,479	308,479	261,538	46,941
Veterans service officer	22,334	22,334	25,919	(3,585)
Unallocated	223,200	223,200	181,250	41,950
<b>Total general government</b>	<b>\$ 2,432,305</b>	<b>\$ 2,432,305</b>	<b>\$ 2,219,002</b>	<b>\$ 213,303</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT A-1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 2,103,351	\$ 2,103,351	\$ 2,218,857	\$ (115,506)
Boat and water safety	2,400	2,400	7,417	(5,017)
Emergency services	30,087	30,087	26,416	3,671
Coroner	16,800	16,800	14,922	1,878
E-911 system	75,000	75,000	94,209	(19,209)
Victim assistance	61,948	61,948	62,524	(576)
Probation and parole	141,880	141,880	162,608	(20,728)
County safety program	32,303	32,303	14,422	17,881
Snowmobile safety	17,549	17,549	942	16,607
<b>Total public safety</b>	<b>\$ 2,481,318</b>	<b>\$ 2,481,318</b>	<b>\$ 2,602,317</b>	<b>\$ (120,999)</b>
<b>Health</b>				
Nursing service	\$ 76,390	\$ 76,390	\$ 76,390	\$ -
Health	790	790	665	125
Health Center	158,585	158,585	182,862	(24,277)
<b>Total health</b>	<b>\$ 235,765</b>	<b>\$ 235,765</b>	<b>\$ 259,917</b>	<b>\$ (24,152)</b>
<b>Culture and recreation</b>				
County/regional library	\$ 38,535	\$ 38,535	\$ 38,535	\$ -
Snowmobile trails	90,000	90,000	104,417	(14,417)
<b>Total culture and recreation</b>	<b>\$ 128,535</b>	<b>\$ 128,535</b>	<b>\$ 142,952</b>	<b>\$ (14,417)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 82,216	\$ 82,216	\$ 75,938	\$ 6,278
Soil and water conservation	53,131	53,131	52,908	223
Agricultural inspections	9,012	9,012	8,663	349
Agricultural society/County fair	5,500	5,500	2,523	2,977
Predator control	500	500	-	500
Water planning	17,108	17,108	17,133	(25)
<b>Total conservation of natural resources</b>	<b>\$ 167,467</b>	<b>\$ 167,467</b>	<b>\$ 157,165</b>	<b>\$ 10,302</b>



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT A-1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Economic development</b>				
Housing authority	\$ -	\$ -	\$ 105,988	\$ (105,988)
Airport	920,700	920,700	614,252	306,448
<b>Total economic development</b>	<b>\$ 920,700</b>	<b>\$ 920,700</b>	<b>\$ 720,240</b>	<b>\$ 200,460</b>
<b>Debt service</b>				
Principal	\$ 51,571	\$ 51,571	\$ 54,513	\$ (2,942)
Interest	5,057	5,057	4,909	148
<b>Total debt service</b>	<b>\$ 56,628</b>	<b>\$ 56,628</b>	<b>\$ 59,422</b>	<b>\$ (2,794)</b>
<b>Total Expenditures</b>	<b>\$ 6,422,718</b>	<b>\$ 6,422,718</b>	<b>\$ 6,161,015</b>	<b>\$ 261,703</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ 128,534	\$ 128,534	\$ 361,525	\$ 232,991
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	387	387
<b>Net Change in Fund Balance</b>	<b>\$ 128,534</b>	<b>\$ 128,534</b>	<b>\$ 361,912</b>	<b>\$ 233,378</b>
<b>Fund Balance - January 1</b>	<b>2,978,907</b>	<b>2,978,907</b>	<b>2,978,907</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,107,441</b>	<b>\$ 3,107,441</b>	<b>\$ 3,340,819</b>	<b>\$ 233,378</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 575,000	\$ 575,000	\$ 572,079	\$ (2,921)
Special assessments	-	-	193	193
Intergovernmental	3,948,675	3,948,675	3,173,628	(775,047)
Charges for services	70,000	70,000	64,168	(5,832)
Miscellaneous	-	-	49,484	49,484
<b>Total Revenues</b>	<b>\$ 4,593,675</b>	<b>\$ 4,593,675</b>	<b>\$ 3,859,552</b>	<b>\$ (734,123)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 387,432	\$ 387,432	\$ 252,035	\$ 135,397
Maintenance	957,723	957,723	1,188,112	(230,389)
Construction	3,349,773	3,349,773	2,290,607	1,059,166
Equipment maintenance and shop	295,698	295,698	340,658	(44,960)
Materials and services for resale	73,697	73,697	15,759	57,938
<b>Total highways and streets</b>	<b>\$ 5,064,323</b>	<b>\$ 5,064,323</b>	<b>\$ 4,087,171</b>	<b>\$ 977,152</b>
<b>Intergovernmental</b>				
Highways and streets	133,119	133,119	137,732	(4,613)
<b>Total Expenditures</b>	<b>\$ 5,197,442</b>	<b>\$ 5,197,442</b>	<b>\$ 4,224,903</b>	<b>\$ 972,539</b>
<b>Net Change in Fund Balance</b>	<b>\$ (603,767)</b>	<b>\$ (603,767)</b>	<b>\$ (365,351)</b>	<b>\$ 238,416</b>
<b>Fund Balance - January 1</b>	<b>1,128,888</b>	<b>1,128,888</b>	<b>1,128,888</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>20,685</b>	<b>20,685</b>
<b>Fund Balance - December 31</b>	<b>\$ 525,121</b>	<b>\$ 525,121</b>	<b>\$ 784,222</b>	<b>\$ 259,101</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 562,722	\$ 562,722	\$ 563,359	\$ 637
Intergovernmental	1,481,155	1,481,155	1,639,073	157,918
Charges for services	80,491	80,491	145,246	64,755
Miscellaneous	82,700	82,700	171,256	88,556
<b>Total Revenues</b>	<b>\$ 2,207,068</b>	<b>\$ 2,207,068</b>	<b>\$ 2,518,934</b>	<b>\$ 311,866</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 1,115,380	\$ 1,115,380	\$ 1,126,754	\$ (11,374)
Social services	1,385,119	1,385,119	1,613,586	(228,467)
Transportation	195,000	195,000	121,293	73,707
<b>Total Expenditures</b>	<b>\$ 2,695,499</b>	<b>\$ 2,695,499</b>	<b>\$ 2,861,633</b>	<b>\$ (166,134)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (488,431)</b>	<b>\$ (488,431)</b>	<b>\$ (342,699)</b>	<b>\$ 145,732</b>
<b>Fund Balance - January 1</b>	<b>641,182</b>	<b>641,182</b>	<b>641,182</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 152,751</b>	<b>\$ 152,751</b>	<b>\$ 298,483</b>	<b>\$ 145,732</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

