

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2010

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

TABLE OF CONTENTS

<u>Introductory Section</u>	<u>Reference</u>	<u>Page</u>
Organization Schedule		1
 <u>Financial Section</u>		
Independent Auditor’s Report		2
Management’s Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	12
Statement of Activities	Exhibit 2	13
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	14
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets – Governmental Activities	Exhibit 4	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Governmental Activities	Exhibit 6	18
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	19
Notes to the Financial Statements		20
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	47
Road and Bridge Special Revenue Fund	Schedule 2	50
Human Services Special Revenue Fund	Schedule 3	51
Ditch Special Revenue Fund	Schedule 4	52
Capital Improvement Special Revenue Fund	Schedule 5	53
Other Post-Employment Benefit Plan		
Schedule of Funding Progress	Schedule 6	54
Schedule of Employer Contributions	Schedule 7	55
Notes to the Required Supplementary Information		56
Supplementary Information		
Governmental Funds		
Combining Balance Sheet – Nonmajor Governmental Funds	Statement 1	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds	Statement 2	60

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

TABLE OF CONTENTS

<u>Financial Section (Continued)</u>	<u>Reference</u>	<u>Page</u>
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Special Revenue Funds	Statement 3	61
Combining Balance Sheet – Nonmajor Debt Service Funds	Statement 4	62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Debt Service Funds	Statement 5	64
Budgetary Comparison Schedules – Nonmajor Special Revenue Funds		
Forfeited Tax Sale Fund	Schedule 8	66
Solid Waste Fund	Schedule 9	67
Budgetary Comparison Schedules – Nonmajor Debt Service Funds		
Elevator and Long’s Bridge Fund	Schedule 10	68
Highway Capital Improvement Fund	Schedule 11	69
Law Enforcement Radio Fund	Schedule 12	70
Minimum Security Facility Fund	Schedule 13	71
Fiduciary Funds		
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	Statement 6	73
Other Schedules		
Balance Sheet – By Ditch – Ditch Special Revenue Fund	Schedule 14	76
Schedule of Intergovernmental Revenue	Schedule 15	80
 <u>Management and Compliance Section</u>		
Schedule of Findings and Questioned Costs	Schedule 16	81
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>Governmental Auditing Standards</i>		84
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		86
Schedule of Expenditures of Federal Awards	Schedule 17	88
Notes to the Schedule of Expenditures of Federal Awards		90

INTRODUCTORY SECTION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2010**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	Donald Jensen	January 2013
2 nd District	Robert Carlson ¹	January 2011
3 rd District	Charles Naplin ²	January 2011
4 th District	Darryl Tveitbakk, Chair	January 2015
5 th District	Oliver "Skip" Swanson	January 2013
Officers		
Elected:		
Attorney	Alan Rogalla	January 2015
Auditor	Kenneth Olson	January 2015
Coroner	Richard Heinrichs	January 2015
Recorder	Kenneth Schmalz	January 2015
Sheriff	Michael Hruby ³	January 2011
Treasurer	Vickie Bjorgaard	January 2015
Appointed:		
Assessor	Adeline Olson	January 2013
Highway Engineer	Michael Flaagan	May 2012
Human Services Director	Kenneth Yutzenka	Indefinite
Solid Waste Officer	Howard Person	Indefinite
Veterans Service Officer	Steve Stone	Indefinite

¹ Replaced by Cody Hempel in January, 2011.

² Replaced by Neil Peterson in January, 2011.

³ Replaced by Ray Kuznia in December, 2010.

FINANCIAL SECTION



Colleen Hoffman, Manager
Gordon Dale, CPA
Audrey Swenson, CPA

GOVERNMENTAL AUDIT SERVICES

1845 Highway 59 South
Suite 1100
Thief River Falls, MN 56701
Phone: 218-681-4078
Fax: 218-681-4079
choffman@mncable.net

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Pennington County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennington County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pennington County as of December 31, 2010, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I., Pennington County has implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2011, on our consideration of Pennington County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

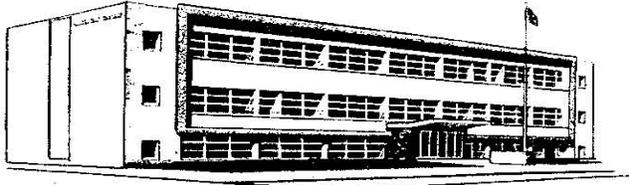
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part 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 State 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pennington County's basic financial statements as a whole. The introductory section and the supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Hoffman, Dale, & Swenson

Hoffman, Dale, & Swenson, PLLC

July 7, 2011



PENNINGTON COUNTY

101 Main Ave. No.; P.O. Box 616
Thief River Falls, MN 56701

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

The management of Pennington County offers readers of the County's Financial Statements this narrative overview and analysis of the financial activities of Pennington County for the fiscal year ended December 31, 2010. The Management's Discussion and Analysis provides comparisons with the previous year and is designed to focus on the current year's activities, resulting changes, and currently known facts, and should be read in conjunction with the County's basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

The total net assets of governmental activities are \$58,329,208, of which \$48,185,751 is invested in capital assets, net of related debt, \$2,239,368 is restricted for specific purposes, and \$7,904,089 is unrestricted. The total net assets of governmental activities increased by \$356,429 for the year ended December 31, 2010, primarily as a result of completed highway construction projects, along with decreased contracts payable and deferred revenue, and the repayment of debt.

At the close of 2010, the County's governmental funds reported combined ending fund balances of \$10,179,074, an increase of \$656,559, from the prior year. Of the total fund balance amount, \$564,449 is non-spendable, \$1,719,233 is legally or contractually restricted, \$2,877,750 is formally committed for specific purposes, \$4,837,596 is assigned for specific purposes, and \$180,046 is noted as the unassigned fund balance in the General Fund. Maintaining an adequate fund balance is necessary to provide County services throughout the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Pennington County's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector businesses. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

The government-wide financial statements can be found as Exhibits 1 and 2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pennington County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund-level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The County reports three governmental fund types: General, Special Revenue, and Debt Service. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, the Ditch Special Revenue Fund, and the Capital Improvement Special Revenue Fund, all of which are considered to be major funds. Data from the other two special revenue funds and the four debt service funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor funds is provided in combining statements after the notes to the financial statements.

Pennington County adopts annual budgets for its governmental funds. Budgetary comparisons have been provided for these funds to demonstrate compliance with their budgets.

Fiduciary Funds Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Pennington County’s fiduciary funds consist of ten agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the Agency Funds are not reflected in the government-wide financial statements because those resources are not available to support the County’s programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in Statement 7, Combining Statement of Changes in Assets and Liabilities, All Agency Funds.

Notes to the Financial Statements

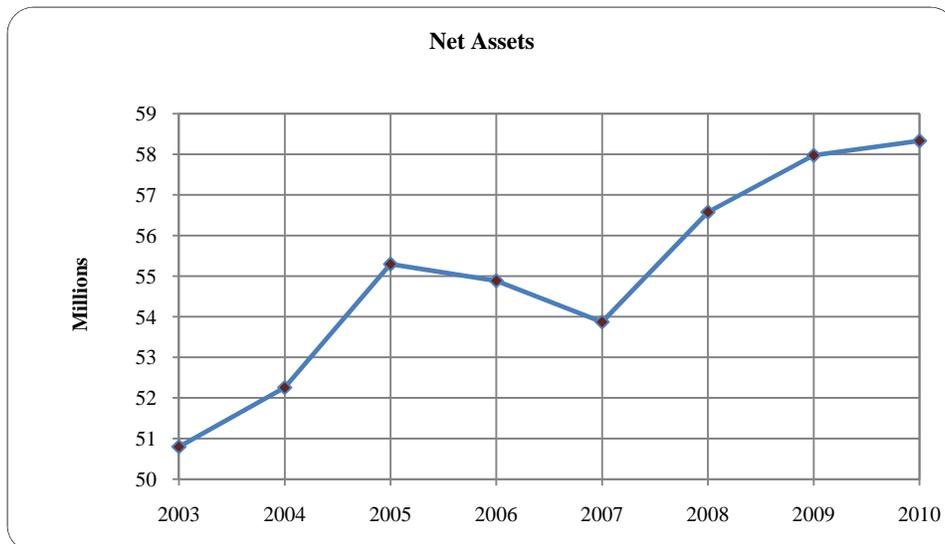
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 20 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The County also provides supplementary information including combining statements, budgetary comparison schedules, a ditch balance sheet, and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County’s financial position. The County’s assets exceeded liabilities by \$58,329,208 at the close of 2010. The largest portion of the County’s net assets (approximately 83 percent) reflects its investment in capital assets (i.e., land, construction in progress, infrastructure, buildings and improvements, and machinery and equipment), net of related debt used to acquire those assets. It should be noted that this amount is not available for future spending. Approximately four percent of the County’s net assets are restricted and 13 percent of the County’s net assets are unrestricted. The unrestricted net asset amount of \$7,904,089, as of December 31, 2010, may be used to meet the County’s ongoing obligations to citizens.

The County’s overall financial position increased from last year. Total assets decreased by \$352,286, from the prior year, primarily due to depreciation of capital assets. Total liabilities decreased by \$708,715, from the prior year, primarily due to a decrease in contracts payable and deferred revenue, along with the repayment of debt. This resulted in increased net assets of \$356,429 from the prior year.



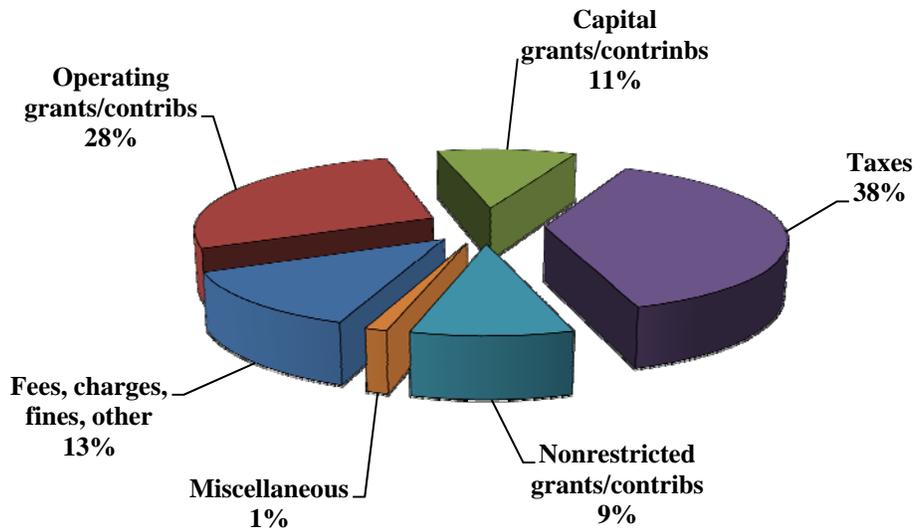
NET ASSETS

	Governmental Activities	
	2010	2009
Current and other assets	\$ 11,740,577	\$ 11,346,158
Capital assets	50,461,805	51,208,510
Total assets	\$ 62,202,382	\$ 62,554,668
Other liabilities	\$ 552,840	\$ 1,000,979
Long-term liabilities outstanding	3,320,334	3,580,910
Total liabilities	\$ 3,873,174	\$ 4,581,889
Net assets		
Invested in capital assets, net of related debt	\$ 48,185,751	\$ 48,628,250
Restricted	2,239,368	2,020,567
Unrestricted	7,904,089	7,323,962
Total net assets	\$ 58,329,208	\$ 57,972,779