***EXHIBIT A-4***

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2009	\$ -	\$ 1,914,577	\$ 1,914,577	0.0%	\$3,323,915	57.6%
January 1, 2012	-	2,341,568	2,341,568	0.0	3,118,242	75.1

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

---

---

1. Budgetary Information

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

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

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

2. Excess of Expenditures Over Budget

The following major fund had expenditures in excess of budget for the year ended December 31, 2014.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Social Services Special Revenue Fund	\$ 2,861,633	\$ 2,695,499	\$ 166,134

3. Other Postemployment Benefits Funded Status

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

Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

This page was left blank intentionally.

**SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

**SPECIAL REVENUE FUNDS**

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

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

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

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

**DEBT SERVICE FUNDS**

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

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

This page was left blank intentionally.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT B-1**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2014**

	<b>Special Revenue (Exhibit B-3)</b>	<b>Debt Service (Exhibit B-5)</b>	<b>Total (Exhibit 3)</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 571,417	\$ 278,146	\$ 849,563
Undistributed cash in agency funds	7,249	3,392	10,641
Taxes receivable delinquent	20	2,387	2,407
Special assessments receivable			
Prior	28,530	-	28,530
Deferred	40,500	-	40,500
Accounts receivable	1,212	-	1,212
Accrued interest receivable	-	17	17
Due from other governments	992	-	992
<b>Noncurrent assets</b>			
Long-term receivables	-	22,330	22,330
<b>Total Assets</b>	<b>\$ 649,920</b>	<b>\$ 306,272</b>	<b>\$ 956,192</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 5,429	\$ -	\$ 5,429
Salaries payable	1,993	-	1,993
Due to other funds	1,149	-	1,149
Due to other governments	9,577	-	9,577
<b>Total Liabilities</b>	<b>\$ 18,148</b>	<b>\$ -</b>	<b>\$ 18,148</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	<b>\$ 67,549</b>	<b>\$ 1,946</b>	<b>\$ 69,495</b>
<b>Fund Balances</b>			
Restricted for			
Debt service	\$ -	\$ 304,326	\$ 304,326
SCORE	37,109	-	37,109
Ditch maintenance and construction	286,644	-	286,644
Assigned to			
Solid waste	129,184	-	129,184
Hospital reserve	111,286	-	111,286
<b>Total Fund Balances</b>	<b>\$ 564,223</b>	<b>\$ 304,326</b>	<b>\$ 868,549</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 649,920</b>	<b>\$ 306,272</b>	<b>\$ 956,192</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Special Revenue (Exhibit B-4)</b>	<b>Debt Service (Exhibit B-6)</b>	<b>Total (Exhibit 5)</b>
<b>Revenues</b>			
Taxes	\$ 269	\$ 84,084	\$ 84,353
Special assessments	230,874	-	230,874
Intergovernmental	115,122	176,441	291,563
Charges for services	16,238	-	16,238
Investment earnings	-	188	188
Miscellaneous	750	-	750
	<b>\$ 363,253</b>	<b>\$ 260,713</b>	<b>\$ 623,966</b>
<b>Expenditures</b>			
<b>Current</b>			
Sanitation	\$ 276,634	\$ -	\$ 276,634
Conservation of natural resources	23,785	-	23,785
<b>Debt service</b>			
Principal	-	225,000	225,000
Interest	-	33,770	33,770
Administrative - fiscal charges	-	351	351
	<b>\$ 300,419</b>	<b>\$ 259,121</b>	<b>\$ 559,540</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 62,834</b>	<b>\$ 1,592</b>	<b>\$ 64,426</b>
<b>Other Financing Sources (Uses)</b>			
Transfers out	(387)	-	(387)
<b>Net Change in Fund Balance</b>	<b>\$ 62,447</b>	<b>\$ 1,592</b>	<b>\$ 64,039</b>
<b>Fund Balance - January 1</b>	<b>501,776</b>	<b>302,734</b>	<b>804,510</b>
<b>Fund Balance - December 31</b>	<b>\$ 564,223</b>	<b>\$ 304,326</b>	<b>\$ 868,549</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-3*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
DECEMBER 31, 2014**