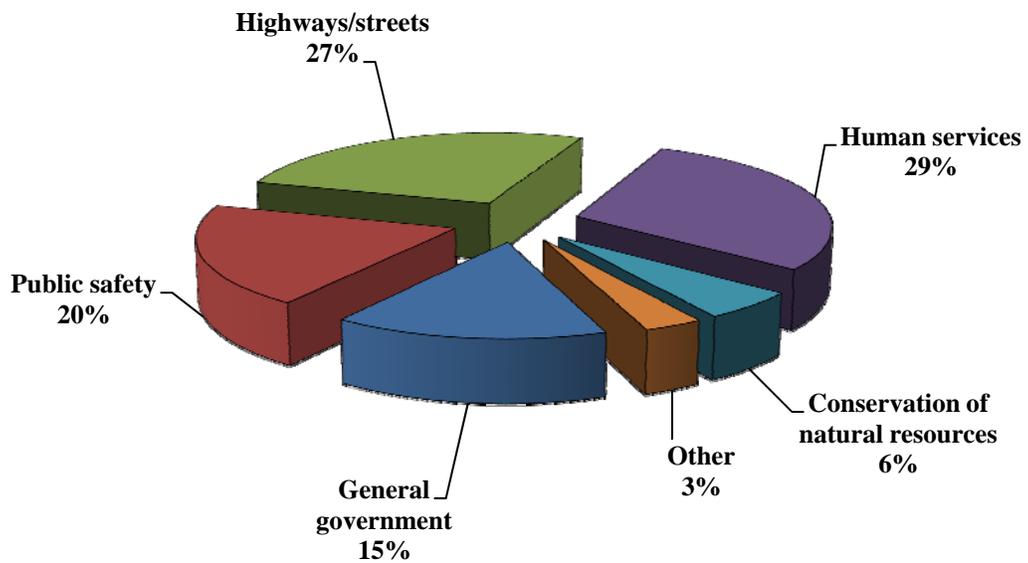
CHANGES IN NET ASSETS

	Governmental Activities	
	2010	2009
Revenues		
Program Revenues		
Charges for services	\$ 1,958,972	\$ 2,328,334
Operating grants and contributions	4,253,351	3,750,570
Capital grants and contributions	1,700,472	3,707,598
General Revenues		
Taxes	5,897,847	5,682,157
Grants and contributions not restricted to specific programs	1,409,643	1,644,808
Payments in lieu of taxes	20,626	51,159
Investment earnings	34,052	38,755
Insurance dividends	139,417	-
Total revenues	\$ 15,414,380	\$ 17,203,381
Expenses		
General government	\$ 2,302,846	\$ 2,196,855
Public safety	2,974,841	3,080,880
Highways and streets	4,058,869	5,255,496
Sanitation	62,942	56,890
Human services	4,390,430	4,445,451
Health	55,380	53,877
Culture and recreation	201,293	184,126
Conservation of natural resources	834,726	358,184
Economic development	81,705	21,470
Interest	94,919	152,010
Total expenses	\$ 15,057,951	\$ 15,805,239
Increase (decrease) in net assets	\$ 356,429	\$ 1,398,142
Net assets, January 1	57,972,779	56,574,637
Net assets, December 31	\$ 58,329,208	\$ 57,972,779

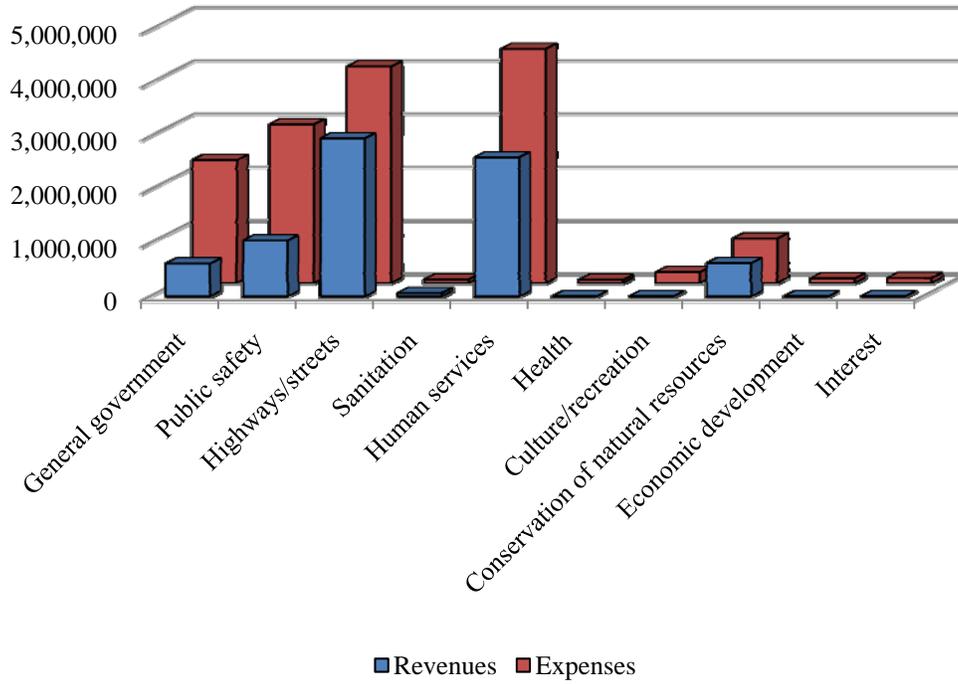
Revenues by Source



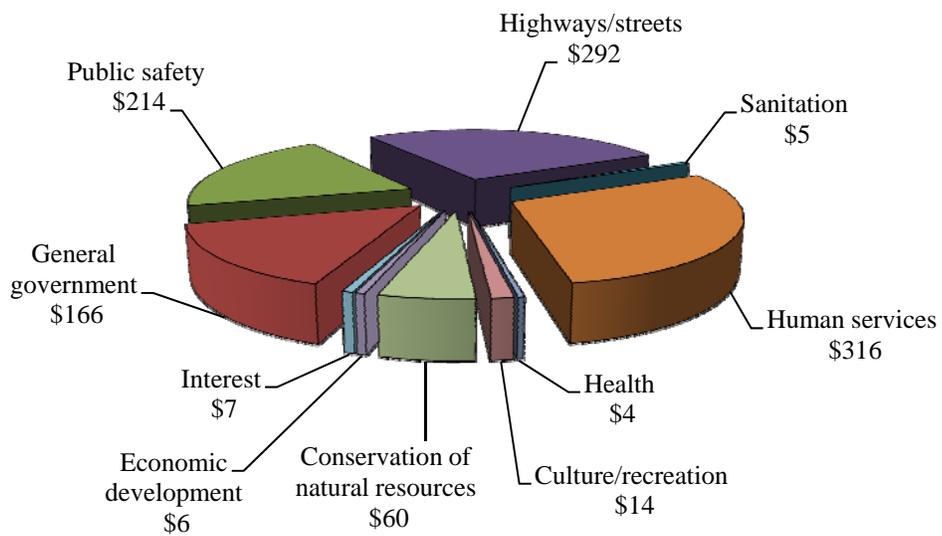
Expenses by Function



Program Revenues & Expenses



Expenditure Per Capita 13,883 Population as of 07-01-10



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, with a focus on short-term inflows, outflows, and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

Governmental Funds

At the end of 2010, the County's governmental funds reported combined ending fund balances of \$10,179,074. Of this amount, approximately 5.5 percent constitutes non-spendable fund balance, 17 percent constitutes legally or contractually restricted fund balance, 28 percent constitutes formally committed fund balance, 47.5 percent constitutes specifically assigned fund balance, and two percent constitutes unassigned fund balance.

The General Fund is the operating fund of the County. At the end of the current fiscal year, the General Fund's total fund balance was \$4,192,036. The General Fund's restricted fund balance was \$866,787, committed fund balance was \$712,085, assigned fund balance was \$2,433,118, and unassigned fund balance was \$180,046. As a measure of the General Fund's liquidity, it is useful to compare both unrestricted fund balance and total fund balance to total fund expenditures for 2010. Unrestricted fund balance represents 59 percent of total General Fund expenditures, while total fund balance represents 74 percent of that same amount.

In 2010, the fund balance amount in the General Fund decreased by \$101,771, due to cuts in state shared revenues.

The fund balance of the Road and Bridge Special Revenue Fund increased \$500,708 in 2010, as a result of reduced costs for construction and the postponement of equipment purchases.

The fund balance of the Human Services Special Revenue Fund increased \$348,862 from the prior year, due to increased tax collections along with reduced expenditures for out-of-home placements.

The fund balance of the Ditch Special Revenue Fund decreased \$47,236 from the prior year, due to petitioned ditch cleaning maintenance costs.

The fund balance of the Capital Improvement Special Revenue Fund decreased \$32,234 from the prior year, due to the \$60,000 appropriation to the Thief River Falls Regional Airport Authority.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2010.

Actual revenues were less than overall budgeted revenues by \$332,732, mainly due to the receipt of less than budgeted jail and state shared revenues. Actual expenditures were less than overall final budgeted expenditures by \$177,552, primarily as a result of decreased spending in most departments.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2010 amounted to \$50,461,805 (net of accumulated depreciation). The total decrease in the County's investment in capital assets for the current fiscal year was approximately 1.5 percent. This was primarily due to depreciation of capital assets.

	Governmental Activities	
	2010	2009
Land	\$ 464,569	\$ 464,569
Construction in progress	-	1,929,396
Infrastructure	47,126,253	45,603,544
Buildings and improvements	1,894,615	2,048,888
Machinery and equipment	976,368	1,162,113
Total capital assets	<u>\$ 50,461,805</u>	<u>\$ 51,208,510</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total debt outstanding of \$2,670,204 which is backed by the full faith and credit of the government.

	Governmental Activities	
	2010	2009
General Obligation Bonds (net of discount)	\$ 1,601,204	\$ 1,839,047
General Obligation Highway State-Aid Note	1,069,000	1,149,000
	<u>\$ 2,670,204</u>	<u>\$ 2,988,047</u>

The County's net decrease in debt of \$317,843 or 11 percent during the fiscal year was attributable to the repayment of debt. Minnesota Statutes limit the amount of debt that a County may have to three percent of its total market value, excluding revenue bonds. At the end of 2010, overall debt of the County is below the three percent debt limit.

Pennington County's bond rating is "A+" from Standard & Poor's. Additional information on the County's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- The unemployment rate for Pennington County was 8.5 percent as of December 31, 2010. This is higher than the statewide rate of 6.8 percent and lower than the national average rate of 9.1 percent.
- Pennington County's population at July 1, 2010 was 13,883, an increase of 299 since 2000.
- On December 14, 2010, Pennington County set its 2010 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of Pennington County for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kenneth Olson, Pennington County Auditor, P.O. Box 616, Thief River Falls, Minnesota 56701.

BASIC FINANCIAL STATEMENTS

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

		<u>Governmental Activities</u>
<u>Assets</u>		
Cash and pooled investments	\$	9,553,079
Taxes receivable - prior		260,777
Special assessments receivable - prior		9,465
Accounts receivable		47,680
Accrued interest receivable		3,909
Contracts receivable		93,044
Due from other governments		1,446,144
Inventories		281,272
Deferred debt issuance costs		13,599
Special assessments receivable - noncurrent		31,608
Capital assets		
Non-depreciable		464,569
Depreciable - net of accumulated depreciation		49,997,236
		<hr/>
Total Assets	\$	62,202,382
<u>Liabilities</u>		
Accounts payable	\$	224,560
Salaries payable		74,328
Contracts payable		4,685
Due to other governments		147,066
Accrued interest payable		33,282
Deferred revenue - unearned		68,919
Long-term liabilities		
Due within one year		671,157
Due in more than one year		2,649,177
		<hr/>
Total Liabilities	\$	3,873,174
<u>Net Assets</u>		
Invested in capital assets, net of related debt	\$	48,185,751
Restricted for		
General government		254,863
Public safety		420,669
Highways and streets		692,652
Conservation of natural resources		461,167
Debt service		410,017
Unrestricted		7,904,089
		<hr/>
Total Net Assets	\$	58,329,208

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs					
Governmental activities					
General government	\$ 2,302,846	\$ 589,003	\$ 25,000	\$ -	\$ (1,688,843)
Public safety	2,974,841	743,641	300,956	-	(1,930,244)
Highways and streets	4,058,869	272,160	1,171,820	1,519,602	(1,095,287)
Sanitation	62,942	5,463	55,950	-	(1,529)
Human services	4,390,430	326,874	2,281,480	-	(1,782,076)
Health	55,380	-	-	-	(55,380)
Culture and recreation	201,293	-	-	-	(201,293)
Conservation of natural resources	834,726	21,831	418,145	180,870	(213,880)
Economic development	81,705	-	-	-	(81,705)
Interest	94,919	-	-	-	(94,919)
Total governmental activities	\$ 15,057,951	\$ 1,958,972	\$ 4,253,351	\$ 1,700,472	\$ (7,145,156)
General revenues					
Taxes					\$ 5,897,847
Grants and contributions not restricted to specific programs					1,409,643
Payments in lieu of taxes					20,626
Investment earnings					34,052
Insurance dividends					139,417
Total general revenues					\$ 7,501,585
Change in net assets					\$ 356,429
Net assets - January 1					57,972,779
Net assets - December 31					\$ 58,329,208