	<b>Solid Waste</b>	<b>Ditch</b>	<b>Hospital Reserve</b>	<b>Forfeited Tax Sale</b>	<b>Total (Exhibit B-1)</b>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 171,234	\$ 288,344	\$ 111,286	\$ 553	\$ 571,417
Undistributed cash in agency funds	5,948	1,301	-	-	7,249
Taxes receivable delinquent	-	-	20	-	20
Special assessments receivable					
Prior	17,581	10,949	-	-	28,530
Deferred	-	40,500	-	-	40,500
Accounts receivable	1,212	-	-	-	1,212
Due from other governments	992	-	-	-	992
	<b>\$ 196,967</b>	<b>\$ 341,094</b>	<b>\$ 111,306</b>	<b>\$ 553</b>	<b>\$ 649,920</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 2,729	\$ 2,700	\$ -	\$ -	\$ 5,429
Salaries payable	1,993	-	-	-	1,993
Due to other funds	460	302	-	387	1,149
Due to other governments	9,411	-	-	166	9,577
	<b>\$ 14,593</b>	<b>\$ 3,002</b>	<b>\$ -</b>	<b>\$ 553</b>	<b>\$ 18,148</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue	<b>\$ 16,081</b>	<b>\$ 51,448</b>	<b>\$ 20</b>	<b>\$ -</b>	<b>\$ 67,549</b>
<b>Fund Balances</b>					
Restricted for					
SCORE	\$ 37,109	\$ -	\$ -	\$ -	\$ 37,109
Ditch maintenance and construction	-	286,644	-	-	286,644
Assigned to					
Solid waste	129,184	-	-	-	129,184
Hospital reserve	-	-	111,286	-	111,286
	<b>\$ 166,293</b>	<b>\$ 286,644</b>	<b>\$ 111,286</b>	<b>\$ -</b>	<b>\$ 564,223</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 196,967</b>	<b>\$ 341,094</b>	<b>\$ 111,306</b>	<b>\$ 553</b>	<b>\$ 649,920</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-4*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Solid Waste</u>	<u>Ditch</u>	<u>Hospital Reserve</u>	<u>Forfeited Tax Sale</u>	<u>Total (Exhibit B-2)</u>
<b>Revenues</b>					
Taxes	\$ 269	\$ -	\$ -	\$ -	\$ 269
Special assessments	190,464	40,410	-	-	230,874
Intergovernmental	108,473	6,649	-	-	115,122
Charges for services	16,238	-	-	-	16,238
Miscellaneous	100	-	-	650	750
<b>Total Revenues</b>	<b>\$ 315,544</b>	<b>\$ 47,059</b>	<b>\$ -</b>	<b>\$ 650</b>	<b>\$ 363,253</b>
<b>Expenditures</b>					
<b>Current</b>					
Sanitation	\$ 276,634	\$ -	\$ -	\$ -	\$ 276,634
Conservation of natural resources	-	23,522	-	263	23,785
<b>Total Expenditures</b>	<b>\$ 276,634</b>	<b>\$ 23,522</b>	<b>\$ -</b>	<b>\$ 263</b>	<b>\$ 300,419</b>
<b>Excess of Revenues Over (Under)</b>					
<b>Expenditures</b>	<b>\$ 38,910</b>	<b>\$ 23,537</b>	<b>\$ -</b>	<b>\$ 387</b>	<b>\$ 62,834</b>
<b>Other Financing Sources (Uses)</b>					
Transfers out	-	-	-	(387)	(387)
<b>Net Change in Fund Balance</b>	<b>\$ 38,910</b>	<b>\$ 23,537</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 62,447</b>
<b>Fund Balance - January 1</b>	<b>127,383</b>	<b>263,107</b>	<b>111,286</b>	<b>-</b>	<b>501,776</b>
<b>Fund Balance - December 31</b>	<b>\$ 166,293</b>	<b>\$ 286,644</b>	<b>\$ 111,286</b>	<b>\$ -</b>	<b>\$ 564,223</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-5*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DEBT SERVICE FUNDS  
DECEMBER 31, 2014**

	<b>Nursing Home Revenue Bonds</b>	<b>Mahnomen Health Center Bonds</b>	<b>Total (Exhibit B-1)</b>
<b><u>Assets</u></b>			
<b>Current assets</b>			
Cash and pooled investments	\$ 119,633	\$ 158,513	\$ 278,146
Undistributed cash in agency funds	3,392	-	3,392
Taxes receivable delinquent	2,387	-	2,387
Accrued interest receivable	-	17	17
<b>Noncurrent assets</b>			
Long-term receivables	22,330	-	22,330
<b>Total Assets</b>	<b>\$ 147,742</b>	<b>\$ 158,530</b>	<b>\$ 306,272</b>
<b><u>Deferred Inflows of Resources and Fund Balances</u></b>			
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	\$ 1,946	\$ -	\$ 1,946
<b>Fund Balances</b>			
Restricted for Debt service	145,796	158,530	304,326
<b>Total Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 147,742</b>	<b>\$ 158,530</b>	<b>\$ 306,272</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-6*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
DEBT SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Nursing Home Revenue Bonds</b>	<b>Mahnomen Health Center Bonds</b>	<b>Total (Exhibit B-2)</b>
<b>Revenues</b>			
Taxes	\$ 84,084	\$ -	\$ 84,084
Intergovernmental	1,537	174,904	176,441
Investment earnings	-	188	188
	<b>\$ 85,621</b>	<b>\$ 175,092</b>	<b>\$ 260,713</b>
<b>Expenditures</b>			
<b>Debt service</b>			
Principal	\$ 95,000	\$ 130,000	\$ 225,000
Interest	4,330	29,440	33,770
Administrative - fiscal charges	351	-	351
	<b>\$ 99,681</b>	<b>\$ 159,440</b>	<b>\$ 259,121</b>
<b>Net Change in Fund Balance</b>	<b>\$ (14,060)</b>	<b>\$ 15,652</b>	<b>\$ 1,592</b>
<b>Fund Balance - January 1</b>	<b>159,856</b>	<b>142,878</b>	<b>302,734</b>
<b>Fund Balance - December 31</b>	<b>\$ 145,796</b>	<b>\$ 158,530</b>	<b>\$ 304,326</b>



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-7*

**BUDGETARY COMPARISON SCHEDULE  
SOLID WASTE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 269	\$ 269
Special assessments	188,000	188,000	190,464	2,464
Intergovernmental	72,638	72,638	108,473	35,835
Charges for services	2,500	2,500	16,238	13,738
Miscellaneous	100	100	100	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Revenues</b>	<b>\$ 263,238</b>	<b>\$ 263,238</b>	<b>\$ 315,544</b>	<b>\$ 52,306</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	264,427	264,427	276,634	(12,207)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Change in Fund Balance</b>	<b>\$ (1,189)</b>	<b>\$ (1,189)</b>	<b>\$ 38,910</b>	<b>\$ 40,099</b>
<b>Fund Balance - January 1</b>	<b>127,383</b>	<b>127,383</b>	<b>127,383</b>	<b>-</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Fund Balance - December 31</b>	<b>\$ 126,194</b>	<b>\$ 126,194</b>	<b>\$ 166,293</b>	<b>\$ 40,099</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-8*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 40,500	\$ 40,500	\$ 40,410	\$ (90)
Intergovernmental	-	-	6,649	6,649
<b>Total Revenues</b>	<b>\$ 40,500</b>	<b>\$ 40,500</b>	<b>\$ 47,059</b>	<b>\$ 6,559</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Drainage ditches	40,500	40,500	23,522	16,978
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,537</b>	<b>\$ 23,537</b>
<b>Fund Balance - January 1</b>	<b>263,107</b>	<b>263,107</b>	<b>263,107</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 263,107</b>	<b>\$ 263,107</b>	<b>\$ 286,644</b>	<b>\$ 23,537</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT B-9*