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	<u>Special Revenue Funds</u>					<u>Other Governmental Funds (Statement 1)</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Capital Improvement</u>		
<u>Assets</u>							
Cash and pooled investments	\$ 4,088,991	\$ 683,044	\$ 1,437,911	\$ 487,180	\$ 2,165,665	\$ 690,288	\$ 9,553,079
Taxes receivable - prior	124,051	47,023	77,070	-	-	12,633	260,777
Special assessments receivable - prior	-	-	-	9,465	-	-	9,465
Accounts receivable	40,929	6,751	-	-	-	-	47,680
Accrued interest receivable	3,909	-	-	-	-	-	3,909
Contracts receivable	-	-	-	-	-	93,044	93,044
Due from other funds	19,377	264	-	-	-	-	19,641
Due from other governments	169,856	723,528	245,337	307,423	-	-	1,446,144
Inventories	-	281,272	-	-	-	-	281,272
Advances to other funds	-	-	-	-	-	283,177	283,177
Special assessments receivable - noncurrent	-	-	-	31,608	-	-	31,608
Total Assets	<u>\$ 4,447,113</u>	<u>\$ 1,741,882</u>	<u>\$ 1,760,318</u>	<u>\$ 835,676</u>	<u>\$ 2,165,665</u>	<u>\$ 1,079,142</u>	<u>\$ 12,029,796</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	Special Revenue Funds					Other Governmental Funds (Statement 1)	Total Governmental Funds
	General Fund	Road and Bridge	Human Services	Ditch	Capital Improvement		
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 56,686	\$ 33,133	\$ 103,577	\$ 30,195	\$ -	\$ 969	\$ 224,560
Salaries payable	42,300	11,447	20,581	-	-	-	74,328
Contracts payable	-	4,685	-	-	-	-	4,685
Due to other funds	-	-	19,377	264	-	-	19,641
Due to other governments	52,871	6,513	75,150	9,822	-	2,710	147,066
Deferred revenue - unavailable	103,220	687,654	64,128	69,789	-	103,555	1,028,346
Deferred revenue - unearned	-	68,919	-	-	-	-	68,919
Advances from other funds	-	-	-	283,177	-	-	283,177
Total Liabilities	\$ 255,077	\$ 812,351	\$ 282,813	\$ 393,247	\$ -	\$ 107,234	\$ 1,850,722
Fund Balances							
Non-spendable							
Advances to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 283,177	\$ 283,177
Inventory	-	281,272	-	-	-	-	281,272
Restricted for							
Attorney forfeited property	12,199	-	-	-	-	-	12,199
County Veterans Service Office Enhancement Grant	5,450	-	-	-	-	-	5,450
Debt service	-	-	-	-	-	410,017	410,017
Drug and Alcohol Resistance Education	5,080	-	-	-	-	-	5,080
Enhanced 911	383,462	-	-	-	-	-	383,462
Handgun permits	17,262	-	-	-	-	-	17,262
Help America Vote Act	9,073	-	-	-	-	-	9,073
Law library	26,561	-	-	-	-	-	26,561
Conservation of natural resources	18,738	-	-	442,429	-	-	461,167
Probation	8,203	-	-	-	-	-	8,203
Recorder's equipment	76,108	-	-	-	-	-	76,108
SCORE	172,517	-	-	-	-	-	172,517
Sheriff's forfeited property	6,318	-	-	-	-	-	6,318
Sheriff's contingent fund	344	-	-	-	-	-	344
Technology	125,472	-	-	-	-	-	125,472
Committed to							
Capital improvements	603,533	-	-	-	2,165,665	-	2,769,198
Jail canteen	90,043	-	-	-	-	-	90,043
Juvenile restitution	15,485	-	-	-	-	-	15,485
Parents forever	3,024	-	-	-	-	-	3,024
Assigned to							
Cash flows	2,433,118	648,259	1,477,505	-	-	25,667	4,584,549
Sanitation	-	-	-	-	-	253,047	253,047
Unassigned	180,046	-	-	-	-	-	180,046
Total Fund Balances	\$ 4,192,036	\$ 929,531	\$ 1,477,505	\$ 442,429	\$ 2,165,665	\$ 971,908	\$ 10,179,074
Total Liabilities and Fund Balances	\$ 4,447,113	\$ 1,741,882	\$ 1,760,318	\$ 835,676	\$ 2,165,665	\$ 1,079,142	\$ 12,029,796

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balances - total governmental funds (Exhibit 3)	\$	10,179,074
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		50,461,805
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.</p>		1,028,346
<p>Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
Accrued interest payable	\$ (33,282)	
General obligation bonds	(1,601,204)	
General obligation notes	(1,069,000)	
Deferred debt issuance costs	13,599	
Compensated absences payable	(496,497)	
Other post employment benefits	(153,633)	(3,340,017)
Net assets of governmental activities (Exhibit 1)	\$	58,329,208

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Special Revenue Funds					Other Governmental Funds (Statement 2)	Total Governmental Funds
	General Fund	Road and Bridge	Human Services	Ditch	Capital Improvement		
Revenues							
Taxes	\$ 2,852,048	\$ 1,053,931	\$ 1,721,912	\$ -	\$ -	\$ 260,170	\$ 5,888,061
Special assessments	-	-	-	184,340	-	-	184,340
Licenses and permits	3,871	-	-	-	-	-	3,871
Intergovernmental	1,234,175	2,817,837	2,636,767	272,743	-	87,346	7,048,868
Charges for services	1,075,874	106,515	221,909	12,612	-	-	1,416,910
Fines and forfeitures	25,098	-	-	-	-	-	25,098
Investment earnings	34,052	-	-	-	-	-	34,052
Miscellaneous	348,656	152,415	104,965	-	27,766	5,478	639,280
Total Revenues	\$ 5,573,774	\$ 4,130,698	\$ 4,685,553	\$ 469,695	\$ 27,766	\$ 352,994	\$ 15,240,480
Expenditures							
Current							
General government	\$ 2,206,475	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,206,475
Public safety	2,811,844	-	-	-	-	-	2,811,844
Highways and streets	-	3,438,805	-	-	-	-	3,438,805
Sanitation	-	-	-	-	-	50,921	50,921
Human services	17,505	-	4,329,236	-	-	-	4,346,741
Health	55,380	-	-	-	-	-	55,380
Culture and recreation	200,527	-	-	-	-	-	200,527
Conservation of natural resources	312,811	-	-	514,760	-	5,061	832,632
Economic development	21,705	-	-	-	60,000	-	81,705
Total Current	\$ 5,626,247	\$ 3,438,805	\$ 4,329,236	\$ 514,760	\$ 60,000	\$ 55,982	\$ 14,025,030
Debt Service							
Principal retirement	\$ -	\$ 80,000	\$ -	\$ -	\$ -	\$ 240,000	\$ 320,000
Interest	-	36,079	-	2,171	-	68,782	107,032
Total Debt Service	\$ -	\$ 116,079	\$ -	\$ 2,171	\$ -	\$ 308,782	\$ 427,032
Capital Outlay							
Public safety	\$ 49,298	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,298
Highways and streets	-	51,000	-	-	-	-	51,000
Human services	-	-	7,455	-	-	-	7,455
Total Capital Outlay	\$ 49,298	\$ 51,000	\$ 7,455	\$ -	\$ -	\$ -	\$ 107,753
Total Expenditures	\$ 5,675,545	\$ 3,605,884	\$ 4,336,691	\$ 516,931	\$ 60,000	\$ 364,764	\$ 14,559,815
Excess of Revenues Over (Under) Expenditures	\$ (101,771)	\$ 524,814	\$ 348,862	\$ (47,236)	\$ (32,234)	\$ (11,770)	\$ 680,665
Fund Balance - January 1	4,293,807	428,823	1,128,643	489,665	2,197,899	983,678	9,522,515
Increase (decrease) in reserved for inventories	-	(24,106)	-	-	-	-	(24,106)
Fund Balance - December 31	\$ 4,192,036	\$ 929,531	\$ 1,477,505	\$ 442,429	\$ 2,165,665	\$ 971,908	\$ 10,179,074

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	680,665
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>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.</p>		
Expenditures for general capital assets and infrastructure	\$ 980,850	
Current year depreciation	<u>(1,727,555)</u>	(746,705)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.</p>		
		173,900
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
Principal repayments		
Capital improvement bonds	\$ 240,000	
State-aid highway notes	<u>80,000</u>	320,000
<p>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.</p>		
Change in		
Amortization of discounts	\$ (2,732)	
Deferred issuance charges	(2,157)	
Accrued interest payable	14,831	
Compensated absences payable	(8,521)	
Other post employment benefits	(48,746)	
Inventories	<u>(24,106)</u>	(71,431)
Change in net assets of governmental activities (Exhibit 2)	\$	<u>356,429</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010**

	<u>Agency (Statement 6)</u>
<u>Assets</u>	
Cash and pooled investments	\$ 595,528
Due from other funds	<u>16,332</u>
Total Assets	<u><u>\$ 611,860</u></u>
<u>Liabilities</u>	
Accounts payable	\$ 26,777
Due to other funds	16,332
Due to other governments	<u>568,751</u>
Total Liabilities	<u><u>\$ 611,860</u></u>

PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

I. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Pennington County was established November 23, 1910, and is an organized county having the powers, duties, and privileges granted counties by Minnesota Statutes, Chapter 373. 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 County Auditor, elected on a County-wide basis, serves as the clerk of the Board but has no vote.

The County participates in joint ventures and jointly-governed organizations which are described in Notes section V, subdivisions C and D, respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) include the financial activities of the overall County government, except for the fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

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

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. 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 and reports all financial resources of the general government not accounted for in another fund.

The Road and Bridge Special Revenue Fund is used to account for and report 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. Financing is provided by annual tax levy, intergovernmental revenues, and charges for services assigned for highways and streets.

The Human Services Special Revenue Fund is used to account for and report economic assistance and community social services programs. Financing is provided by annual tax levy and intergovernmental revenues assigned for human services.

The Ditch Special Revenue Fund is used to account for and report the operation and maintenance of County and joint county drainage systems. Financing is provided by special assessments levied against benefited properties restricted for conservation of natural resources.

The Capital Improvement Special Revenue Fund was opened in 2007 to account for and report proceeds from the sale of the Oakland Park Nursing Home assigned for future County capital improvements.

Additionally, the County reports the following fund types:

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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 agency capacity.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. 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. The County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured.

As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, based on market prices. Pursuant to Minnesota Statute, § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2010 were \$34,052.

Pennington County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minnesota Statute, § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half due on October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as prior taxes receivable.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances from/to other funds” (i.e., the non-current portion of interfund loans).

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

All receivables are shown net of an allowance for uncollectible amounts, if applicable.

3. Inventories

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.

Inventories, as reported in the fund financial statements, are offset by a fund balance account to indicate that they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include land, construction in progress, infrastructure (e.g., roads, bridges, and similar items), buildings and improvements, and machinery and equipment, are reported in the applicable government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset of \$5,000, except all land and construction in progress which is capitalized regardless of cost. Capital assets are recorded at historical cost or estimated historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings and improvements, and machinery and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	50-75
Buildings and improvements	20-30
Machinery and equipment	5-12

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

5. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide 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.

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources when issued. 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.

8. Net Assets and Fund Balance

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

In the fund financial statements and in accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the County classifies governmental fund balances as follows:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Net Assets and Fund Balance (Continued)

Non-spendable – includes fund balance amounts that cannot be spent because it is either not in spendable form or legally or contractually required to be maintained intact.

Restricted – includes fund balance amounts that are constrained for specific purposes which are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes imposed by formal action of the County Board and do not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. Fund balance amounts are assigned by the County Auditor and department heads and approved by the County Board.

Unassigned – includes positive fund balance within the General Fund, which has not been classified within the above mentioned categories, and negative fund balances in other governmental funds.

9. 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.

II. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

Ten of the 48 active ditch systems incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following shows the restricted fund balance as of December 31, 2010:

Account balance	\$	545,159
Account deficit		(102,730)
		442,429
Fund Balance	\$	442,429

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

II. Stewardship, Compliance, and Accountability (Continued)

B. Land Management

The County manages approximately 2,170 acres of state-owned tax-forfeited land. This land generates revenues primarily from recreational land leases and land and timber sales. Land management costs, including forestry costs such as site preparation, seedlings, tree planting, and logging roads, are accounted for as current operating expenditures. Revenues in excess of expenditures are distributed to the County and cities, towns, and school districts within the County according to state statute.

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliations of the County’s total deposits and investments to the basic financial statements, as of December 31, 2010, are as follows:

Governmental funds	
Cash and pooled investments	\$ 9,553,079
Fiduciary funds	
Cash and pooled investments	<u>595,528</u>
Total cash and investments	<u><u>\$ 10,148,607</u></u>
Deposits	\$ 2,965,108
Cash on hand	1,875
Investments	<u>7,181,624</u>
Total deposits, cash on hand, and investments	<u><u>\$ 10,148,607</u></u>

Deposits

Minnesota Statutes, §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Board. Minnesota Statute, § 118A.03 requires that all County deposits be covered by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution’s banking day, not covered by insurance or bonds.

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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 does not have a deposit policy for custodial credit risk. As of December 31, 2010, the County's deposits were not exposed to custodial credit risk.

Investments

Minnesota Statutes, §§ 118A.04 and 118A.05 generally authorize the following types of investments available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as high risk by Minnesota Statute, § 118A.04, subdivision 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 certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments

Interest Rate Risk (Continued)

At December 31, 2010, the County had the following investments and maturities:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>
Negotiable Certificates of Deposit	\$ 1,095,000	\$ 648,000	\$ 447,000
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	800,000	800,000	-
Wells Fargo Advantage Government Money Market	<u>5,286,624</u>	<u>5,286,624</u>	<u>-</u>
Total Investments	<u>\$ 7,181,624</u>	<u>\$ 6,734,624</u>	<u>\$ 447,000</u>
	100%	94%	6%

Credit Risk

Generally, a 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.