**BUDGETARY COMPARISON SCHEDULE  
NURSING HOME REVENUE BONDS DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 84,396	\$ 84,396	\$ 84,084	\$ (312)
Intergovernmental	-	-	1,537	1,537
<b>Total Revenues</b>	<b>\$ 84,396</b>	<b>\$ 84,396</b>	<b>\$ 85,621</b>	<b>\$ 1,225</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 73,062	\$ 73,062	\$ 95,000	\$ (21,938)
Interest	4,415	4,415	4,330	85
Administrative - fiscal charges	-	-	351	(351)
<b>Total Expenditures</b>	<b>\$ 77,477</b>	<b>\$ 77,477</b>	<b>\$ 99,681</b>	<b>\$ (22,204)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 6,919</b>	<b>\$ 6,919</b>	<b>\$ (14,060)</b>	<b>\$ (20,979)</b>
<b>Fund Balance - January 1</b>	<b>159,856</b>	<b>159,856</b>	<b>159,856</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 166,775</b>	<b>\$ 166,775</b>	<b>\$ 145,796</b>	<b>\$ (20,979)</b>

This page was left blank intentionally.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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

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

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

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

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

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

This page was left blank intentionally.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>HEADWATERS COMMISSION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 15,050	\$ 15,050	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 15,050	\$ 15,050	\$ -
 <b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 1,002,303	\$ 1,002,303	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 1,002,303	\$ 1,002,303	\$ -
 <b><u>STATE REVENUE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 926	\$ 398,600	\$ 398,478	\$ 1,048
<b><u>Liabilities</u></b>				
Due to other governments	\$ 926	\$ 398,600	\$ 398,478	\$ 1,048

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>35,415</u>	\$ <u>7,156,655</u>	\$ <u>7,072,763</u>	\$ <u>119,307</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>35,415</u>	\$ <u>7,156,655</u>	\$ <u>7,072,763</u>	\$ <u>119,307</u>
 <b><u>TOWNSHIPS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>-</u>	\$ <u>1,000,630</u>	\$ <u>1,000,630</u>	\$ <u>-</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>-</u>	\$ <u>1,000,630</u>	\$ <u>1,000,630</u>	\$ <u>-</u>
 <b><u>WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>-</u>	\$ <u>302,926</u>	\$ <u>302,926</u>	\$ <u>-</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>-</u>	\$ <u>302,926</u>	\$ <u>302,926</u>	\$ <u>-</u>



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>ADVANCED LIFE SUPPORT</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 53,348	\$ 53,348	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 53,348	\$ 53,348	\$ -
 <b><u>CAFETERIA PLAN</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 3,353	\$ 16,580	\$ 16,716	\$ 3,217
<b><u>Liabilities</u></b>				
Due to other governments	\$ 3,353	\$ 16,580	\$ 16,716	\$ 3,217
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 39,694	\$ 9,946,092	\$ 9,862,214	\$ 123,572
<b><u>Liabilities</u></b>				
Due to other governments	\$ 39,694	\$ 9,946,092	\$ 9,862,214	\$ 123,572

This page was left blank intentionally.

## **OTHER SCHEDULES**

This page was left blank intentionally.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT D-1*

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
<b>Cash and Pooled Investments</b>				
Cash on hand	N/A	N/A	N/A	\$ 1,700
Interest-bearing checking	Six	0.05 to 0.20	Continuous	1,372,223
Passbook savings	One	0.10	Continuous	140,542
Certificates of deposit	Three	0.25 to 0.65	September 28, 2015 to February 29, 2016	90,423
Money market savings	Three	0.15 to 0.30	Continuous	1,266,679
Negotiable certificates of deposit	Six	2.05 to 2.35	November 15, 2018 to May 8, 2023	1,124,661
Federal National Mortgage Association	One	1.10	March 13, 2018	98,965
Federal Home Loan Mortgage Corporation	One	2.00	December 17, 2019	149,969
Federal Home Loan Bank	Five	1.00 to 2.00	December 30, 2019 to July 10, 2024	1,044,566
<b>Total Cash and Pooled Investments</b>				<b>\$ 5,289,728</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT D-2*

**BALANCE SHEET BY DITCH  
DITCH SPECIAL REVENUE FUND  
DECEMBER 31, 2014**

	<u>County Ditch No. 3</u>	<u>Joint Ditch No. 55</u>	<u>County Ditch No. 91-91A</u>	<u>Total</u>
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 13,564	\$ 133,843	\$ 140,937	\$ 288,344
Undistributed cash in agency funds	65	284	952	1,301
Special assessments receivable				
Delinquent	16	-	10,933	10,949
Deferred	3,000	7,500	30,000	40,500
<b>Total Assets</b>	<b><u>\$ 16,645</u></b>	<b><u>\$ 141,627</u></b>	<b><u>\$ 182,822</u></b>	<b><u>\$ 341,094</u></b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 2,700	\$ 2,700
Due to other funds	-	-	302	302
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,002</b>	<b>\$ 3,002</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue	3,015	7,500	40,933	51,448
<b>Fund Balance</b>				
Restricted				
Restricted for ditch maintenance and construction	13,630	134,127	138,887	286,644
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b><u>\$ 16,645</u></b>	<b><u>\$ 141,627</u></b>	<b><u>\$ 182,822</u></b>	<b><u>\$ 341,094</u></b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**EXHIBIT D-3**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Shared Revenue**

**State**

Highway users tax	\$	1,633,621
County program aid		660,227
PERA rate reimbursement		10,235
Disparity reduction aid		63,937
Aquatic invasive species aid		12,523
Police aid		93,819
Market value credit		65,761
Indian casino aid		167,515
Property tax reimbursement - casino		900,000

**Total shared revenue** **\$ 3,607,638**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	204,591
--	----	---------

**Payments**

**Local**

Other contributions	\$	184,698
Local contributions		16,695
Payments in lieu of taxes		104,982

**Total payments** **\$ 306,375**

**Grants**

**State**

Minnesota Department/Board of		
Human Services	\$	371,328
Veterans Affairs		4,864
Public Safety		149,400
Corrections		8,217
Natural Resources		62,161
Labor and Industry		6,799
Water and Soil Resources		50,783
Transportation		67,937
Peace Officer Standards and Training Board		4,184
Pollution Control Agency		91,778

**Total state** **\$ 817,451**

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

***EXHIBIT D-3  
(Continued)***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 145,299
Justice	5,057
Transportation	2,117,013
Health and Human Services	840,806
Homeland Security	16,250
	<hr/>

**Total federal** **\$ 3,124,425**

**Total state and federal grants** **\$ 3,941,876**

**Total Intergovernmental Revenue** **\$ 8,060,480**



**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT D-4*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 124,861
Passed Through Minnesota Department of Natural Resources Cooperative Forestry Assistance	10.664	6,000
<b>Total U.S. Department of Agriculture</b>		<b>\$ 130,861</b>
<b>U.S. Department of Justice</b>		
Direct Grant Public Safety Partnership and Community Policing Grants - ARRA	16.710	<b>\$ 5,057</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Airport Improvement Program	20.106	\$ 500,852
Highway Planning and Construction	20.205	1,488,000
Formula Grants for Rural Areas	20.509	112,678
Passed Through White Earth Reservation Tribal Council State and Community Highway Safety	20.600	3,289
<b>Total U.S. Department of Transportation</b>		<b>\$ 2,104,819</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	\$ 435
Temporary Assistance for Needy Families	93.558	207,464
Child Support Enforcement	93.563	163,172
Refugee and Entrant Assistance - State-Administered Programs	93.566	626
Child Care and Development Block Grant	93.575	1,967
Stephanie Tubbs Jones Child Welfare Services Program	93.645	287
Foster Care - Title IV-E	93.658	30,518
Social Services Block Grant	93.667	63,247
Chafee Foster Care Independence Program	93.674	278
Children's Health Insurance Program	93.767	43
Medical Assistance Program	93.778	295,856
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 763,893</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

*EXHIBIT D-4  
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 5,569
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	10,589
Pre-Disaster Mitigation	97.047	92
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 16,250</b>
<b>Total Federal Awards</b>		<b>\$ 3,020,880</b>

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

---

---

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Mahnomen County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Mahnomen County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Mahnomen County.

3. Summary of Significant Accounting Policies

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

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

---

---

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,124,425
Grants received more than 60 days after year-end, unavailable in 2014	
Airport Improvement Program	34,245
Grants unavailable in 2013, recognized as revenue in 2014	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	(14,438)
Airport Improvement Program	(46,439)
Temporary Assistance for Needy Families	(26,531)
Child Support Enforcement	(22,666)
Medical Assistance Program	(27,716)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 3,020,880</u>

5. Subrecipients

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

6. American Recovery and Reinvestment Act

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



This page was left blank intentionally.

**MAHNOMEN COUNTY  
MAHNOMEN, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

**Financial Statements**

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

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major programs are:

Airport Improvement Program	CFDA #20.106
Highway Planning and Construction	CFDA #20.205

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

Mahnomen County qualified as a low-risk auditee? **Yes**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-004

##### Segregation of Duties

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

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

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

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

**Cause:** The County informed us that the individual departments collecting fees have direct knowledge of the services provided making it more efficient for the department providing the service to collect the fees, periodically remitting those fees to the County Treasurer with the proper coding for posting to the County's general ledger. The County stated that the department heads are aware that employees collecting those fees and recording those fees have incompatible duties and that they monitor the operations of their respective offices to ensure collections are properly receipted and periodically remitted to the County Treasurer.