The County's exposure to credit risk as of December 31, 2010, is as follows:

	<u>S & P Rating</u>	<u>Fair Value</u>
Negotiable Certificates of Deposit	N/R	\$ 1,095,000
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	N/A	800,000
Wells Fargo Advantage Government Money Market	AAA	<u>5,286,624</u>
		<u>\$ 7,181,624</u>

N/R – not rated

N/A – not applicable

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2010, none of the County's investments were subject to custodial credit risk.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. The County's negotiable certificates of deposit are with five separate financial institutions and are not exposed to concentration of credit risk.

2. Receivables

Receivables as of December 31, 2010, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Taxes	\$ 260,777	\$ -
Special assessments	41,073	31,608
Accounts	47,680	-
Accrued interest	3,909	-
Contracts	93,044	-
Due from other governments	1,446,144	-
	<u>\$ 1,892,627</u>	<u>\$ 31,608</u>
Total	<u>\$ 1,892,627</u>	<u>\$ 31,608</u>

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 464,569	\$ -	\$ -	\$ 464,569
Construction in progress	1,929,396	49,464	1,978,860	-
Total capital assets not depreciated	<u>\$ 2,393,965</u>	<u>\$ 49,464</u>	<u>\$ 1,978,860</u>	<u>\$ 464,569</u>
Capital assets being depreciated				
Infrastructure	\$ 63,593,734	\$ 2,802,493	\$ -	\$ 66,396,227
Buildings and improvements	4,548,036	-	-	4,548,036
Machinery and equipment	3,819,564	107,753	55,967	3,871,350
Total capital assets being depreciated	<u>\$ 71,961,334</u>	<u>\$ 2,910,246</u>	<u>\$ 55,967</u>	<u>\$ 74,815,613</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less: accumulated depreciation for				
Infrastructure	\$ 17,990,190	\$ 1,279,784	\$ -	\$ 19,269,974
Buildings and improvements	2,499,148	154,273	-	2,653,421
Machinery and equipment	2,657,451	293,498	55,967	2,894,982
 Total accumulated depreciation	 \$ 23,146,789	 \$ 1,727,555	 \$ 55,967	 \$ 24,818,377
 Total capital assets, depreciated, net	 \$ 48,814,545	 \$ 1,182,691	 \$ -	 \$ 49,997,236
 Governmental Activities				
Capital Assets, Net	<u>\$ 51,208,510</u>	<u>\$ 1,232,155</u>	<u>\$ 1,978,860</u>	<u>\$ 50,461,805</u>

Depreciation Expense

Depreciation expense was charged to functions of the County as follows:

General government	\$ 86,090
Public safety	148,159
Highways and streets, including depreciation of infrastructure assets	1,468,036
Human services	12,483
Sanitation	12,021
Culture and recreation	766
 Total Depreciation Expense	 <u>\$ 1,727,555</u>

Construction Commitments

The County has two active construction commitments for highways and streets as of December 31, 2010, with \$393,804 spent-to-date and \$3,246 in remaining commitment.

Construction commitments are being financed by County taxes and intergovernmental revenue from local, state, and federal agencies.

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

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

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Social Services Special Revenue Fund	\$ 19,377	Charges for services and reimbursements
Road and Bridge Special Revenue Fund	Ditch Special Revenue Fund	<u>264</u>	Charges for services
Total Due To/From Other Funds		<u><u>\$ 19,641</u></u>	

Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
Other Governmental	Ditch Special Revenue Fund	<u><u>\$ 283,177</u></u>	Cash deficit

This advance will be paid back.

C. Liabilities

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer recognition in connection with resources that have been received, but not yet earned. As of December 31, 2010, governmental funds reported the following various components of deferred revenues:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Taxes	\$ 224,862	\$ -
Special Assessments	31,608	-
Contracts	741,571	68,919
Grants	<u>30,305</u>	<u>-</u>
Total Deferred Revenue	<u><u>\$ 1,028,346</u></u>	<u><u>\$ 68,919</u></u>

Compensated Absences

Under the County's personnel policies and union contracts, employees are granted vacation in varying amounts based on their length of service. Vacation leave accrual varies from 12 to 21 days per year. Sick leave accrual is 12 days per year. Leave may be accumulated to a maximum of 24 days vacation and 100 days sick leave under the County's employment policy.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Compensated Absences (Continued)

For the governmental activities, compensated absences are generally liquidated by the General Fund, the Road and Bridge Special Revenue Fund, and the Social Services Special Revenue Fund.

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$495,735 at December 31, 2010, is available to employees in the event of illness-related absences and is not paid to them at termination.

Long-Term Debt

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amounts</u>	<u>Outstanding Balance December 31, 2010</u>
2004 G.O. Capital Improvement Bonds	2014	\$55,000-\$65,000	3.44	535,000	\$ 240,000
2004 G.O. Refunding Bonds	2011	\$55,000	4.34	310,000	55,000
2009 G.O. Refunding Bonds	2019	\$120,000-\$185,000	3.4	<u>1,450,000</u>	<u>1,320,000</u>
				\$ 2,295,000	\$ 1,615,000
Less: Bond discount				<u>-</u>	<u>(13,796)</u>
Total General Obligation Bonds, net of discount				\$ 2,295,000	\$ 1,601,204
2001 G.O. Highway State-Aid Note	2021	\$83,000-\$113,000	3.14	<u>2,000,000</u>	<u>1,069,000</u>
Total				<u>\$ 4,295,000</u>	<u>\$ 2,670,204</u>

Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Debt Service Requirements (Continued)

Year Ending December 31	General Obligation Bonds		2001 General Obligation Highway State-Aid Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 230,000	\$ 47,724	\$ 83,000	\$ 33,567	\$ 313,000	\$ 81,291
2012	235,000	41,666	85,000	30,960	320,000	72,626
2013	240,000	34,805	88,000	28,291	328,000	63,096
2014	250,000	26,892	91,000	25,528	341,000	52,420
2015	120,000	20,900	94,000	22,671	214,000	43,571
2016-2020	540,000	40,145	515,000	67,196	1,055,000	107,341
2021	-	-	113,000	3,548	113,000	3,548
	\$ 1,615,000	\$ 212,132	\$ 1,069,000	\$ 211,761	\$ 2,684,000	\$ 423,893
Less: Bond discount	(13,796)	-	-	-	(13,796)	-
Total	\$ 1,601,204	\$ 212,132	\$ 1,069,000	\$ 211,761	\$ 2,670,204	\$ 423,893

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended December 31, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 1,855,000	\$ -	\$ 240,000	\$ 1,615,000	\$ 230,000
Less: Bond discount	(15,953)	-	(2,157)	(13,796)	-
2001 General Obligation Highway State-Aid Note	1,149,000	-	80,000	1,069,000	83,000
Net OPEB Payable	104,887	48,746	-	153,633	-
Compensated Absences	487,976	438,553	430,032	496,497	358,157
Governmental Activities Long-Term Liabilities	\$ 3,580,910	\$ 487,299	\$ 747,875	\$ 3,320,334	\$ 671,157

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefits Plans

Plan Description

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

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

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3 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.

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

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

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Benefits Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary in 2010. Public Employees Police and Fire Fund members were required to contribute 9.40 percent of their annual covered salary in 2010. Contribution rates in the Coordinated Plan and the Police and Fire Fund increased in 2011 to 6.25 and 9.60 percent, respectively. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2010 and 2011:

	2010	2011
Public Employees Retirement Fund		
Basic Plan Members	11.78%	11.78%
Coordinated Plan Members	7.00	7.25
Public Employees Police and Fire Fund	14.10	14.40
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2010	\$ 232,874	\$ 66,129	\$ 70,891
2009	269,208	65,137	78,395
2008	196,857	51,400	83,229

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

Defined Contribution Plan

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2010, were:

	Employee	Employer
Contribution amount	\$ 1,256	\$ 1,256
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

Other Post-Employment Benefits – (OPEB)

Plan Description

Pennington County provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides for retirees by Minnesota Statute § 471.61, subdivision 2b. The retiree healthcare plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Pennington County Board of Commissioners. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This post-employment benefit is funded on a pay-as-you-go basis usually paying retiree benefits out of the General Fund. For 2010, there were approximately 117 participants in the plan, including seven retirees.

Annual OPEB Cost and Net OPEB Obligation

The County’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), 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 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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits – (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual Required Contribution	\$	67,942
Interest on net OPEB obligation		4,720
Adjustments to Annual Required Contribution		<u>(3,885)</u>
Annual OPEB cost (expense)	\$	68,777
Contributions made		<u>(20,031)</u>
Increase in net OPEB obligation	\$	48,746
Net OPEB Obligation - January 1, 2010		<u>104,887</u>
Net OPEB Obligation - December 31, 2010	\$	<u><u>153,633</u></u>

The County’s annual OPEB cost for December 31, 2010 was \$68,777. The percentage of annual OPEB cost contributed to the plan was 29 percent, and the net OPEB obligation for 2010 was \$153,633. The required three-year actuarial valuation trend information is not available at this time based on implementation in 2008.

Fund Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$518,648, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$518,648. The covered payroll (annual payroll of active employees covered by the plan) was \$4,480,493, and the ratio of the UAAL to the covered payroll was 11.6 percent.

Actuarial valuations for 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 healthcare cost trends. 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, 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.

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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs 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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits – (OPEB)

Actuarial Methods and Assumptions (Continued)

In the January 1, 2008, actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Pennington County's implicit rate of return on the General Fund. The annual healthcare cost trend is 9.0 percent initially reduced by decrements to an ultimate rate of 5.0 percent over eight years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2010, was 27 years.

V. 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, may be involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage, 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 Insurance Trust (MCIT) to cover workers' compensation and property and casualty liabilities. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

The Worker's 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 \$450,000 per claim in 2010 and 2011. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

C. Joint Ventures

Inter-County Nursing Service

The Inter-County Nursing Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59, and includes Pennington and Red Lake Counties. The purpose of the Nursing Service is to provide, through visits to individuals' homes, skilled public nursing care on a part-time or intermittent basis to residents of Pennington and Red Lake Counties.

Control of the Nursing Service is vested in the Inter-County Nursing Service Board, which is composed of one county commissioner and four others from each county, and a physician who may be from either county. In the event of dissolution of the Inter-County Nursing Service Board, the net assets of the Nursing Service at that time shall be divided between the counties in proportion to the contribution of each.

The Nursing Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the two counties. Pennington County contributed \$49,906 to the Nursing Service for the year ended December 31, 2010. Pennington County, in an agent capacity, reports the cash transactions of the Nursing Service as an agency fund on its financial statements. Complete financial information can be obtained from the Pennington County Auditor's Office or the Nursing Service's office, P.O. Box 616, Thief River Falls, Minnesota 56701.

Northern Counties Land Use Coordinating Board

The Northern Counties Land Use Coordinating Board was established September 22, 1993, and amended May 4, 1995, under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Cook, Itasca, Koochiching, Lake, Lake of the Woods, Marshall, Pennington, and St. Louis Counties. The purpose of the Land Use Coordinating Board is to formulate land use plans or general policies needed for the protection, sustainable use, and development of lands and natural resources in Northern Minnesota.

The Northern Counties Land Use Coordinating Board is composed of two elected county commissioners from each member county except St. Louis County, which has three members, as provided in the Land Use Coordinating Board's bylaws.

In the event of dissolution of the Northern Counties Land Use Coordinating Board, the net assets shall be distributed to the respective member counties in proportion to the contribution of each.

The Land Use Coordinating Board has no long-term debt. Financing is provided by appropriations from member counties. Pennington County contributed \$2,500 to the Land Use Coordinating Board for the year ended December 31, 2010. St. Louis County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the St. Louis County Auditor, 100 North Fifth Avenue West, Duluth, Minnesota 55802.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Northwest Minnesota Household Hazardous Waste Management Group

The Northwest Minnesota Household Hazardous Waste Management Group was formed in 1992 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Kittson, Lake of the Woods, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Waste Management Group is to cooperatively manage, handle, and transport household hazardous waste, provide public education on safe waste management, and provide for the disposition of non-recyclable household hazardous waste materials.

Control of the Waste Management Group is vested in the Northwest Minnesota Household Hazardous Waste Management Group Joint Powers Board, which is composed of one county commissioner from each of the member counties, as provided in the Waste Management Group's bylaws.

Responsibility for budgeted expenditures is shared with the first 50 percent divided equally among the member counties, and the remaining 50 percent divided on a population-ratio basis. In the event of dissolution, the net assets shall be divided among the member counties in the same proportion as their respective financial responsibilities.

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Pennington County disbursed \$6,457 to the Waste Management Group for the year ended December 31, 2010. Clearwater County, in an agent capacity, reports the cash transactions as an agency fund on its financial statements. Complete financial information can be obtained from the Clearwater County Auditor's Office or the Waste Management Group's office, P.O. Box 186, Bagley, Minnesota 56621.