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

Client's Response:

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

Finding 2008-001

Documenting and Monitoring Internal Controls

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

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

**Context:** Local governments tend to establish controls but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

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

**Cause:** The County Auditor stated that lack of time and resources dedicated to establish a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring of those controls has prevented them from completing a formal process. The County plans to continue working towards establishing a formal risk assessment process.

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

Client's Response:

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

Finding 2010-002

Departmental Control Procedures

**Criteria:** Bank statements should be routinely reconciled with the cash balances recorded in the books of the account. A periodic inventory of the Sheriff's Department evidence room will ensure that all recorded items are still in custody.

**Condition:** During our follow-up on departmental control procedures in the Sheriff's Department, we noted the following items reported in our previous audit have not been corrected as of May 5, 2015:

- Bank reconciliations are not maintained current for the Sheriff's Department.
- The Sheriff's Department does not maintain a detailed listing or do a periodic inventory of the items held in the evidence room.

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

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

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

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

The Office of the State Auditor has a Statement of Position 2007-1010 which discusses the importance of internal controls. It can be found on our website along with other useful information, and may offer additional guidance:

[http://www.auditor.state.mn.us/other/Statements/importanceic\\_0703\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/importanceic_0703_statement.pdf)

Client's Response:

*The Sheriff's secretary is going to be contacting and then working with the Chief Deputy Auditor to get the bank reconciliations done in a timely manner.*

*The Sheriff's Chief Deputy offered to work on finalizing a new evidence collection and evidence room policy. Once the policy is in place, there will be two evidence technicians who will be the only ones who will have access to the evidence room. Evidence will be entered into our records management system and will be inventoried through this system. This will allow us to have an ongoing updated list of everything in the room.*

ITEM ARISING THIS YEAR

Finding 2014-001

Audit Adjustments

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Auditing standards define a material weakness

as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we proposed audit adjustments which were material. The audit adjustments were reviewed and approved by the appropriate staff and are reflected in the financial statements.

**Context:** The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** Audit adjustments were necessary in the Road and Bridge Special Revenue Fund to increase Deferred Inflows of Resources - Unavailable Revenue and reduce State Aid - Regular Construction revenue in the amount of \$254,552 to properly reflect the unexpended balance of the CSAH allotment not received within the revenue recognition period and to reclassify Federal Highway Planning and Construction revenue in the amount of \$1,346,682 incorrectly posted to the State Aid - Regular Construction revenue account.

**Cause:** The Highway Accountant informed us that she misunderstood how to calculate the unavailable revenue, including amounts collected that were not available during the revenue recognition period. The Highway Planning and Construction revenue was incorrectly posted in the Integrated Financial System.

**Recommendation:** We recommend that the County establish internal controls necessary to ensure the County's annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

*Road and Bridge recognized the \$254,552 due from State Aid - Regular Construction fund as revenue for 2014 because the work had been completed by December 31, 2014, and we received \$542,476 for 2015 Regular Maintenance on February 20, 2015. It was a misunderstanding that State Aid collected within the revenue recognition period of sixty days could be shown as revenue for expenditures on work for the previous year, without regard to the type of State Aid funding the work. A correction has been made to our records to classify the \$254,552 due from State Aid - Regular Construction as unavailable revenue.*

*The reclassification of Federal Highway Planning and Construction revenue in the amount of \$1,346,682 was incorrectly posted to the State Aid - Regular Construction revenue account in the Auditor's Office entries to the County general ledger. The Auditor's Office has corrected the posting of this revenue.*

*The Highway Accountant will review the receipts ledger provided by the Auditor's Office to double check the posting of Road and Bridge receipts to the correct revenue account and contact the Auditor's Office if any corrections are necessary.*

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

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2011-001

#### Review Over Eligibility Intake Function

**Programs:** U.S. Department of Health and Human Services' Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558) and Medical Assistance Program (MA) (CFDA No. 93.778)

**Pass-Through Agency:** Minnesota Department of Human Services

**Criteria:** Standard internal control procedures should include a review process for case files to ensure the intake functions related to eligibility requirements are met. The corrective action plan had an anticipated date of completion of January 1, 2014, and stated that random case reviews would be conducted, at a minimum of one case file per month, on a checklist created for each program and a copy will be retained in the client case file.

**Condition:** During our follow-up on May 21, 2015, we noted Mahnomen County Social Services had not fully completed the necessary corrective action as provided in the previous report for improved controls over the TANF and MA case files. During 2014, Mahnomen County reviewed three case files. Because most cases are eligible for multiple programs, the County provided eight checklists documenting its case file reviews. Three of those checklists document a MAXIS Data Integrity review over the TANF and MA case files.