Northwest Minnesota Regional Radio Board

The Northwest Minnesota Regional Radio Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, §§ 403.39 and 471.59. Members include Becker, Beltrami, Clearwater, Clay, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties and the City of Moorhead. The purpose of the Northwest Minnesota Regional Radio Board is to provide regional administration for the installation, operation, and maintenance of local and regional enhancements to the Statewide Public Safety Radio and Communication System (ARMER).

Control is vested in the Northwest Minnesota Regional Radio Board, which is composed of one county commissioner from each member county and one city council member from the member city, appointed by their respective governing bodies as provided in the Northwest Minnesota Regional Radio Board's Joint Powers Agreement.

The Northwest Minnesota Regional Radio Board has no long-term debt. Financing is provided by annual contributions from members, reflective of the extent of participation and use of services. Pennington County did not contribute to the Northwest Regional Radio Board for the year ended December 31, 2010. Complete financial information can be obtained from Greater Northwest Emergency Medical Services, 2301 Johanneson Avenue NW, Suite 103, Bemidji, Minnesota 56601.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Northwest Minnesota Six County Joint Powers Board

The Northwest Minnesota Six County Joint Powers Board was formed in 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Beltrami, Clearwater, Marshall, Pennington, Polk, and Red Lake Counties. The purpose of the Board is to receive and expend funds for beaver damage control.

The Northwest Minnesota Six County Joint Powers Board is composed of one representative appointed by each county board from the six counties. Each county also has one alternate appointed to the Board, and the Board may choose to have non-voting advisory members on the Board. In the event of dissolution, the net assets shall be distributed to the respective member counties in proportion to the contribution of each.

Financing is provided by grants from the State of Minnesota or contributions. Complete financial information can be obtained from the Red Lake Watershed District, P.O. Box 803, Thief River Falls, Minnesota 56701.

Northwest Service Cooperative

The Northwest Service Cooperative (NWSC) was established in February, 1977, pursuant to Minnesota Statutes, §§ 471.59 and 123.582. The NWSC is located in State Development Regions One and Two which includes 12 counties covering a total of 14,853 miles. These are the most sparsely populated regions of the state with only 11 persons per square mile. The regions are known as “Pine to Prairie.” The NWSC provides service to all school districts, and many cities, counties, and other governmental agencies in the northwest region. The Northwest Service Cooperative’s purpose is to meet or exceed the needs of participating members by developing and delivering high quality, cost-effective services and programs that will support the activities of its members.

The NWSC is governed by a Board of Directors consisting of school board members elected at large by their peers, one city representative, with a maximum of three at-large appointees and three ex-officio superintendents. Pennington County contributed \$250 to the Cooperative for the year ended December 31, 2010. Complete financial information can be obtained from the Northwest Service Cooperative, 114 First Street West, Thief River Falls, Minnesota 56701.

Northwestern Counties Data Processing Security Association

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

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northwestern Counties Data Processing Security Association (Continued)

Control of the Association is vested in the Northwestern Counties Data Processing Security Association Joint Powers Board, which is composed of one county commissioner appointed by each member county board. In the event of dissolution, the net assets of the Association at that time shall be distributed to the respective member counties in proportion to the contribution of each.

The Northwestern Counties Data Processing Security Association has no long-term debt. Financing is provided by state grants and appropriations from member counties when needed. Pennington County did not contribute to the Association for the year ended December 31, 2010. Lake of the Woods County, in an agent capacity, reports the cash transactions of the Association as an agency fund on its financial statements. Complete financial information can be obtained from the Lake of the Woods County Auditor's Office, 206 8th Avenue SE, Suite 260, Baudette, Minnesota 56623.

Northwestern Minnesota Juvenile Center

The Northwestern Minnesota Juvenile Center was formed under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, effective August 1971, and includes Beltrami, Cass, Clearwater, Hubbard, Kittson, Lake of the Woods, Pennington, and Roseau Counties. The purpose of the Center is to provide rehabilitation and other services to juveniles under the jurisdiction of the court system. The offices of the Center are located in Bemidji, with satellite homes at various locations.

Control of the Center is vested in the Northwestern Minnesota Juvenile Center Joint Powers Board, which is composed of at least one member appointed by each participating county, as provided in the Center's bylaws. At present, there are 13 directors: Beltrami, Cass, Hubbard, Pennington, and Roseau Counties have two directors each; the other member counties have one director each. In the event of dissolution, the net assets of the Center shall be divided among the member counties in the same proportion as their respective financial responsibilities.

Financing is provided by state and federal grants, charges for services, and appropriations from member counties. Beltrami County, in an agent capacity, reports the cash transactions of the Northwestern Minnesota Juvenile Center as an agency fund on its financial statements. Complete financial information can be obtained from the Beltrami County Auditor/Treasurer's Office or at the Center's office, P.O. Box 247, Bemidji, Minnesota 56601.

Quin County Community Health Service

The Quin County Community Health Service was formed in 1978 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. The purpose of the Health Service is to develop and implement policies and procedures to promote efficiency and economy in the delivery of community health services.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Quin County Community Health Service (Continued)

Control of the Health Service is vested in the Quin County Board of Health, which is composed of one member appointed from each of the member counties (total five members, as provided in the joint powers agreement). In the event of dissolution, the net assets of the Health Service shall be divided among the member counties in the same proportion as their respective financial responsibilities as determined by county population.

The Health Service has no long-term debt. Financing is provided by state and federal grants, charges for services, and appropriations from the member counties when needed. Marshall County, in an agent capacity, reports the cash transactions of the Health Service as an agency fund on its financial statements. Complete financial information can be obtained from the Marshall County Auditor/Treasurer's Office or the Health Service's office, Newfolden, Minnesota 56738.

Red Lake River Corridor

The Red Lake River Corridor Joint Powers Board was formed in 2003 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes the Cities of Thief River Falls, St. Hilaire, Red Lake Falls, Crookston, Fisher and East Grand Forks; the Counties of Polk, Red Lake, Pennington; and the Red Lake Band of Chippewa Reservation. The purpose of the Board is for the development and enhancement of recreational and natural resources along the Red Lake River.

The Red Lake River Corridor Joint Powers Board is composed of one member for each participating entity. Each participant may also have one alternate who, in the absence of the appointed member, may attend meetings and have all the duties and rights of the member. In the event of dissolution, the net assets shall be distributed to the respective members in proportion to the contribution of each.

Financing is provided by contributions from members. The County contributed \$500 to the Board in 2010. Complete financial information can be obtained from the Pembina Trail R C & D, 2605 Wheat Drive, Red Lake Falls, Minnesota 56750.

Thief River Falls Regional Airport Authority

The Thief River Falls Regional Airport Authority was formed in 2010 pursuant to Minnesota Statutes, §§ 360.0425 to 360.0427, and 471.59, and includes Pennington County and the City of Thief River Falls. The purpose of the Thief River Falls Regional Airport Authority is to acquire, establish, construct, maintain, improve, and operate the Airport.

The Airport Authority consists of five Commissioners: two Commissioners from the County Board, two Commissioners from the City Council, and one lay Commissioner mutually appointed by the County and City. The Commissioners shall each be appointed for three year terms.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Thief River Falls Regional Airport Authority (Continued)

In the event of dissolution of the Airport Authority, net assets at that time shall be divided between the participating governmental entities in proportion to their relative shares of the most recent levy.

Financing is provided by state and federal grants, charges for services, and appropriations and property tax levies, pursuant to Minnesota Statute, § 275.066. Pennington County appropriated \$60,000 to the Airport Authority for the year ended December 31, 2010. Complete financial information can be obtained from the Thief River Falls Regional Airport Authority, P.O. Box 672, Thief River Falls, Minnesota 56701.

D. Jointly-Governed Organizations

Job Training Partnership Act Joint Powers Agreement

The Job Training Partnership Act Joint Powers Agreement was formed in July 1994 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Joint Powers Agreement is to designate the members of the Northwest Regional Development Commission's Board of Directors as the Local Elected Officials to work with the Northwest Private Industry Council for the Northwest Service Delivery Area, including specific duties as listed in the Agreement.

Minnesota Counties Computer Consortium

The Minnesota Counties Computer Consortium was formed in 1979 pursuant to Minnesota Statute, § 471.59 and includes 24 counties. Control of the Consortium is vested in the Joint Data Processing Board which is composed of one representative and one alternate appointed by each member county. The County's responsibility does not extend beyond making this appointment.

Minnesota Rural Counties Caucus

The Minnesota Rural Counties Caucus was established in 1997 and includes Becker, Beltrami, Clay, Clearwater, Itasca, Kittson, Lake, Lake of the Woods, Mahnomon, Marshall, McLeod, Morrison, Norman, Pennington, Polk, Red Lake, and Roseau Counties. Control of the Caucus is vested in the Minnesota Rural Counties Caucus Executive Committee which is composed of ten directors, each with an alternate, who are appointed annually by each respective county board. The County contributed \$2,100 to the Caucus for the year ended December 31, 2010.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Multi-Cultural Events Center Joint Powers Board

The Multi-Cultural Events Center Joint Powers Board was formed in 1995 under the authority of the Joint Powers Act, pursuant to Minnesota Statute, § 471.59, and includes Pennington County, the City of Thief River Falls, Independent School District No. 564, Northland Community College, and Northwest Technical College. The Joint Powers Board is composed of one director appointed by the governing body of each member, with one alternate designated for each director, as provided in the Joint Powers Board's bylaws. The County did not contribute to the Multi-Cultural Events Center Joint Powers Board in 2010.

Northwest Minnesota Multi-County Housing and Redevelopment Authority

The Northwest Minnesota Multi-County Housing and Redevelopment Authority (HRA) was formed pursuant to Minnesota Statute, § 469.004, effective September 1972, and includes Kittson, Marshall, Pennington, Polk, Red Lake, and Roseau Counties. Control of the HRA is vested in the HRA Board which is composed of six members with indefinite terms made up of one member appointed by each board of county commissioners. Pennington County's responsibility does not extend beyond making this appointment.

Northwest Regional Library

The Northwest Regional Library was formed pursuant to Minnesota Statutes, §§ 134.20 and 471.59, effective January 1, 1981, and includes Kittson, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the Library is vested in the Northwest Regional Library Board which is composed of 16 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. Pennington County appropriated \$80,000 to the Library for the year ended December 31, 2010.

Northwest Workforce Service Area

The Northwest Workforce Service Area was formed in July 2000 under the authority of the Workforce Investment Act of 1998 (Public Law 105-22) and includes Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau Counties. The purpose of the Service Area is to increase a participant's employment, retention, earnings, and occupational skill attainment and result in improved workforce quality, reduced welfare dependency, and enhanced productivity and competitiveness.

Control of the Northwest Workforce Service Area is vested in the Northwest Private Industry Council/Workforce Council, composed of 18 members with one representative from each of the seven counties, three members at large, and eight members representing local agencies. In the event of dissolution of the Northwest Workforce Service Area, unexpended funds will be disposed of in accordance with law.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Northwest Workforce Service Area (Continued)

The Northwest Workforce Service Area has no long-term debt. Financing is provided by state and local grants. Complete financial information can be obtained from the Northwest Regional Development Commission, 115 South Main, Warren, Minnesota 56762.

Pennington County Family Service Collaborative

The Pennington County Family Service Collaborative was formed pursuant to Minnesota Statute, § 124D.23, effective July 1, 1996, and includes Pennington County, Thief River Falls Independent School District 564, and the Inter-County Nursing Service. Control of the Collaborative is vested in the Family Service Collaborative Board and includes at least one member from the public entities along with other members of the general public. Pennington County has accepted responsibility as the fiscal agent for reporting, claiming, and receiving payments.

Red Lake Watershed District

The Red Lake Watershed District was formed pursuant to Minnesota Statute, § 103D.201, effective January 25, 1969, and includes land within Beltrami, Clearwater, Itasca, Koochiching, Mahnomen, Marshall, Pennington, Red Lake, and Roseau Counties. Control of the District is vested in the Red Lake Watershed District Board of Managers which is composed of seven members having staggered terms of three years each, with two appointed by the Polk County Board and one each appointed by the County Boards of Beltrami, Clearwater, Marshall, Pennington, and Red Lake. Pennington County's responsibility does not extend beyond making this appointment.

REQUIRED SUPPLEMENTARY INFORMATION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,876,328	\$ 2,876,328	\$ 2,852,048	\$ (24,280)
Licenses and permits	1,113	1,113	3,871	2,758
Intergovernmental	1,419,240	1,419,240	1,234,175	(185,065)
Charges for services	1,226,841	1,226,841	1,075,874	(150,967)
Fines and forfeitures	21,500	21,500	25,098	3,598
Investment earnings	86,000	86,000	34,052	(51,948)
Miscellaneous	275,484	275,484	348,656	73,172
Total Revenues	\$ 5,906,506	\$ 5,906,506	\$ 5,573,774	\$ (332,732)
Expenditures				
Current				
General government				
Commissioners	\$ 222,888	\$ 222,888	\$ 215,362	\$ 7,526
District court	22,500	22,500	16,144	6,356
Court reporter	-	-	5	(5)
Law library	17,000	17,000	15,547	1,453
County auditor	253,577	253,577	251,046	2,531
License bureau	216,543	216,543	211,250	5,293
County treasurer	105,098	105,098	116,968	(11,870)
County assessor	217,039	217,039	206,252	10,787
Elections	58,568	58,568	48,266	10,302
Data processing	127,779	127,779	130,746	(2,967)
Attorney	314,581	314,581	317,499	(2,918)
Recorder	229,599	229,599	213,824	15,775
Buildings and grounds	294,916	294,916	264,842	30,074
Veterans service officer	97,447	97,447	94,716	2,731
Insurance	42,900	42,900	39,902	2,998
Other general government	61,800	61,800	64,106	(2,306)
Total general government	\$ 2,282,235	\$ 2,282,235	\$ 2,206,475	\$ 75,760

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 841,759	\$ 841,759	\$ 855,062	\$ (13,303)
Boat and water safety	-	-	1,309	(1,309)
Coroner	12,258	12,258	12,056	202
County jail	947,742	947,742	993,033	(45,291)
DARE program	3,500	3,500	3,372	128
Enhanced 911	87,000	87,000	16,631	70,369
Emergency services	26,090	26,090	43,004	(16,914)
Jail canteen fund	68,000	68,000	35,724	32,276
Juvenile justice	5,000	5,000	4,480	520
Law enforcement center	526,993	526,993	491,608	35,385
Community corrections	-	-	10	(10)
Probation and parole	38,500	38,500	51,144	(12,644)
Sentence to service	194,027	194,027	195,510	(1,483)
Training	4,000	4,000	3,691	309
Victim assistance	112,451	112,451	104,360	8,091
Other public safety	1,000	1,000	850	150
Total public safety	\$ 2,868,320	\$ 2,868,320	\$ 2,811,844	\$ 56,476
Human Services				
Buildings and grounds	\$ 43,873	\$ 43,873	\$ 17,505	\$ 26,368
Health				
Nursing service	\$ 65,000	\$ 65,000	\$ 49,906	\$ 15,094
County health officer	958	958	958	-
Parenting education	3,000	3,000	4,516	(1,516)
Total health	\$ 68,958	\$ 68,958	\$ 55,380	\$ 13,578
Culture and recreation				
Auditorium	\$ 43,154	\$ 43,154	\$ 20,831	\$ 22,323
Historical society	13,000	13,000	11,700	1,300
Regional library	80,000	80,000	80,000	-
Senior citizens	1,000	1,000	1,000	-
Snowmobile and ski trails	75,840	75,840	86,996	(11,156)
Total culture and recreation	\$ 212,994	\$ 212,994	\$ 200,527	\$ 12,467

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Agricultural society/county fair	\$ 10,500	\$ 10,500	\$ 20,164	\$ (9,664)
Agriculture inspection	35	35	35	-
Area Ag Information Center	5,000	5,000	5,000	-
Cooperative extension	158,488	158,488	137,401	21,087
Soil and water conservation	147,181	147,181	149,936	(2,755)
Other conservation of natural resources	-	-	275	(275)
Total conservation of natural resources	\$ 321,204	\$ 321,204	\$ 312,811	\$ 8,393
Economic development				
Economic development	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Minnesota Heartland	250	250	275	(25)
Red River Valley Development	800	800	800	-
Tri-Valley Opportunity Council	10,463	10,463	10,630	(167)
Total economic development	\$ 21,513	\$ 21,513	\$ 21,705	\$ (192)
Total Current Expenditures	\$ 5,819,097	\$ 5,819,097	\$ 5,626,247	\$ 192,850
Capital outlay				
Public safety	34,000	34,000	49,298	(15,298)
Total Expenditures	\$ 5,853,097	\$ 5,853,097	\$ 5,675,545	\$ 177,552
Excess of Revenues Over (Under) Expenditures	\$ 53,409	\$ 53,409	\$ (101,771)	\$ (155,180)
Fund Balance - January 1	4,293,807	4,293,807	4,293,807	-
Fund Balance - December 31	\$ 4,347,216	\$ 4,347,216	\$ 4,192,036	\$ (155,180)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,064,282	\$ 1,064,282	\$ 1,053,931	\$ (10,351)
Intergovernmental	5,312,100	5,312,100	2,817,837	(2,494,263)
Charges for services	63,000	63,000	106,515	43,515
Miscellaneous	168,191	168,191	152,415	(15,776)
Total Revenues	\$ 6,607,573	\$ 6,607,573	\$ 4,130,698	\$ (2,476,875)
Expenditures				
Current				
Highways and Streets				
Administration	\$ 284,863	\$ 284,863	\$ 262,400	\$ 22,463
Maintenance	337,196	337,196	261,912	75,284
Construction	3,892,500	3,892,500	1,529,523	2,362,977
Equipment maintenance and shop	1,540,745	1,540,745	1,285,777	254,968
Other highways and streets	113,000	113,000	99,193	13,807
Total highways and streets	\$ 6,168,304	\$ 6,168,304	\$ 3,438,805	\$ 2,729,499
Debt Service				
Principal retirement	\$ 80,000	\$ 80,000	\$ 80,000	\$ -
Interest	36,078	36,078	36,079	(1)
Total debt service	\$ 116,078	\$ 116,078	\$ 116,079	\$ (1)
Capital Outlay				
Highways and streets	\$ 236,000	\$ 236,000	\$ 51,000	\$ 185,000
Total Expenditures	\$ 6,520,382	\$ 6,520,382	\$ 3,605,884	\$ 2,914,498
Excess of Revenues Over (Under) Expenditures	\$ 87,191	\$ 87,191	\$ 524,814	\$ 437,623
Fund Balance - January 1	428,823	428,823	428,823	-
Increase (decrease) in reserved for inventories	-	-	(24,106)	(24,106)
Fund Balance - December 31	\$ 516,014	\$ 516,014	\$ 929,531	\$ 413,517

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,751,435	\$ 1,751,435	\$ 1,721,912	\$ (29,523)
Intergovernmental	2,537,070	2,537,070	2,636,767	99,697
Charges for services	68,000	68,000	221,909	153,909
Miscellaneous	231,000	231,000	104,965	(126,035)
Total Revenues	\$ 4,587,505	\$ 4,587,505	\$ 4,685,553	\$ 98,048
Expenditures				
Current				
Human Services				
Income maintenance	\$ 1,219,311	\$ 1,219,311	\$ 1,216,804	\$ 2,507
Social services	3,360,450	3,360,450	3,112,432	248,018
Total human services	\$ 4,579,761	\$ 4,579,761	\$ 4,329,236	\$ 250,525
Capital Outlay				
Human services	-	-	7,455	(7,455)
Total Expenditures	\$ 4,579,761	\$ 4,579,761	\$ 4,336,691	\$ 243,070
Excess of Revenues Over (Under) Expenditures	\$ 7,744	\$ 7,744	\$ 348,862	\$ 341,118
Fund Balance - January 1	1,128,643	1,128,643	1,128,643	-
Fund Balance - December 31	\$ 1,136,387	\$ 1,136,387	\$ 1,477,505	\$ 341,118

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ 152,000	\$ 152,000	\$ 184,340	\$ 32,340
Intergovernmental	-	-	272,743	272,743
Charges for services	-	-	12,612	12,612
Total Revenues	\$ 152,000	\$ 152,000	\$ 469,695	\$ 317,695
Expenditures				
Current				
Conservation of natural resources				
Administration	-	-	599	(599)
Ditch maintenance and repairs	152,000	152,000	511,750	(359,750)
Middle River/Snake River Watershed	-	-	409	(409)
Red Lake Watershed	-	-	2,002	(2,002)
Total conservation of natural resources	\$ 152,000	\$ 152,000	\$ 514,760	\$ (362,760)
Debt service				
Interest	-	-	2,171	(2,171)
Total Expenditures	\$ 152,000	\$ 152,000	\$ 516,931	\$ (364,931)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (47,236)	\$ (47,236)
Fund Balance - January 1	489,665	489,665	489,665	-
Fund Balance - December 31	\$ 489,665	\$ 489,665	\$ 442,429	\$ (47,236)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Miscellaneous	\$ 27,000	\$ 27,000	\$ 27,766	\$ 766
Expenditures				
Current				
Economic Development				
Airport	60,000	60,000	60,000	-
Excess of Revenues Over (Under) Expenditures	\$ (33,000)	\$ (33,000)	\$ (32,234)	\$ 766
Fund Balance - January 1	2,197,899	2,197,899	2,197,899	-
Fund Balance - December 31	<u>2,164,899</u>	<u>2,164,899</u>	<u>2,165,665</u>	<u>766</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 6

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
January 1, 2008	\$ -	\$ 518,648	\$ 518,648	\$ -	\$ 4,480,493	11.6%

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2010**

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2008	\$ 67,942	\$ 12,905	19.0%	\$ 55,037
December 31, 2009	68,453	18,603	27.2%	104,887
December 31, 2010	68,777	20,031	29.1%	153,633

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

I. Budgetary Information

A. Budget Policy

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year-end.

On or before the last Tuesday in August 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 a public hearing, and then a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restrictions of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2010:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Court reporter	\$ 5	\$ -	\$ (5)
County treasurer	116,968	105,098	(11,870)
Data processing	130,746	127,779	(2,967)
Attorney	317,499	314,581	(2,918)
Other general government	64,106	61,800	(2,306)
Public safety			
Sheriff	855,062	841,759	(13,303)
Boat and water safety	1,309	-	(1,309)
County jail	993,033	947,742	(45,291)
Emergency services	43,004	26,090	(16,914)
Community corrections	10	-	(10)
Probation and parole	51,144	38,500	(12,644)
Sentence to serve	195,510	194,027	(1,483)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Budgetary Information

B. Excess of Expenditures Over Budget (Continued)

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Health			
Parenting education	\$ 4,516	\$ 3,000	\$ (1,516)
Culture and recreation			
Snowmobile and ski trails	86,996	75,840	(11,156)
Conservation of natural resources			
Agricultural society/county fair	20,164	10,500	(9,664)
Soil and water conservation	149,936	147,181	(2,755)
Other conservation of natural resources	275	-	(275)
Economic development			
Minnesota Heartland	275	250	(25)
Tri-Valley Opportunity Council	10,630	10,463	(167)
Capital outlay			
Public safety	49,298	34,000	(15,298)
Road and Bridge Special Revenue Fund			
Debt service			
Interest	36,079	36,078	(1)
Human Services Special Revenue Fund			
Capital outlay			
Human services	7,455	-	(7,455)
Ditch Special Revenue Fund			
Conservation of natural resources			
Administration	599	-	(599)
Ditch maintenance and repairs	511,750	152,000	(359,750)
Middle River/Snake River Watershed	409	-	(409)
Red Lake Watershed	2,002	-	(2,002)
Debt service			
Interest	2,171	-	(2,171)

II. Other Post-Employment Benefits (OPEB)

Beginning in 2008, Pennington County implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. Currently, only one year's actuarial data is available. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as it becomes available. For more information, refer to the Notes to the Financial Statements Section IV., Other Post-Employment Benefits.

SUPPLEMENTARY INFORMATION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The Forfeited Tax Sale Special Revenue Fund is used to account for and report proceeds from the sale or rental of lands forfeited to the State of Minnesota pursuant to Minnesota Statutes, Chapter 282 and various forest and timber management grants. The net proceeds, after deducting allowable expenses, are restricted to various County funds and taxing districts. Titles to the tax-forfeited lands remains with the State until the lands are sold by the County.

The Solid Waste Special Revenue Fund is used to account for and report solid waste activities. Financing is provided by intergovernmental revenue and user service charges assigned for sanitation.

Debt Service Funds

The Elevator and Long's Bridge Debt Service Fund is used to account for and report the financial resources restricted for the payment of capital improvements bonds, interest, and related costs.

The Highway Capital Improvement Debt Service Fund is used to account for and report the financial resources restricted for the payment of highway capital improvement bonds, interest, and related costs.

The Law Enforcement Radio Debt Service Fund is used to account for and report the financial resources restricted for the payment of law enforcement radio bonds, interest, and related costs.

The Minimum Security Facility Debt Service Fund is used to account for and report the financial resources restricted for the payment of minimum security facility bonds, interest, and related costs.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	Solid Waste Special Revenue	Debt Service (Statement 4)	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 282,342	\$ 407,946	\$ 690,288
Taxes receivable - prior	303	12,330	12,633
Contracts receivable	-	93,044	93,044
Advances to other funds	283,177	-	283,177
Total Assets	\$ 565,822	\$ 513,320	\$ 1,079,142
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 969	\$ -	\$ 969
Due to other governments	2,710	-	2,710
Deferred revenue - unavailable	252	103,303	103,555
Total Liabilities	\$ 3,931	\$ 103,303	\$ 107,234
Fund Balances			
Non-spendable			
Advances to other funds	\$ 283,177	\$ -	\$ 283,177
Restricted for			
Debt service	-	410,017	410,017
Assigned to			
Cash flows	25,667	-	25,667
Sanitation	253,047	-	253,047
Total Fund Balances	\$ 561,891	\$ 410,017	\$ 971,908
Total Liabilities and Fund Balances	\$ 565,822	\$ 513,320	\$ 1,079,142

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Special Revenue (Statement 3)	Debt Service (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues			
Taxes	\$ -	\$ 260,170	\$ 260,170
Intergovernmental	55,950	31,396	87,346
Miscellaneous	5,478	-	5,478
	\$ 61,428	\$ 291,566	\$ 352,994
Expenditures			
Current			
Sanitation	\$ 50,921	\$ -	\$ 50,921
Conservation of natural resources	5,061	-	5,061
	\$ 55,982	\$ -	\$ 55,982
Debt Service			
Principal retirement	\$ -	\$ 240,000	\$ 240,000
Interest	-	68,782	68,782
	\$ -	\$ 308,782	\$ 308,782
Total Expenditures	\$ 55,982	\$ 308,782	\$ 364,764
Excess of Revenues Over (Under) Expenditures	\$ 5,446	\$ (17,216)	\$ (11,770)
Fund Balance - January 1	556,445	427,233	983,678
Fund Balance - December 31	\$ 561,891	\$ 410,017	\$ 971,908

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Forfeited Tax Sale	Solid Waste	Total (Statement 2)
Revenues			
Intergovernmental	\$ -	\$ 55,950	\$ 55,950
Miscellaneous	15	5,463	5,478
	\$ 15	\$ 61,413	\$ 61,428
Expenditures			
Current			
Sanitation	\$ -	\$ 50,921	\$ 50,921
Conservation of natural resources	5,061	-	5,061
	\$ 5,061	\$ 50,921	\$ 55,982
Excess of Revenues Over (Under) Expenditures	\$ (5,046)	\$ 10,492	\$ 5,446
Fund Balance - January 1	5,046	551,399	556,445
Fund Balance - December 31	\$ -	\$ 561,891	\$ 561,891

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2010**

	Elevator and Long's Bridge	Highway Capital Improvement
<u>Assets</u>		
Cash and pooled investments	\$ 103,295	\$ 125,498
Taxes receivable - prior	2,722	4,172
Contracts receivable	-	-
Total Assets	\$ 106,017	\$ 129,670
<u>Liabilities and Fund Balances</u>		
Liabilities		
Deferred revenue - unavailable	\$ 2,265	\$ 3,471
Fund Balances		
Restricted for debt service	103,752	126,199
Total Liabilities and Fund Balances	\$ 106,017	\$ 129,670

Statement 4

Law Enforcement Radio	Minimum Security Facility	Total (Statement 1)
\$ 81,272	\$ 97,881	\$ 407,946
2,348	3,088	12,330
<u>93,044</u>	<u>-</u>	<u>93,044</u>
<u>\$ 176,664</u>	<u>\$ 100,969</u>	<u>\$ 513,320</u>
\$ 94,998	\$ 2,569	\$ 103,303
<u>81,666</u>	<u>98,400</u>	<u>410,017</u>
<u>\$ 176,664</u>	<u>\$ 100,969</u>	<u>\$ 513,320</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Elevator and Long's Bridge	Highway Capital Improvement
Revenues		
Taxes	\$ 53,659	\$ 87,952
Intergovernmental	5,445	8,926
Total Revenues	\$ 59,104	\$ 96,878
Expenditures		
Debt Service		
Principal retirement	\$ 55,000	\$ 65,000
Interest	3,318	45,482
Total Expenditures	\$ 58,318	\$ 110,482
Excess of Revenues Over (Under) Expenditures	\$ 786	\$ (13,604)
Fund Balance - January 1	102,966	139,803
Fund Balance - December 31	\$ 103,752	\$ 126,199

Statement 5

<u>Law Enforcement Radio</u>	<u>Minimum Security Facility</u>	<u>Total (Statement 2)</u>
\$ 55,884	\$ 62,675	\$ 260,170
10,668	6,357	31,396
<u>\$ 66,552</u>	<u>\$ 69,032</u>	<u>\$ 291,566</u>
\$ 55,000	\$ 65,000	\$ 240,000
10,344	9,638	68,782
<u>\$ 65,344</u>	<u>\$ 74,638</u>	<u>\$ 308,782</u>
\$ 1,208	\$ (5,606)	\$ (17,216)
<u>80,458</u>	<u>104,006</u>	<u>427,233</u>
<u>\$ 81,666</u>	<u>\$ 98,400</u>	<u>\$ 410,017</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 10,000	\$ 10,000	\$ 15	\$ (9,985)
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	10,000	10,000	5,061	4,939
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (5,046)	\$ (5,046)
Fund Balance - January 1	5,046	5,046	5,046	-
Fund Balance - December 31	<u>\$ 5,046</u>	<u>\$ 5,046</u>	<u>\$ -</u>	<u>\$ (5,046)</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 55,000	\$ 55,000	\$ 55,950	\$ 950
Miscellaneous	10,000	10,000	5,463	(4,537)
Total Revenues	\$ 65,000	\$ 65,000	\$ 61,413	\$ (3,587)
Expenditures				
Current				
Sanitation				
Solid waste	\$ 6,200	\$ 6,200	\$ 6,812	\$ (612)
Recycling	55,000	55,000	44,109	10,891
Total Expenditures	\$ 61,200	\$ 61,200	\$ 50,921	\$ 10,279
Excess of Revenues Over (Under) Expenditures	\$ 3,800	\$ 3,800	\$ 10,492	\$ 6,692
Fund Balance - January 1	551,399	551,399	551,399	-
Fund Balance - December 31	\$ 555,199	\$ 555,199	\$ 561,891	\$ 6,692

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
ELEVATOR AND LONG'S BRIDGE DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 53,026	\$ 53,026	\$ 53,659	\$ 633
Intergovernmental	7,450	7,450	5,445	(2,005)
Total Revenues	\$ 60,476	\$ 60,476	\$ 59,104	\$ (1,372)
Expenditures				
Debt service				
Principal retirement	\$ 55,000	\$ 55,000	\$ 55,000	\$ -
Interest	3,338	3,338	3,318	20
Total Expenditures	\$ 58,338	\$ 58,338	\$ 58,318	\$ 20
Excess of Revenues Over (Under) Expenditures	\$ 2,138	\$ 2,138	\$ 786	\$ (1,352)
Fund Balance - January 1	102,966	102,966	102,966	-
Fund Balance - December 31	\$ 105,104	\$ 105,104	\$ 103,752	\$ (1,352)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 11

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY CAPITAL IMPROVEMENT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 89,240	\$ 89,240	\$ 87,952	\$ (1,288)
Intergovernmental	11,200	11,200	8,926	(2,274)
Total Revenues	\$ 100,440	\$ 100,440	\$ 96,878	\$ (3,562)
Expenditures				
Debt service				
Principal retirement	\$ 65,000	\$ 65,000	\$ 65,000	\$ -
Interest	45,519	45,519	45,482	37
Total Expenditures	\$ 110,519	\$ 110,519	\$ 110,482	\$ 37
Excess of Revenues Over (Under) Expenditures	\$ (10,079)	\$ (10,079)	\$ (13,604)	\$ (3,525)
Fund Balance - January 1	139,803	139,803	139,803	-
Fund Balance - December 31	\$ 129,724	\$ 129,724	\$ 126,199	\$ (3,525)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 12

**BUDGETARY COMPARISON SCHEDULE
LAW ENFORCEMENT RADIO DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 55,859	\$ 55,859	\$ 55,884	\$ 25
Intergovernmental	12,807	12,807	10,668	(2,139)
Total Revenues	\$ 68,666	\$ 68,666	\$ 66,552	\$ (2,114)
Expenditures				
Debt service				
Principal retirement	\$ 55,000	\$ 55,000	\$ 55,000	\$ -
Interest	10,364	10,364	10,344	20
Total Expenditures	\$ 65,364	\$ 65,364	\$ 65,344	\$ 20
Excess of Revenues Over (Under) Expenditures	\$ 3,302	\$ 3,302	\$ 1,208	\$ (2,094)
Fund Balance - January 1	80,458	80,458	80,458	-
Fund Balance - December 31	\$ 83,760	\$ 83,760	\$ 81,666	\$ (2,094)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 13

**BUDGETARY COMPARISON SCHEDULE
MINIMUM SECURITY FACILITY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 63,112	\$ 63,112	\$ 62,675	\$ (437)
Intergovernmental	8,800	8,800	6,357	(2,443)
Total Revenues	\$ 71,912	\$ 71,912	\$ 69,032	\$ (2,880)
Expenditures				
Debt service				
Principal retirement	\$ 65,000	\$ 65,000	\$ 65,000	\$ -
Interest	9,675	9,675	9,638	37
Total Expenditures	\$ 74,675	\$ 74,675	\$ 74,638	\$ 37
Excess of Revenues Over (Under) Expenditures	\$ (2,763)	\$ (2,763)	\$ (5,606)	\$ (2,843)
Fund Balance - January 1	104,006	104,006	104,006	-
Fund Balance - December 31	\$ 101,243	\$ 101,243	\$ 98,400	\$ (2,843)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

AGENCY FUNDS

The Group Insurance Agency Fund is used to account for the employer's share of group insurance. Funds are provided for payment of the insurance from the General Fund and special revenue funds.

The Inter-County Nursing Service Agency Fund is used to account for the cash transactions of the Inter-County Nursing Service.

The Northwest Minnesota Housing Redevelopment Authority Agency Fund is used to account for the collection and payment of funds due to the Northwest Minnesota Housing and Redevelopment Authority.

The Northwest Regional Development Commission Agency Fund is used to account for the collection and payment of funds due to the Northwest Regional Development Commission.

The Prepaid Taxes Agency Fund is used to account for the payment of taxes prior to the preparation of tax statements or prior to January 1 of the year due.

The School Districts Agency Fund is used to account for the collection and payment of funds due to school districts.

The State Agency Fund is used to account for the collection and payment of funds due to the State of Minnesota.

The Taxes and Penalties Agency Fund is used to account for the collection of taxes, penalties, and special assessments and their payment to the various County funds and taxing districts.

The Towns and Cities Agency Fund is used to account for the collection and payment of funds due to towns and cities.

The Watersheds Agency Fund is used to account for the collection and payment of funds due to watershed districts.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Statement 6

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>GROUP INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,606	\$ 1,484,215	\$ 1,465,044	\$ 26,777
<u>Liabilities</u>				
Accounts payable	\$ 7,606	\$ 1,484,215	\$ 1,465,044	\$ 26,777
 <u>INTER-COUNTY NURSING SERVICE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 143,386	\$ 1,326,613	\$ 1,167,482	\$ 302,517
<u>Liabilities</u>				
Due to other governments	\$ 143,386	\$ 1,326,613	\$ 1,167,482	\$ 302,517
 <u>NORTHWEST MINNESOTA HOUSING REDEVELOPMENT AUTHORITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 28,184	\$ 28,184	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 28,184	\$ 28,184	\$ -
 <u>NORTHWEST REGIONAL DEVELOPMENT COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 22,978	\$ 22,978	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 22,978	\$ 22,978	\$ -

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Statement 6
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>PREPAID TAXES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 17,403	\$ 34,582	\$ 35,653	\$ 16,332
<u>Liabilities</u>				
Due to other funds	\$ 17,403	\$ 34,582	\$ 35,653	\$ 16,332
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 3,316,624	\$ 3,316,624	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 3,316,624	\$ 3,316,624	\$ -
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 14,573	\$ 1,228,096	\$ 1,221,897	\$ 20,772
<u>Liabilities</u>				
Due to other governments	\$ 14,573	\$ 1,228,096	\$ 1,221,897	\$ 20,772
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 176,954	\$ 13,018,366	\$ 12,966,203	\$ 229,117
Due from other funds	-	16,332	-	16,332
Total Assets	\$ 176,954	\$ 13,034,698	\$ 12,966,203	\$ 245,449
<u>Liabilities</u>				
Due to other governments	\$ 176,954	\$ 13,034,698	\$ 12,966,203	\$ 245,449

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Statement 6
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,384,849	\$ 2,384,836	\$ 13
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 2,384,849	\$ 2,384,836	\$ 13
 <u>WATERSHEDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 388,325	\$ 388,325	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 388,325	\$ 388,325	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 359,922	\$ 23,232,832	\$ 22,997,226	\$ 595,528
Due from other funds	-	16,332	-	16,332
Total Assets	\$ 359,922	\$ 23,249,164	\$ 22,997,226	\$ 611,860
<u>Liabilities</u>				
Accounts payable	\$ 7,606	\$ 1,484,215	\$ 1,465,044	\$ 26,777
Due to other funds	17,403	34,582	35,653	16,332
Due to other governments	334,913	21,730,367	21,496,529	568,751
Total Liabilities	\$ 359,922	\$ 23,249,164	\$ 22,997,226	\$ 611,860

OTHER SCHEDULES

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2010**

	Assets		
	Cash	Special Assessments Receivable	
		Prior	Noncurrent
County Ditches			
1 - Rocksbury/North	\$ 1,151	\$ 66	\$ -
1 - Rocksbury/Sanders	10,667	-	-
16	4,691	22	-
21	1,681	206	-
32	12,441	-	-
33	618	-	-
35	3,484	388	-
36	31,987	128	-
37	7,053	102	-
38	31,516	640	-
39	7,514	172	-
41	34,402	953	-
42	1,493	-	-
43	5,825	73	-
44	28,424	111	-
45	8,167	107	-
46	6,058	6	-
47	10,846	4	-
49	-	1	-
51	-	2	-
53	7,319	13	-
55	1,166	24	-
57	12,771	17	-
58	12,663	58	-
59	4,159	40	-
62	11,168	374	-
70	37,812	89	-
71	6,669	-	-
73	504	-	-
74	860	-	-
75	37,351	492	-
77	16,909	-	-
96	27,966	434	-
109-2	550	-	31,608
Joint County Ditches			
1	9,698	628	-
11	6,540	113	-
13	26,009	1,392	-
15	8,721	1,097	-
18	11,057	90	-
25 - Branch 3	10,857	551	-
30	17,575	246	-
30 - Branch A	2,257	-	-
31	3,668	9	-
60	504	-	-
13 Red Lk/Penn	4,319	-	-
Watershed Ditches			
JD 14	11	-	-
109 - Red Lk Watershed	51	289	-
122 - Challenger Project	28	528	-
Total	\$ 487,180	\$ 9,465	\$ 31,608

Schedule 14

Due from Other Governments	Due from Other Ditches	Total
\$ -	\$ -	\$ 1,217
-	-	10,667
-	-	4,713
-	-	1,887
-	-	12,441
-	-	618
-	-	3,872
-	-	32,115
-	-	7,155
-	-	32,156
-	-	7,686
-	-	35,355
-	-	1,493
-	-	5,898
-	-	28,535
-	-	8,274
-	-	6,064
-	-	10,850
-	-	1
-	-	2
-	-	7,332
-	-	1,190
-	-	12,788
-	-	12,721
-	-	4,199
-	-	11,542
-	-	37,901
-	-	6,669
-	-	504
-	-	860
-	-	37,843
-	-	16,909
-	-	28,400
-	-	32,158
1,206	-	11,532
9	-	6,662
2,229	-	29,630
173	-	9,991
112	24,500	35,759
303,048	-	314,456
239	38,000	56,060
-	-	2,257
407	-	4,084
-	-	504
-	-	4,319
-	-	11
-	-	340
-	-	556
\$ 307,423	\$ 62,500	\$ 898,176

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2010**

	Liabilities				
	Accounts Payable	Due to Other Funds	Due to Other Governments	Deferred Revenue	Advances from Other Funds
County Ditches					
1 - Rocksbury/North	\$ -	\$ -	\$ -	\$ 55	\$ -
1 - Rocksbury/Sanders	-	-	-	-	-
16	-	-	-	18	-
21	-	-	-	171	-
32	-	-	-	-	-
33	-	-	-	-	-
35	-	-	-	323	-
36	-	-	-	107	-
37	-	-	-	85	-
38	-	264	-	533	-
39	-	-	-	143	-
41	-	-	-	793	-
42	-	-	-	-	-
43	-	-	-	61	-
44	-	-	-	92	-
45	-	-	-	89	-
46	-	-	-	5	-
47	-	-	-	3	-
49	-	-	-	1	-
51	-	-	-	2	-
53	15,420	-	-	11	-
55	-	-	-	20	-
57	-	-	-	14	-
58	-	-	-	48	-
59	-	-	-	33	-
62	-	-	-	311	-
70	-	-	-	74	-
71	-	-	-	-	-
73	-	-	-	-	-
74	-	-	-	-	-
75	-	-	-	409	-
77	-	-	-	-	-
96	-	-	-	361	-
109-2	-	-	-	31,848	32,589
Joint County Ditches					
1	-	-	1,330	523	-
11	-	-	60	94	-
13	-	-	-	1,158	-
15	-	-	162	913	-
18	-	-	-	75	-
25 - Branch 3	3,255	-	-	30,764	250,000
30	-	-	-	205	-
30 - Branch A	-	-	-	-	-
31	11,520	-	41	8	-
60	-	-	28	-	-
31 Red Lk/Penn	-	-	8,201	-	-
Watershed Ditches					
JD 14	-	-	-	-	-
Red Lk Watershed	-	-	-	-	-
122 - Challenger Project	-	-	-	439	588
Total	\$ 30,195	\$ 264	\$ 9,822	\$ 69,789	\$ 283,177

Schedule 14
(Continued)

<u>Due to Other Ditches</u>	<u>Total</u>	<u>Fund Balances Restricted for Conservation of Natural Resources</u>	<u>Total Liabilities and Fund Balances</u>
\$ 20,000	\$ 20,055	\$ (18,838)	\$ 1,217
-	-	10,667	10,667
-	18	4,695	4,713
-	171	1,716	1,887
-	-	12,441	12,441
1,000	1,000	(382)	618
-	323	3,549	3,872
-	107	32,008	32,115
-	85	7,070	7,155
-	797	31,359	32,156
17,000	17,143	(9,457)	7,686
-	793	34,562	35,355
6,500	6,500	(5,007)	1,493
-	61	5,837	5,898
-	92	28,443	28,535
-	89	8,185	8,274
-	5	6,059	6,064
-	3	10,847	10,850
-	1	-	1
-	2	-	2
-	15,431	(8,099)	7,332
18,000	18,020	(16,830)	1,190
-	14	12,774	12,788
-	48	12,673	12,721
-	33	4,166	4,199
-	311	11,231	11,542
-	74	37,827	37,901
-	-	6,669	6,669
-	-	504	504
-	-	860	860
-	409	37,434	37,843
-	-	16,909	16,909
-	361	28,039	28,400
-	64,437	(32,279)	32,158
-	1,853	9,679	11,532
-	154	6,508	6,662
-	1,158	28,472	29,630
-	1,075	8,916	9,991
-	75	35,684	35,759
-	284,019	30,437	314,456
-	205	55,855	56,060
-	-	2,257	2,257
-	11,569	(7,485)	4,084
-	28	476	504
-	8,201	(3,882)	4,319
-	-	11	11
-	-	340	340
-	1,027	(471)	556
\$ 62,500	\$ 455,747	\$ 442,429	\$ 898,176

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 15

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010**

Shared Revenue

State

County program aid	\$	820,412
Disparity reduction aid		94,134
Enhanced 911		87,184
Highway users tax		2,043,029
Market value credit		478,713
PERA rate reimbursement		16,384
Police state aid		52,947

Total Shared Revenue **\$ 3,592,803**

Payments

Payments in lieu of taxes	\$	20,626
City of Thief River Falls		5,000

Total Payments **\$ 25,626**

Grants

Local

Kittson County	\$	16,500
Marshall County		22,500

Total Local **\$ 39,000**

State

Minnesota Department/Board of

Corrections	\$	48,996
Human Services		784,944
Natural Resources		88,023
Peace Officers Standards and Training		4,302
Pollution Control		55,950
Public Safety		150,624
Transportation		111,972
Veterans Affairs		25,000
Water and Soil Resources		9,931

Total State **\$ 1,279,742**

Federal

Department of

Agriculture	\$	111,923
Transportation		374,961
Health and Human Services		1,392,018
Homeland Security		232,795

Total Federal **\$ 2,111,697**

Total Grants **\$ 3,430,439**

Total Intergovernmental Revenue **\$ 7,048,868**

MANAGEMENT AND COMPLIANCE SECTION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 16

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of Pennington County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Pennington County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The significant deficiencies were not material weaknesses.
- C. No instances of noncompliance material to the financial statements of Pennington County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program was reported in the "Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Pennington County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program was the Medical Assistance Program, CFDA #93.778.
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Pennington County was determined to be a low-risk auditee.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**Schedule 16
(Continued)**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 **Segregation of Duties**

Due to the limited number of personnel within several County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Pennington 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 accounting control point of view.

A deficiency in internal control 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.

We recommend that Pennington County's management be aware of the absence of segregation of duties within the accounting and data processing functions and, if possible, implement oversight procedures to ensure that internal control policies and procedures are being implemented by staff.

County's Response:

Management is aware of this and will provide oversight where needed.

07-1 **Internal Controls**

The financial statements are the responsibility of the County's management. Internal control over financial reporting is a process designed to provide reasonable assurance about the achievement of the County's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the County's objective of reliable financial reporting. In this section, the term financial reporting relates to the preparation of reliable financial statements that are fairly presented in conformity with GAAP.

Management must implement internal controls over financial reporting and safeguarding of assets, and continue to be aware of their responsibility and obtain suitable knowledge to sufficiently review, understand, and approve the County's financial statements, including notes.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 16
(Continued)

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-7 Ditch Special Revenue Fund Balance Deficits

Ten of the 48 active individual ditch systems had deficit restricted fund balances at December 31, 2010, totaling \$102,730, the largest being \$32,279. Minnesota Statute, § 103E.735, subdivision 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County eliminate the individual ditch system fund balance deficits by levying assessments pursuant to Minnesota Statute, § 103E.735, which permits the accumulation of a surplus balance for future repairs and maintenance costs of a ditch system.

County's Response:

The County Board levies each year in an attempt to provide enough funds to cover estimated work planned for in the coming year. Sometimes more work is required than the County Board feels the benefited owners can afford to pay in one year. The Board then spreads the levy over a number of years.



Colleen Hoffman, Manager
Gordon Dale, CPA
Audrey Swenson, CPA

GOVERNMENTAL AUDIT SERVICES

1845 Highway 59 South
Suite 1100
Thief River Falls, MN 56701
Phone: 218-681-4078
Fax: 218-681-4079
choffman@mncable.net

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

Board of County Commissioners
Pennington County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennington County as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 7, 2011. 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.

Internal Control Over Financial Reporting

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

A deficiency in internal control 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 a 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-1 and 07-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven categories of compliance to be tested: depositories of public funds and public investments, conflicts of interest, public indebtedness, contracting - bid laws, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories. The results of our tests indicate that for the items tested, the Pennington County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment, item 96-7. We believe this recommendation to be of benefit to Pennington County and is reported for that purpose.

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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



Hoffman, Dale, & Swenson, PLLC

July 7, 2011



Colleen Hoffman, Manager
Gordon Dale, CPA
Audrey Swenson, CPA

GOVERNMENTAL AUDIT SERVICES

1845 Highway 59 South

Suite 1100

Thief River Falls, MN 56701

Phone: 218-681-4078

Fax: 218-681-4079

choffman@mncable.net

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners
Pennington County

Compliance

We have audited Pennington County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2010. The County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audits 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 Pennington County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Pennington County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Pennington County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennington County as of and for the year ended December 31, 2010, and have issued our report thereon dated July 7, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

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



Hoffman, Dale, & Swenson, PLLC

July 7, 2011

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 17

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services Supplemental Nutrition Assistance Program	10.551	\$ 604
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	111,319
Total U.S. Department of Agriculture		\$ 111,923
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 374,154
Passed Through Minnesota Department of Public Safety Safety Belt Performance Grants	20.609	807
Total U.S. Department of Transportation		\$ 374,961
U.S. Department of Health and Human Services		
Passed Through Northwest Regional Development Commission Special Programs for the Aging - Title III B	93.044	\$ 7,405
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	1,294
Temporary Assistance for Needy Families	93.558	135,821
Child Support Enforcement	93.563	313,478
Refugee and Entrant Assistance State Administered Programs	93.566	136
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	5,314
Child Welfare Services - State Grants	93.645	868
Foster Care Title IV-E	93.658	122,635
Social Services Block Grant	93.667	136,520
Chafee Foster Care Independence Program	93.674	2,908

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

***Schedule 17
(Continued)***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services (Continued)		
Children's Health Insurance Program	93.767	156
Medical Assistance Program	93.778	\$ 665,483
Total U.S. Department of Health and Human Services		\$ 1,392,018
U.S. Department of Homeland Security		
Direct		
Emergency Food and Shelter National Board Program	97.024	\$ 3,000
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance	97.036	215,918
Emergency Management Performance Grants	97.042	13,877
Total U.S. Department of Homeland Security		\$ 232,795
Total Federal Awards		\$ 2,111,697

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. Reporting Entity

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

II. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pennington County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office 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 Pennington County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Pennington County.

III. 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.

IV. Subrecipients

During 2010, the County did not pass any federal money to subrecipients.