**Questioned Costs:** None.

**Context:** Mahnomen County Social Services completed three of the twelve monthly case file reviews as provided in its corrective action plan from the prior audit. Although the County has not complied with the corrective action plan, there has been an improvement. The Eligibility Worker Supervisor noted that they have found areas of improvement from the three case file reviews completed and see the benefit for doing the reviews.

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

**Cause:** The Eligibility Worker Supervisor provided that with the high caseload, the County has not had the time to do case file reviews and that some of this caseload is being transferred to the White Earth Reservation Tribal Council, which should allow the County to do a better job of reviewing case files going forward.

**Recommendation:** We recommend Mahnomen County follow its plan to have a program supervisor or other person with knowledge of the programs review a minimum of one case file per month to ensure that all the required information affecting eligibility is obtained and correctly entered.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Julie Hanson, Mahnomen County Social Services Director*

Corrective Action Planned:

*The Social Services Director will review agency case files monthly for thoroughness, lawfulness, and best practice as defined by Minnesota law and Minnesota Department of Human Services guidelines with the Supervisor of each applicable department.*

Anticipated Completion Date:

*December 31, 2015*

#### IV. OTHER FINDINGS AND RECOMMENDATIONS

##### MINNESOTA LEGAL COMPLIANCE

##### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2013-001

##### Insufficient Collateral

**Criteria:** Governmental entities are required by Minn. Stat. § 118A.03, subd. 3, to obtain collateral to secure deposits to the extent that funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount on deposit.

**Condition:** On May 16, 2014, the County had deposits at First National Bank that were not adequately covered by collateral.

**Context:** We tested the collateral pledged for bank deposits on December 31, 2014, for all depositories used by the County. Additionally, we tested the collateral for deposits at First National Bank on May 16, 2014, to determine if collateral was sufficient to cover deposits during the peak tax collection period. At the time of our testing, the County had deposits in several demand accounts and time/savings accounts at First National Bank. Tax collections are deposited to the main checking account. The balance in the main checking account was \$1,737,899 on May 16, 2014. Market value of the collateral pledged to secure deposits at First National Bank on May 31, 2014, was \$1,063,296, along with FDIC coverage of \$250,000. There were no collateral substitutions or other changes from May 16, 2014, through May 31, 2014, except potential changes in the market value. The May 16, 2014, balance in the main checking account alone was over 132 percent of the collateral and FDIC insurance held to cover deposits at First National Bank on May 31, 2014.

**Effect:** When a County has insufficient collateral with a bank, the County may not receive all deposits in the event of bank default.

**Cause:** The County Treasurer noted First National Bank does not like to provide large amounts of additional collateral to cover the peak periods in which deposits are large due to tax collections or large deposits from the State of Minnesota. She noted that she is often informed of the large deposits by the State a few days after the deposit is made making it difficult to monitor pledged collateral to determine if deposits are properly protected.

**Recommendation:** We recommend the County monitor all County deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minn. Stat. § 118A.03.

Client's Response:

*As mentioned previously, notifications of large deposits to our account are not timely. We have requested that the County Treasurer be added to the personnel who receive Remittance Advice Notifications from the State of Minnesota. This should help us keep in mind the collateral coverage, and we will be better able to move money to another bank when necessary. We are also researching the MAGIC Fund as a possible avenue of managing collateral levels more effectively.*

OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Mahnomon County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to



work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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

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

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

#### Independent Auditor's Report

Board of County Commissioners  
Mahnomen County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 13, 2015. Our report includes a reference to other auditors who audited the financial statements of Mahnomen Health Center, a discretely presented component unit, as described in our report on the County's financial statements. This report does not include the results of the other auditors' 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 of the financial statements, we considered Mahnomen County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and,

therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 1996-004, 2008-001, and 2010-002 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mahanomen County's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Mahanomen County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Mahanomen County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned

Costs as item 2013-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

### **Other Matters**

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 the County, and we are reporting it for that purpose.

### **Mahnomen County's Response to Findings**

Mahnomen County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

July 13, 2015

This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

### Independent Auditor's Report

Board of County Commissioners  
Mahnommen County

### **Report on Compliance for Each Major Federal Program**

We have audited Mahnommen County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2014. Mahnommen County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Mahnommen County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Mahnommen 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

### ***Opinion on Each Major Federal Program***

In our opinion, Mahnommen County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

### **Report on Internal Control Over Compliance**

Management of Mahnommen County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2011-001, that we consider to be a significant deficiency.



Mahnomen County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Mahnomen County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

July 13, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR