

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2012

**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		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	Exhibit 1	14
Statement of Activities	Exhibit 2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	17
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Governmental Activities	Exhibit 4	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Governmental Activities	Exhibit 6	22
Fiduciary Funds		
Statement of Fiduciary Net Position	Exhibit 7	23
Notes to the Financial Statements		24
 Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	53
Road and Bridge Special Revenue Fund	Schedule 2	56
Human Services Special Revenue Fund	Schedule 3	57
Ditch Special Revenue Fund	Schedule 4	58
Capital Improvement Special Revenue Fund	Schedule 5	59
Other Post-Employment Benefit Plan		
Schedule of Funding Progress	Schedule 6	60
Schedule of Employer Contributions	Schedule 7	61
Notes to the Required Supplementary Information		62
 Supplementary Information		
Governmental Funds		
Combining Balance Sheet – Nonmajor Governmental Funds	Statement 1	65
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds	Statement 2	66

**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	67
Combining Balance Sheet – Nonmajor Debt Service Funds	Statement 4	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Debt Service Funds	Statement 5	70
Budgetary Comparison Schedules – Nonmajor Special Revenue Funds		
Forfeited Tax Sale Fund	Schedule 8	72
Solid Waste Fund	Schedule 9	73
Budgetary Comparison Schedules – Nonmajor Debt Service Funds		
Highway Capital Improvement Fund	Schedule 10	74
Law Enforcement Radio Fund	Schedule 11	75
Minimum Security Facility Fund	Schedule 12	76
Fiduciary Funds		
Combining Statement of Changes in Fiduciary Net Position – All Agency Funds	Statement 6	78
Other Schedules		
Balance Sheet – By Ditch – Ditch Special Revenue Fund	Schedule 13	81
Schedule of Intergovernmental Revenue	Schedule 14	85
 <u>Management and Compliance Section</u>		
Schedule of Findings and Questioned Costs	Schedule 15	86
Independent Auditor’s 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>		89
Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report On the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133		91
Schedule of Expenditures of Federal Awards	Schedule 16	94
Notes to the Schedule of Expenditures of Federal Awards		96

INTRODUCTORY SECTION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

ORGANIZATION SCHEDULE
DECEMBER 31, 2012

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1 st District	Donald Jensen	January 2017
2 nd District	Cody Hempel	January 2017
3 rd District	Neil Peterson	January 2015
4 th District	Darryl Tveitbakk	January 2015
5 th District	Oliver Swanson, Chair	January 2017
Officers		
Elected:		
Attorney	Alan Rogalla	January 2015
Auditor	Kenneth Olson	January 2015
Coroner	Richard Heinrichs ¹	January 2015
Recorder	Kenneth Schmalz	January 2015
Sheriff	Ray Kuznia	January 2015
Treasurer	Vickie Bjorgaard	January 2015
Appointed:		
Assessor	Adeline Olson	January 2017
Highway Engineer	Michael Flaagan	May 2013
Human Services Director	Kenneth Yutrzenka	Indefinite
Solid Waste Officer	Howard Person	Indefinite
Veterans Service Officer	Steve Stone	Indefinite

¹ Replaced by Sanjay Patel on April 1, 2013.

FINANCIAL SECTION



GOVERNMENTAL AUDIT SERVICES

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

1541 Hwy. 59 South
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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the 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, Minnesota, as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Notes I and II, Pennington County has implemented Governmental Accounting Standards Board Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and 65, *Items Previously Reported as Assets and Liabilities*, which required a change in accounting principles and resulted in adjustments to beginning net position.

Other Matters

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 States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accompanying Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pennington County's basic financial statements. The introductory section, the supplementary information, and the other schedules section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and other schedules sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

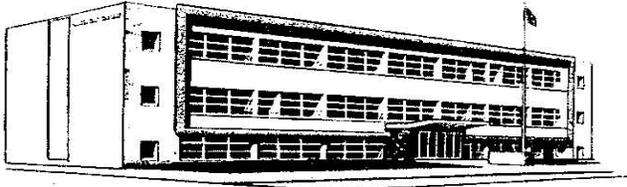
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2013, 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* in considering the County's internal control over financial reporting and compliance.

Hoffman, Dale, & Swenson

Hoffman, Dale, & Swenson, PLLC

August 20, 2013



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, 2012. 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 position of governmental activities is \$59,031,946, of which \$48,361,723 is the net investment in capital assets, \$1,898,309 is restricted for specific purposes, and \$8,771,914 is unrestricted. The total net position of governmental activities increased by \$827,877 for the year ended December 31, 2012. This is attributed mainly to road construction funded by County State Aid Highway grants.

At the close of 2012, the County's governmental funds reported combined ending fund balances of \$11,499,890, an increase of \$361,607, from the prior year. Of the total fund balance amount, \$464,427 is non-spendable, \$2,287,957 is legally or contractually restricted, \$6,196,353 is formally committed for specific purposes, and \$2,551,153 is assigned for specific purposes. 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, deferred outflows, liabilities, and deferred inflows 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 Position* presents information on all of the County's assets, deferred outflows, liabilities, and deferred inflows, with the residual of all elements reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 6, Combining Statement of Changes in Fiduciary Net Position, 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 24 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 and other information including combining statements, budgetary comparison schedules, a ditch balance sheet, and a schedule of intergovernmental revenue.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County’s financial position. The County’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$59,031,946 at the close of 2012. The largest portion of the County’s net position (approximately 82 percent) reflects its net investment in capital assets (i.e., land, infrastructure, buildings and improvements, and machinery and equipment). It should be noted that this amount is not available for future spending. Approximately three percent of the County’s net position is restricted and 15 percent of the County’s net position is unrestricted. The unrestricted net position amount of \$8,771,914, as of December 31, 2012, may be used to meet the County’s ongoing obligations to citizens.

The County’s overall financial position increased from last year. Total assets and deferred outflows of resources increased by \$1,298,377, from the prior year, due to completed highway construction projects added to infrastructure and various equipment purchases. Total liabilities and deferred inflows of resources increased by \$470,500, from the prior year, as a result of increased contracts payable and OPEB liability. This resulted in an increased net position of \$827,877 from the prior year.

NET POSITION

	Governmental Activities	
	2012	2011 as restated
Current and other assets	\$ 13,052,092	\$ 11,925,632
Capital assets	50,402,839	50,178,912
Total assets	\$ 63,454,931	\$ 62,104,544
Deferred outflows		
Special assessments - noncurrent	\$ 104,330	\$ 28,099
County State Aid Highway Allotment	681,986	810,227
Total deferred outflows	\$ 786,316	\$ 838,326

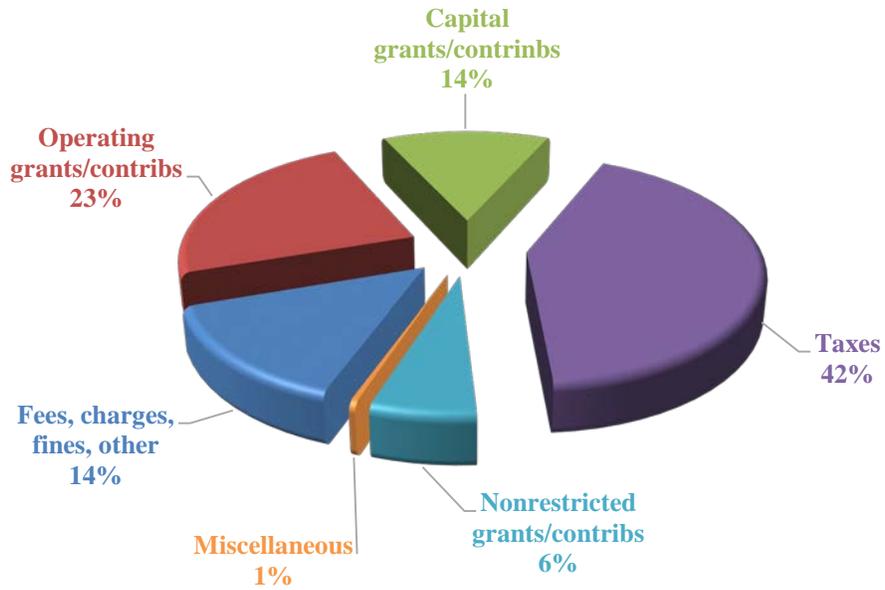
NET POSITION (Continued)

	Governmental Activities	
	2012	2011 as restated
Other liabilities	\$ 731,004	\$ 571,332
Long-term liabilities outstanding	2,844,452	3,083,339
Total liabilities	\$ 3,575,456	\$ 3,654,671
Deferred inflows		
Taxes	\$ 183,228	\$ 194,240
Notes	31,000	46,000
Special assessments	110,268	33,663
County State Aid Highway Allotment	1,309,349	810,227
Total deferred inflows	\$ 1,633,845	\$ 1,084,130
Net position		
Net investment in capital assets	\$ 48,361,723	\$ 48,233,196
Restricted	1,898,309	2,267,946
Unrestricted	8,771,914	7,702,927
Total net position	\$ 59,031,946	\$ 58,204,069

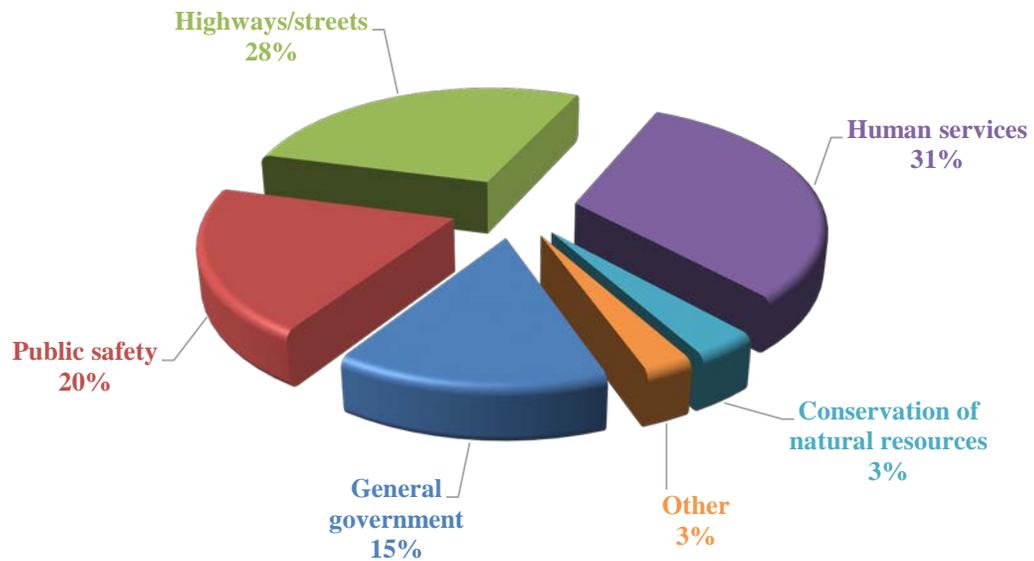
CHANGES IN NET POSITION

	Governmental Activities	
	2012	2011
Revenues		
Program Revenues		
Fees, charges, fines and other	\$ 2,331,138	\$ 2,536,131
Operating grants and contributions	3,833,153	3,634,648
Capital grants and contributions	2,208,965	2,582,140
General Revenues		
Taxes	6,946,579	6,220,848
Grants and contributions not restricted to specific programs	1,019,042	1,409,913
Payments in lieu of taxes	34,024	37,199
Investment earnings	29,603	32,874
Total revenues	\$ 16,402,504	\$ 16,453,753
Expenses		
General government	\$ 2,314,163	\$ 2,336,125
Public safety	3,087,412	2,991,878
Highways and streets	4,301,833	4,477,174
Sanitation	51,828	54,892
Human services	4,905,928	4,395,542
Health	54,421	52,341
Culture and recreation	209,478	198,362
Conservation of natural resources	548,204	746,469
Economic development	29,575	147,575
Interest	71,785	83,537
Total expenses	\$ 15,574,627	\$ 15,483,895
Increase (decrease)	\$ 827,877	\$ 969,858
Net assets, January 1, as previously reported	-	58,329,208
Prior period adjustment	-	(1,094,997)
Net position, January 1, as restated	58,204,069	-
Net position, December 31	\$ 59,031,946	\$ 58,204,069

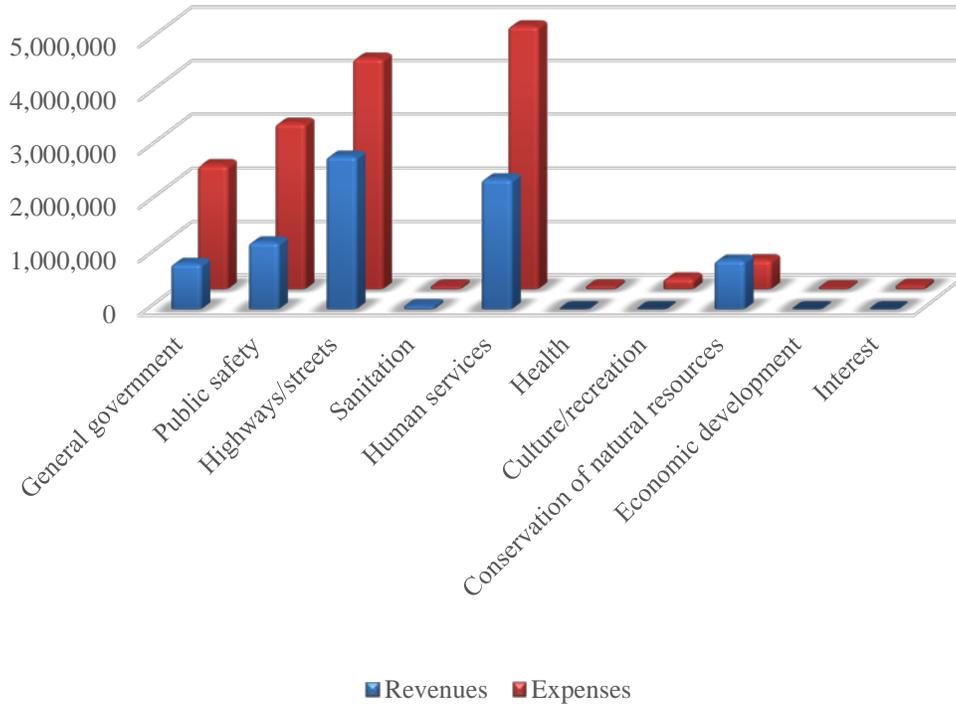
Revenues by Source



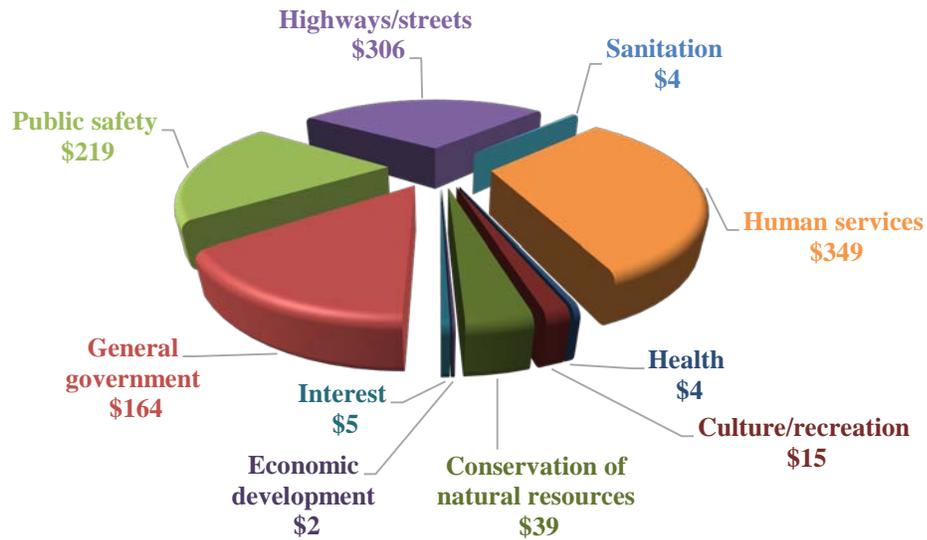
Expenses by Function



Program Revenues & Expenses



Expenditure Per Capita 14,074 Population as of July 1, 2012



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, unrestricted 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 2012, the County's governmental funds reported combined ending fund balances of \$11,499,890. Of this amount, approximately four percent constitutes non-spendable fund balance, 20 percent constitutes legally or contractually restricted fund balance, 54 percent constitutes formally committed fund balance, and 22 percent constitutes specifically assigned 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 \$5,174,104. The General Fund's restricted fund balance was \$1,116,247 and committed fund balance was \$4,057,857. 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 2012. Unrestricted fund balance represents 69 percent of total General Fund expenditures, while total fund balance represents 87.5 percent of that same amount.

In 2012, the fund balance amount in the General Fund increased by \$550,049, due to a modest levy increase, postponement of staff replacements, and cuts in departmental spending.

The fund balance of the Road and Bridge Special Revenue Fund decreased \$463,457 in 2012, due to the timing of payments from County State Aid Highway funding.

The fund balance of the Human Services Special Revenue Fund decreased \$226,789 from the prior year, due to sky-rocketing costs for out-of-home placements.

The fund balance of the Ditch Special Revenue Fund increased \$473,808 from the prior year, due to the receipt of prepaid special assessments on two large Red Lake Watershed projects.

The fund balance of the Capital Improvement Special Revenue Fund increased \$2,830 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no amendments to the original budget as approved for 2012.

Actual revenues were more than overall budgeted revenues by \$388,952, with the largest positive variances in intergovernmental and miscellaneous revenues. Actual expenditures were less than overall final budgeted expenditures by \$214,097, 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, 2012 amounted to \$50,402,839 (net of accumulated depreciation). The total increase in the County's investment in capital assets for the current fiscal year was less than one percent. This was primarily due to completed highway projects added to infrastructure and various equipment purchases.

	Governmental Activities	
	2012	2011
Land	\$ 464,569	\$ 464,569
Infrastructure	47,169,000	46,964,913
Buildings and improvements	1,625,827	1,773,469
Machinery and equipment	1,143,443	975,961
Total capital assets	<u>\$ 50,402,839</u>	<u>\$ 50,178,912</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 \$2,041,116 which is backed by the full faith and credit of the government.

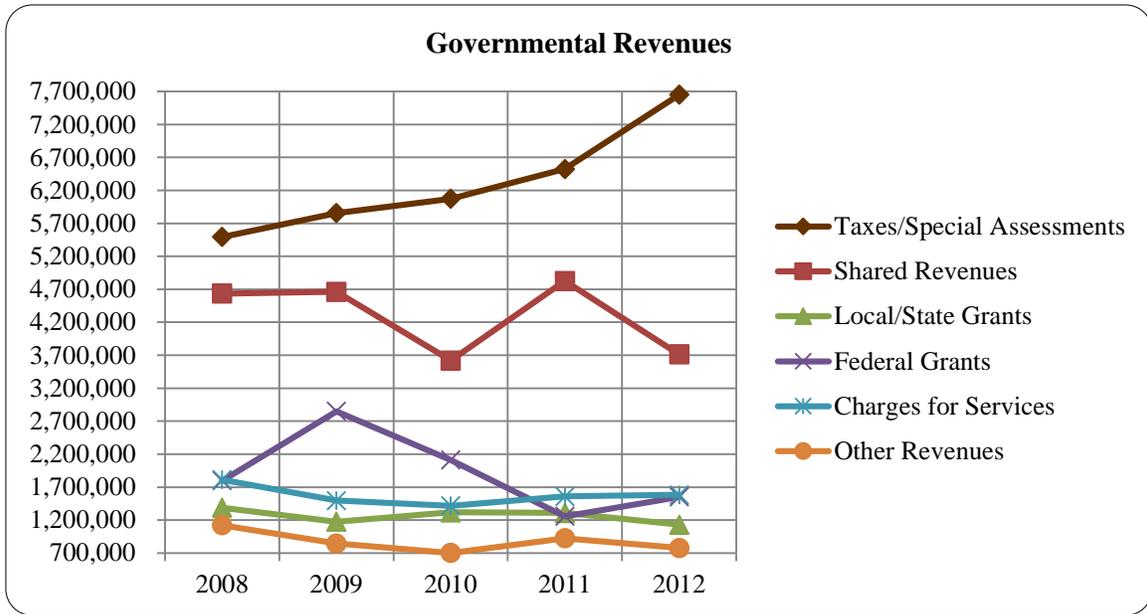
	Governmental Activities	
	2012	2011
General Obligation Bonds (net of discount)	\$ 1,140,116	\$ 1,373,358
General Obligation Highway State-Aid Note	901,000	986,000
	<u>\$ 2,041,116</u>	<u>\$ 2,359,358</u>

The County's net decrease in debt of \$318,242 or 13.5 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 2012, 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 County depends on financial resources flowing from, or associated with, both the Federal Government and the State of Minnesota. Because of this dependency, the County is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities. The five-year analysis below focuses on the revenues of the County's governmental funds taken from Exhibit 5 and the Schedule of Intergovernmental Revenue.



- The unemployment rate for Pennington County was 6.1 percent as of December 31, 2012. This is higher than the statewide rate of 5.4 percent and lower than the national average rate of 7.6 percent.
- Pennington County's population at July 1, 2012 was 14,074, an increase of 144 since 2010. This ranks Pennington County 59th of 87 in the State of Minnesota.
- On December 11, 2012, Pennington County set its 2013 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 POSITION
DECEMBER 31, 2012**

		<u>Governmental Activities</u>
<u>Assets</u>		
Cash and pooled investments	\$	11,308,974
Taxes receivable - prior		221,838
Special assessments receivable - prior		7,189
Accounts receivable		74,208
Notes receivable		31,000
Accrued interest receivable		2,994
Due from other governments		1,047,062
Inventories		358,827
Capital assets		
Non-depreciable		464,569
Depreciable - net of accumulated depreciation		49,938,270
		<hr/>
Total Assets	\$	63,454,931
<u>Deferred Outflows</u>		
Special assessments - noncurrent	\$	104,330
County State Aid Highway Allotment		681,986
		<hr/>
Total Deferred Outflows	\$	786,316
<u>Liabilities</u>		
Accounts payable	\$	418,951
Salaries payable		125,055
Contracts payable		61,854
Due to other governments		98,813
Accrued interest payable		26,331
Long-term liabilities		
Due within one year		750,285
Due in more than one year		2,094,167
		<hr/>
Total Liabilities	\$	3,575,456
<u>Deferred Inflows</u>		
Taxes	\$	183,228
Notes		31,000
Special assessments		110,268
County State Aid Highway Allotment		1,309,349
		<hr/>
Total Deferred Inflows	\$	1,633,845

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

<u>Net Position</u>	<u>Governmental Activities</u>
Net investment in capital assets	\$ 48,361,723
Amounts restricted for	
General government	332,289
Public safety	305,718
Conservation of natural resources	816,920
Debt service	443,382
Unrestricted amounts	<u>8,771,914</u>
Total Net Position	<u>\$ 59,031,946</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Program Revenues			Net (Expense)	
Expenses	Fees, Charges, Fines and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	
Functions/Programs					
Governmental activities					
General government	\$ 2,314,163	\$ 843,776	\$ 5,098	\$ 6,367	\$ (1,458,922)
Public safety	3,087,412	804,351	330,970	118,849	(1,833,242)
Highways and streets	4,301,833	250,881	1,216,610	1,380,432	(1,453,910)
Sanitation	51,828	8,249	55,950	-	12,371
Human services	4,905,928	410,259	2,023,973	-	(2,471,696)
Health	54,421	-	-	-	(54,421)
Culture and recreation	209,478	-	-	-	(209,478)
Conservation of natural resources	548,204	13,622	200,552	703,317	369,287
Economic development	29,575	-	-	-	(29,575)
Interest	71,785	-	-	-	(71,785)
Total governmental activities	\$ 15,574,627	\$ 2,331,138	\$ 3,833,153	\$ 2,208,965	\$ (7,201,371)
General revenues					
Property taxes					\$ 6,929,745
Gravel taxes					16,834
Grants and contributions not restricted to specific programs					1,019,042
Payments in lieu of taxes					34,024
Investment earnings					29,603
Total general revenues					\$ 8,029,248
Change					\$ 827,877
Net assets - January 1, as previously reported					\$ 59,299,066
Prior period adjustment					(1,094,997)
Net position - January 1, as restated					\$ 58,204,069
Net position - December 31					\$ 59,031,946

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds					Other Governmental Funds (Statement 1)	Total Governmental Funds
	General Fund	Road and Bridge	Human Services	Ditch	Capital Improvement		
<u>Assets and Deferred Outflows</u>							
Assets							
Cash and pooled investments	\$ 5,035,725	\$ 796,784	\$ 1,545,107	\$ 874,724	\$ 2,138,496	\$ 918,138	\$ 11,308,974
Taxes receivable - prior	108,640	38,708	65,204	-	-	9,286	221,838
Special assessments receivable - prior	-	-	-	7,189	-	-	7,189
Accounts receivable	56,136	18,072	-	-	-	-	74,208
Notes receivable	-	-	-	-	31,000	-	31,000
Accrued interest receivable	2,994	-	-	-	-	-	2,994
Due from other funds	20,733	-	-	-	-	-	20,733
Due from other governments	250,271	607,810	154,713	34,268	-	-	1,047,062
Inventories	-	358,827	-	-	-	-	358,827
Advances to other funds	-	-	-	-	-	105,600	105,600
Total Assets	\$ 5,474,499	\$ 1,820,201	\$ 1,765,024	\$ 916,181	\$ 2,169,496	\$ 1,033,024	\$ 13,178,425
Deferred Outflows							
Special assessments - noncurrent	\$ -	\$ -	\$ -	\$ 104,330	\$ -	\$ -	\$ 104,330
County State Aid Highway Allotment	-	681,986	-	-	-	-	681,986
Total Deferred Outflows	\$ -	\$ 681,986	\$ -	\$ 104,330	\$ -	\$ -	\$ 786,316
Total Assets and Deferred Outflows	\$ 5,474,499	\$ 2,502,187	\$ 1,765,024	\$ 1,020,511	\$ 2,169,496	\$ 1,033,024	\$ 13,964,741

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund	Special Revenue Funds			Capital Improvement	Other Governmental Funds (Statement 1)	Total Governmental Funds
		Road and Bridge	Human Services	Ditch			
Liabilities, Deferred Inflows and Fund Balances							
Liabilities							
Accounts payable	\$ 104,312	\$ 87,171	\$ 180,587	\$ 46,010	\$ -	\$ 871	\$ 418,951
Salaries payable	69,384	20,300	35,371	-	-	-	125,055
Contracts payable	-	61,854	-	-	-	-	61,854
Due to other funds	-	-	20,733	-	-	-	20,733
Due to other governments	36,967	11,895	47,891	-	-	2,060	98,813
Advances from other funds	-	-	-	105,600	-	-	105,600
Total Liabilities	\$ 210,663	\$ 181,220	\$ 284,582	\$ 151,610	\$ -	\$ 2,931	\$ 831,006
Deferred Inflows							
Taxes	\$ 89,732	\$ 31,971	\$ 53,856	\$ -	\$ -	\$ 7,669	\$ 183,228
Notes	-	-	-	-	31,000	-	31,000
Special assessments	-	-	-	110,268	-	-	110,268
County State Aid Highway Allotment	-	1,279,044	-	30,305	-	-	1,309,349
Total Deferred Inflows	\$ 89,732	\$ 1,311,015	\$ 53,856	\$ 140,573	\$ 31,000	\$ 7,669	\$ 1,633,845
Fund Balances							
Non-spendable							
Advances to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,600	\$ 105,600
Inventories	-	358,827	-	-	-	-	358,827
Restricted for							
Attorney forfeited property	12,717	-	-	-	-	-	12,717
County Veterans Service Office Enhancement Grant	2,298	-	-	-	-	-	2,298
Debt service	-	-	-	-	-	443,382	443,382
Drug and Alcohol Resistance Education	8,784	-	-	-	-	-	8,784
Enhanced 911	465,458	-	-	-	-	-	465,458
Handgun permits	25,378	-	-	-	-	-	25,378
Law library	31,630	-	-	-	-	-	31,630
Conservation of natural resources	88,592	-	-	728,328	-	-	816,920
Probation	13,735	-	-	-	-	-	13,735
Recorder's equipment	120,632	-	-	-	-	-	120,632
SCORE	175,913	-	-	-	-	-	175,913
Sheriff's forfeited property	6,098	-	-	-	-	-	6,098
Technology	165,012	-	-	-	-	-	165,012
Committed to							
Capital improvements	2,458,331	-	-	-	2,138,496	-	4,596,827
Jail canteen	85,546	-	-	-	-	-	85,546
Juvenile restitution	10,557	-	-	-	-	-	10,557
Operations	1,500,000	-	-	-	-	-	1,500,000
Parents forever	3,423	-	-	-	-	-	3,423
Assigned to							
Highways and streets	-	651,125	-	-	-	-	651,125
Human services	-	-	1,426,586	-	-	-	1,426,586
Sanitation	-	-	-	-	-	473,442	473,442
Total Fund Balances	\$ 5,174,104	\$ 1,009,952	\$ 1,426,586	\$ 728,328	\$ 2,138,496	\$ 1,022,424	\$ 11,499,890
Total Liabilities, Deferred Inflows and Fund Balances	\$ 5,474,499	\$ 2,502,187	\$ 1,765,024	\$ 1,020,511	\$ 2,169,496	\$ 1,033,024	\$ 13,964,741

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)	\$	11,499,890
<p>Amounts reported for governmental activities in the Statement of Net Position 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>		50,402,839
<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	\$ (26,331)	
General obligation bonds	(1,140,116)	
General obligation notes	(901,000)	
Compensated absences payable	(574,681)	
Other post-employment benefits	(228,655)	(2,870,783)
Net position of governmental activities (Exhibit 1)	\$	<u>59,031,946</u>

**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, 2012**

	Special Revenue Funds					Other Governmental Funds (Statement 2)	Total Governmental Funds
	General Fund	Road and Bridge	Human Services	Ditch	Capital Improvement		
Revenues							
Taxes	\$ 3,530,603	\$ 1,181,284	\$ 1,993,064	\$ -	\$ -	\$ 241,628	\$ 6,946,579
Special assessments	-	-	-	703,317	-	-	703,317
Licenses and permits	9,532	-	-	-	-	-	9,532
Intergovernmental	1,263,373	2,781,826	2,236,690	-	-	109,978	6,391,867
Charges for services	1,194,742	83,042	302,328	3,963	-	-	1,584,075
Fines and forfeitures	20,999	-	-	-	-	-	20,999
Investment earnings	29,603	-	-	-	-	-	29,603
Miscellaneous	417,386	167,839	107,931	-	15,000	8,376	716,532
Total Revenues	\$ 6,466,238	\$ 4,213,991	\$ 4,640,013	\$ 707,280	\$ 15,000	\$ 359,982	\$ 16,402,504
Expenditures							
Current							
General government	\$ 2,267,297	\$ -	\$ -	\$ -	\$ 12,170	\$ -	\$ 2,279,467
Public safety	2,935,040	-	-	-	-	-	2,935,040
Highways and streets	-	4,447,204	-	-	-	-	4,447,204
Sanitation	-	-	-	-	-	51,828	51,828
Human services	25,598	-	4,844,042	-	-	-	4,869,640
Health	54,421	-	-	-	-	-	54,421
Culture and recreation	208,476	-	-	-	-	-	208,476
Conservation of natural resources	314,096	-	-	228,749	-	127	542,972
Economic development	29,575	-	-	-	-	-	29,575
Total Current	\$ 5,834,503	\$ 4,447,204	\$ 4,844,042	\$ 228,749	\$ 12,170	\$ 51,955	\$ 15,418,623
Debt Service							
Principal retirement	\$ -	\$ 85,000	\$ -	\$ -	\$ -	\$ 235,000	\$ 320,000
Interest	-	30,960	-	4,723	-	42,523	78,206
Total Debt Service	\$ -	\$ 115,960	\$ -	\$ 4,723	\$ -	\$ 277,523	\$ 398,206
Capital Outlay							
General government	\$ 11,222	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,222
Public safety	70,464	-	-	-	-	-	70,464
Highways and streets	-	248,709	-	-	-	-	248,709
Human services	-	-	22,760	-	-	-	22,760
Sanitation	-	-	-	-	-	5,338	5,338
Total Capital Outlay	\$ 81,686	\$ 248,709	\$ 22,760	\$ -	\$ -	\$ 5,338	\$ 358,493
Total Expenditures	\$ 5,916,189	\$ 4,811,873	\$ 4,866,802	\$ 233,472	\$ 12,170	\$ 334,816	\$ 16,175,322

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*EXHIBIT 5
(Continued)*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Special Revenue Funds					Other Governmental Funds (Statement 2)	Total Governmental Funds
	General Fund	Road and Bridge	Human Services	Ditch	Capital Improvement		
Excess of Revenues Over (Under) Expenditures	\$ 550,049	\$ (597,882)	\$ (226,789)	\$ 473,808	\$ 2,830	\$ 25,166	\$ 227,182
Fund Balance - January 1	4,624,055	1,473,409	1,653,375	254,520	2,135,666	997,258	11,138,283
Increase (decrease) in inventories	-	134,425	-	-	-	-	134,425
Fund Balance - December 31	\$ 5,174,104	\$ 1,009,952	\$ 1,426,586	\$ 728,328	\$ 2,138,496	\$ 1,022,424	\$ 11,499,890

**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, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 227,182

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

Governmental funds report capital outlay as expenditures. However, in
the Statement of Activities, the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 1,883,983	
Current year depreciation	(1,660,056)	223,927

The repayment of the principal of long-term debt consumes the current financial
resources of governmental funds; however, the transaction has no effect on net position.

Principal repayments		
Capital improvement bonds	\$ 235,000	
State-aid highway notes	85,000	320,000

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

Change in		
Amortization of discounts	\$ (1,758)	
Accrued interest payable	3,456	
Compensated absences payable	(46,641)	
Other post-employment benefits	(32,714)	
Inventories	134,425	56,768

Change in net position of governmental activities (Exhibit 2) \$ 827,877

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012**

	<u>Agency (Statement 6)</u>
<u>Assets</u>	
Cash and pooled investments	\$ 599,693
Due from other funds	<u>25,455</u>
Total Assets	<u>\$ 625,148</u>
<u>Liabilities</u>	
Accounts payable	\$ 24,455
Due to other funds	25,455
Due to other governments	<u>575,238</u>
Total Liabilities	<u>\$ 625,148</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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). 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 VI, subdivisions D and E, respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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 restricted and assigned to various highways and streets purposes.

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 to 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 committed to 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.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, 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 2012 were \$29,603.

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 Position 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, 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 Position or Equity (Continued)

5. Deferred Outflows and Inflows

Deferred outflows of resources are a consumption of net assets by the County that is applicable to a future reporting period and has a positive effect on net position, similar to assets. Deferred inflows of resources are an acquisition of net assets by the County that is applicable to a future reporting period and has a negative effect on net position, similar to liabilities.

6. Employee Benefits

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.

The County uses the actuarial method of valuation to determine its Other Post-Employment Benefit liability.

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 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 immediately expensed.

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 Position and Fund Balance

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

In the fund financial statements, 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 Position or Equity

8. Net Position 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 resolution of the County Board and do not lapse at year-end. To remove the constraint on specified use of committed resources the County Board shall pass a resolution.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither restricted nor committed. The County Board has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the County Auditor.

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. The County does not have any unassigned fund balance at December 31, 2012.

The County will maintain an unrestricted fund balance in the General Fund of an amount not less than 35 to 50 percent of next year's budgeted expenditures of the General Fund. Unrestricted fund balance can be "spent down" if there is an anticipated budget shortfall in excess of zero dollars. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by property taxes or transfers from other funds within a three-year period of time.

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The County Board will set aside amounts by resolution as deemed necessary that can only be expended when major flood or other natural disaster repairs exist as the need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

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. When committed, assigned or unassigned resources are available for use, it is the County's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

I. Summary of Significant Accounting Policies

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

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, deferred outflows, liabilities, and deferred inflows, and disclosure of contingent amounts 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.

10. Account Balance Reclassifications

Several account balances were reclassified for the year ended December 31, 2011, as previously reported. These reclassifications, due to the implementation of GASB Statements 63 and 65, were required in order to be consistent with the current year's presentation, and must be considered when comparing the financial statements of this report with those of prior reports.

11. Comparative Data

Comparative data has not been provided due to the implementation of GASB 63 and 65, however, comparative information may be provided in future years when prior year information is available.

II. Change in Accounting Principles

Effective January 1, 2012, the County implemented GASB Statements 63 and 65, which required a change in accounting principles and resulted in adjustments to beginning net position. The following table outlines the changes in net position as reported on the County's financial statements:

	Governmental Activities
Net assets, December 31, 2011, as previously reported	\$ 59,299,066
Prior period adjustments	
Expense out bond issuance costs	(10,867)
Taxes	(194,240)
Notes	(46,000)
Special assessments	(33,663)
County State Aid Highway Allotment	(810,227)
Net position, January 1, 2012, as restated	\$ 58,204,069

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

III. Stewardship, Compliance, and Accountability

A. Individual Fund Deficits of Equity Accounts

Thirteen of the 50 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, 2011:

Account balance	\$	980,557
Account deficit		<u>(252,229)</u>
 Fund Balance	 \$	 <u><u>728,328</u></u>

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.

IV. 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, 2012, are as follows:

Governmental funds		
Cash and pooled investments	\$	11,308,974
Fiduciary funds		
Cash and pooled investments		<u>599,693</u>
Total cash and investments	\$	<u><u>11,908,667</u></u>
 Deposits	 \$	 5,806,392
Cash on hand		2,275
Investments		<u>6,100,000</u>
Total deposits, cash on hand, and investments	\$	<u><u>11,908,667</u></u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

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, 2012, 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;

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County 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.

At December 31, 2012, the County had the following investments and maturities:

	Fair Value Less Than 1 Year
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	\$ 800,000
Wells Fargo Advantage Government Money Market	5,300,000
Total Investments	\$ 6,100,000
	100%

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, 2012, is as follows:

	Moody's Rating	Fair Value
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	N/A	\$ 800,000
Wells Fargo Advantage Government Money Market	Aaa	5,300,000
		\$ 6,100,000
N/A – not applicable		

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2012, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer, excluding U.S. guaranteed investments, investment pools, and mutual funds. At December 31, 2012, the County's investments were not subject to concentration of credit risk.

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities, including any applicable allowances for uncollectible accounts, are as follows:

	<u>Total Receivables</u>
Taxes	\$ 221,838
Special assessments	7,189
Accounts	74,208
Notes	31,000
Accrued interest	2,994
Due from other governments	1,047,062
Total	\$ 1,384,291

3. Capital Assets

Capital asset activity for the governmental activities for the year ended December 31, 2012 was as follows:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land	\$ 464,569	\$ -	\$ -	\$ 464,569
Capital assets being depreciated				
Infrastructure	\$ 67,537,497	\$ 1,537,112	\$ -	\$ 69,074,609
Buildings and improvements	4,577,994	-	-	4,577,994
Machinery and equipment	<u>3,750,271</u>	<u>346,871</u>	<u>58,689</u>	<u>4,038,453</u>
Total capital assets being depreciated	<u>\$ 75,865,762</u>	<u>\$ 1,883,983</u>	<u>\$ 58,689</u>	<u>\$ 77,691,056</u>
Less: accumulated depreciation for				
Infrastructure	\$ 20,572,584	\$ 1,333,025	\$ -	\$ 21,905,609
Buildings and improvements	2,804,525	147,642	-	2,952,167
Machinery and equipment	<u>2,774,310</u>	<u>179,389</u>	<u>58,689</u>	<u>2,895,010</u>
Total accumulated depreciation	<u>\$ 26,151,419</u>	<u>\$ 1,660,056</u>	<u>\$ 58,689</u>	<u>\$ 27,752,786</u>
Total capital assets, depreciated, net	<u>\$ 49,714,343</u>	<u>\$ 223,927</u>	<u>\$ -</u>	<u>\$ 49,938,270</u>
Governmental Activities				
Capital Assets, Net	<u><u>\$ 50,178,912</u></u>	<u><u>\$ 223,927</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 50,402,839</u></u>

Depreciation Expense

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

General government	\$ 34,308
Public safety	98,546
Highways and streets, including depreciation of infrastructure assets	1,512,226
Human services	13,974
Culture and recreation	<u>1,002</u>
Total Depreciation Expense	<u><u>\$ 1,660,056</u></u>

Construction Contracts

The County had no active construction contracts for highways and streets as of December 31, 2012.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2012, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General Fund	Human Services Special Revenue Fund	\$ 20,733	Reimbursements

Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
Other Governmental	Ditch Special Revenue Fund	\$ 105,600	Cash deficit

This advance will be paid back.

C. Liabilities

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

Unused compensatory time, accumulated vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$483,251 at December 31, 2012, is available to employees in the event of illness-related absences and is not paid to them at termination.

Operating Lease

The County leases a copier under a noncancelable operating lease. Total expenditures for this lease was \$2,988 for the year ended December 31, 2012. The future minimum lease payments are as follows:

<u>Year Ending December 31</u>		
2013	\$	2,988
2014		<u>996</u>
Total	\$	<u><u>3,984</u></u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

C. Liabilities (Continued)

Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amounts	Outstanding Balance December 31, 2012
2004 G.O. Capital Improvement Bonds	2014	\$60,000-\$65,000	3.44	535,000	\$ 125,000
2009 G.O. Refunding Bonds	2019	\$120,000-\$185,000	3.4	1,450,000	1,025,000
				\$ 1,985,000	\$ 1,150,000
Less: Bond discount				-	(9,884)
Total General Obligation Bonds, net of discount				\$ 1,985,000	\$ 1,140,116
2001 G.O. Highway State-Aid Note	2021	\$88,000-\$113,000	3.14	2,000,000	901,000
Total				\$ 3,985,000	\$ 2,041,116

Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Year Ending December 31	General Obligation Bonds		2001 General Obligation Highway State-Aid Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	130,000	16,870	97,000	19,719	227,000	36,589
2017	130,000	12,580	100,000	16,674	230,000	29,254
2018-2021	280,000	10,695	431,000	34,351	711,000	45,046
	\$ 1,150,000	\$ 122,742	\$ 901,000	\$ 147,234	\$ 2,051,000	\$ 269,976
Less: Bond discount	(9,884)	-	-	-	(9,884)	-
Total	\$ 1,140,116	\$ 122,742	\$ 901,000	\$ 147,234	\$ 2,041,116	\$ 269,976

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended December 31, 2012 was as follows:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

IV. Detailed Notes on All Funds

C. Liabilities

Long-Term Debt

Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 1,385,000	\$ -	\$ 235,000	\$ 1,150,000	\$ 240,000
Less: Bond discount	(11,642)	-	(1,758)	(9,884)	-
2001 General Obligation Highway State-Aid Note	986,000	-	85,000	901,000	88,000
Net OPEB Payable	195,941	52,015	19,301	228,655	-
Compensated Absences	528,040	491,264	444,623	574,681	422,285
Governmental Activities Long-Term Liabilities	<u>\$ 3,083,339</u>	<u>\$ 543,279</u>	<u>\$ 782,166</u>	<u>\$ 2,844,452</u>	<u>\$ 750,285</u>

V. 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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Benefits Plans

Plan Description (Continued)

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.

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 6.25 percent, respectively, of their annual covered salary in 2012. Public Employees Police and Fire Fund members were required to contribute 9.60 percent of their annual covered salary in 2012. 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 2012 and 2013:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Benefits Plans

Funding Policy (Continued)

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

The County's contributions for the years ending December 31, 2012, 2011, and 2010, 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
2012	\$ 251,261	\$ 63,162	\$ 75,171
2011	242,639	61,917	73,102
2010	232,874	66,129	70,891

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

Defined Contribution Plan

Three 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.

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, 2012, were:

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Defined Contribution Plan (Continued)

	Employee	Employer
Contribution amount	\$ 2,270	\$ 2,270
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. As of the January 1, 2011 actuarial valuation, there were approximately 121 participants in the plan, including three retirees and one spouse receiving payments.

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.

Annual Required Contribution	\$ 55,287
Interest on net OPEB obligation	8,817
Adjustments to Annual Required Contribution	(12,089)
Annual OPEB cost (expense)	\$ 52,015
Contributions made	(19,301)
Increase in net OPEB obligation	\$ 32,714
Net OPEB Obligation - January 1, 2012	195,941
Net OPEB Obligation - December 31, 2012	\$ 228,655

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

V. Pension Plans and Other Post-Employment Benefits

Other Post-Employment Benefits – (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for December 31, 2012 was \$52,015. The percentage of annual OPEB cost contributed to the plan was 37 percent, and the net OPEB obligation for 2012 was \$228,655. Currently, only two year's actuarial data is available. For trend information, refer to the Required Supplementary Information beginning on page 60 of this report.

Fund Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial liability for benefits was \$493,738, and the actuarial value of assets was zero, resulting in an unfunded actuarial liability (UAAL) of \$493,738. The covered payroll (annual payroll of active employees covered by the plan) was \$4,675,993, and the ratio of the UAAL to the covered payroll was 10.6 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.

In the January 1, 2011, 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 8.0 percent initially reduced to an ultimate rate of 5.0 percent over six years. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 25 years.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

VI. 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 \$460,000 per claim in 2012 and \$470,000 per claim in 2013. 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.

C. Subsequent Event

On February 1, 2013, the County issued General Obligation Drainage Ditch Bonds in the amount of \$1,045,000 for improvements to Red Lake Watershed Ditch 14. These bonds carry a net interest rate of 2.5 percent and will mature in 2033. Special assessments levied for the improvements will be used for repayment of these bonds.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

D. Joint Ventures

Homeland Security Emergency Management (HSEM) Region 3 Emergency Managers Joint Powers Board

The HSEM Region 3 Emergency Managers Joint Powers Board was formed in 2007 under the authority of the Joint Powers Act, pursuant to Minnesota Statutes, § 471.59 and Minnesota Statutes, Chapter 12. Members include Becker, Beltrami, Clay, Clearwater, Hubbard, Kittson, Lake of the Woods, Mahnomon, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau counties.

The purpose of the HSEM Region 3 Emergency Managers Joint Powers Board is to engage in planning, training, and/or the purchase of equipment in order to better respond to emergencies and natural and other disasters within HSEM Region 3; specifically within the jurisdictional boundaries of the member counties.

Control is vested in the HSEM Region 3 Emergency Managers Joint Powers Board, which is composed of one representative from each member county, appointed by their respective governing bodies as provided in the HSEM Region 3 Emergency Managers Board's Joint Powers Agreement.

The HSEM Region 3 Emergency Managers Joint Powers Board has no long-term debt. Financing will be provided by a Homeland Security Grant Program and other grant programs and awards. Complete financial information can be obtained from the Clay County Sheriff's Office, 915 9th Avenue North, Moorhead, Minnesota 56560.

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, 2012. 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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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 \$2,000 to the Land Use Coordinating Board for the year ended December 31, 2012. 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.

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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Northwest Minnesota Household Hazardous Waste Management Group (Continued)

The Waste Management Group has no long-term debt. Financing is provided by appropriations from the member counties when needed. Pennington County disbursed \$6,455 to the Waste Management Group for the year ended December 31, 2012. 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, Mahnomen, 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, 2012. Complete financial information can be obtained from Headwaters Regional Development Commission, P.O. Box 906, Bemidji, Minnesota 56619.

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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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, 2012. 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.

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, 2012. 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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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.

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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

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 did not contribute to the Board in 2012. Complete financial information can be obtained from the Treasurer, Stacy Myhrer, 102 Broadway Avenue North, St. Hilaire, Minnesota 56754.

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.

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 did not contribute to the Airport Authority for the year ended December 31, 2012. Complete financial information can be obtained from the Thief River Falls Regional Airport Authority, P.O. Box 672, Thief River Falls, Minnesota 56701.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

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

E. 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, 2012.

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 2012.

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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

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 \$86,086 to the Library for the year ended December 31, 2012.

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.

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.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

VI. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

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, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 3,564,644	\$ 3,564,644	\$ 3,530,603	\$ (34,041)
Licenses and permits	4,263	4,263	9,532	5,269
Intergovernmental	1,070,395	1,070,395	1,263,373	192,978
Charges for services	1,112,624	1,112,624	1,194,742	82,118
Fines and forfeitures	21,900	21,900	20,999	(901)
Investment earnings	30,000	30,000	29,603	(397)
Miscellaneous	273,460	273,460	417,386	143,926
Total Revenues	\$ 6,077,286	\$ 6,077,286	\$ 6,466,238	\$ 388,952
Expenditures				
Current				
General government				
Commissioners	\$ 222,298	\$ 222,298	\$ 210,061	\$ 12,237
District court	21,500	21,500	16,940	4,560
Court reporter	-	-	1	(1)
Law library	17,400	17,400	14,805	2,595
County administration	1,000	1,000	1,010	(10)
County auditor	286,475	286,475	297,679	(11,204)
License bureau	231,601	231,601	210,649	20,952
County treasurer	141,992	141,992	146,234	(4,242)
County assessor	237,087	237,087	230,608	6,479
Elections	68,584	68,584	48,420	20,164
Data processing	153,217	153,217	160,138	(6,921)
Attorney	329,030	329,030	328,847	183
Recorder	240,740	240,740	148,572	92,168
Buildings and grounds	307,975	307,975	294,627	13,348
Veterans service officer	101,514	101,514	77,075	24,439
Insurance	38,500	38,500	27,906	10,594
Other general government	54,400	54,400	53,725	675
Total general government	\$ 2,453,313	\$ 2,453,313	\$ 2,267,297	\$ 186,016

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 851,747	\$ 851,747	\$ 790,930	\$ 60,817
Coroner	12,258	12,258	22,751	(10,493)
County jail	1,005,050	1,005,050	1,009,997	(4,947)
DARE program	3,500	3,500	5,950	(2,450)
Enhanced 911	87,000	87,000	75,617	11,383
Emergency services	40,000	40,000	107,059	(67,059)
Jail canteen fund	56,500	56,500	63,688	(7,188)
Juvenile justice	5,000	5,000	7,794	(2,794)
Law enforcement center	523,565	523,565	556,560	(32,995)
Probation and parole	37,000	37,000	15,338	21,662
Sentence to service	208,208	208,208	183,164	25,044
Training	5,500	5,500	4,463	1,037
Victim assistance	116,530	116,530	90,341	26,189
Other public safety	-	-	1,388	(1,388)
Total public safety	\$ 2,951,858	\$ 2,951,858	\$ 2,935,040	\$ 16,818
Human Services				
Buildings and grounds	\$ 50,900	\$ 50,900	\$ 25,598	\$ 25,302
Health				
Nursing service	\$ 50,000	\$ 50,000	\$ 49,906	\$ 94
County health officer	958	958	955	3
Parenting education	3,000	3,000	3,560	(560)
Total health	\$ 53,958	\$ 53,958	\$ 54,421	\$ (463)
Culture and recreation				
Auditorium	\$ 46,700	\$ 46,700	\$ 26,284	\$ 20,416
Historical society	13,000	13,000	13,000	-
Regional library	86,086	86,086	86,086	-
Senior citizens	6,000	6,000	6,000	-
Snowmobile and ski trails	75,840	75,840	74,606	1,234
Other culture and recreation	2,500	2,500	2,500	-
Total culture and recreation	\$ 230,126	\$ 230,126	\$ 208,476	\$ 21,650

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Agricultural society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Agriculture inspection	40	40	41	(1)
Area Ag Information Center	5,000	5,000	5,000	-
Cooperative extension	163,157	163,157	145,354	17,803
Soil and water conservation	147,759	147,759	153,701	(5,942)
Total conservation of natural resources	\$ 325,956	\$ 325,956	\$ 314,096	\$ 11,860
Economic development				
Economic development	\$ 10,000	\$ 10,000	\$ 20,000	\$ (10,000)
Minnesota Heartland	275	275	275	-
Red River Valley Development	800	800	800	-
Tri-Valley Opportunity Council	9,600	9,600	8,500	1,100
Total economic development	\$ 20,675	\$ 20,675	\$ 29,575	\$ (8,900)
Total Current Expenditures	\$ 6,086,786	\$ 6,086,786	\$ 5,834,503	\$ 252,283
Capital outlay				
General government	\$ 3,000	\$ 3,000	\$ 11,222	\$ (8,222)
Public safety	40,500	40,500	70,464	(29,964)
Total capital outlay	\$ 43,500	\$ 43,500	\$ 81,686	\$ (38,186)
Total Expenditures	\$ 6,130,286	\$ 6,130,286	\$ 5,916,189	\$ 214,097
Excess of Revenues Over (Under) Expenditures	\$ (53,000)	\$ (53,000)	\$ 550,049	\$ 603,049
Fund Balance - January 1	4,624,055	4,624,055	4,624,055	-
Fund Balance - December 31	\$ 4,571,055	\$ 4,571,055	\$ 5,174,104	\$ 603,049

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,209,682	\$ 1,209,682	\$ 1,181,284	\$ (28,398)
Intergovernmental	3,092,361	3,092,361	2,781,826	(310,535)
Charges for services	73,000	73,000	83,042	10,042
Miscellaneous	71,000	71,000	167,839	96,839
Total Revenues	\$ 4,446,043	\$ 4,446,043	\$ 4,213,991	\$ (232,052)
Expenditures				
Current				
Highways and Streets				
Administration	\$ 277,556	\$ 277,556	\$ 272,623	\$ 4,933
Maintenance	438,906	438,906	380,435	58,471
Construction	1,510,000	1,510,000	1,845,759	(335,759)
Equipment maintenance and shop	1,755,621	1,755,621	1,697,925	57,696
Township roads	-	-	174,927	(174,927)
Other highways and streets	98,000	98,000	75,535	22,465
Total highways and streets	\$ 4,080,083	\$ 4,080,083	\$ 4,447,204	\$ (367,121)
Debt Service				
Principal retirement	\$ 85,000	\$ 85,000	\$ 85,000	\$ -
Interest	30,960	30,960	30,960	-
Total debt service	\$ 115,960	\$ 115,960	\$ 115,960	\$ -
Capital Outlay				
Highways and streets	\$ 250,000	\$ 250,000	\$ 248,709	\$ 1,291
Total Expenditures	\$ 4,446,043	\$ 4,446,043	\$ 4,811,873	\$ (365,830)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (597,882)	\$ (597,882)
Fund Balance - January 1	1,473,409	1,473,409	1,473,409	-
Increase (decrease) in inventories	-	-	134,425	134,425
Fund Balance - December 31	\$ 1,473,409	\$ 1,473,409	\$ 1,009,952	\$ (463,457)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,040,736	\$ 2,040,736	\$ 1,993,064	\$ (47,672)
Intergovernmental	2,095,635	2,095,635	2,236,690	141,055
Charges for services	320,500	320,500	302,328	(18,172)
Miscellaneous	22,200	22,200	107,931	85,731
Total Revenues	\$ 4,479,071	\$ 4,479,071	\$ 4,640,013	\$ 160,942
Expenditures				
Current				
Human Services				
Income maintenance	\$ 1,248,745	\$ 1,248,745	\$ 1,385,516	\$ (136,771)
Social services	3,230,326	3,230,326	3,458,526	(228,200)
Total human services	\$ 4,479,071	\$ 4,479,071	\$ 4,844,042	\$ (364,971)
Capital Outlay				
Human services	-	-	22,760	(22,760)
Total Expenditures	\$ 4,479,071	\$ 4,479,071	\$ 4,866,802	\$ (387,731)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (226,789)	\$ (226,789)
Fund Balance - January 1	1,653,375	1,653,375	1,653,375	-
Fund Balance - December 31	\$ 1,653,375	\$ 1,653,375	\$ 1,426,586	\$ (226,789)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Special assessments	\$ -	\$ -	\$ 703,317	\$ 703,317
Charges for services	152,000	152,000	3,963	(148,037)
Total Revenues	\$ 152,000	\$ 152,000	\$ 707,280	\$ 555,280
Expenditures				
Current				
Conservation of natural resources				
Administration	\$ -	\$ -	\$ 517	\$ (517)
Ditch maintenance and repairs	152,000	152,000	227,309	(75,309)
Middle River/Snake River Watershed	-	-	567	(567)
Red Lake Watershed	-	-	356	(356)
Total conservation of natural resources	\$ 152,000	\$ 152,000	\$ 228,749	\$ (76,749)
Debt service				
Interest	-	-	4,723	(4,723)
Total Expenditures	\$ 152,000	\$ 152,000	\$ 233,472	\$ (81,472)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 473,808	\$ 473,808
Fund Balance - January 1	254,520	254,520	254,520	-
Fund Balance - December 31	\$ 254,520	\$ 254,520	\$ 728,328	\$ 473,808

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Miscellaneous	\$ -	\$ -	\$ 15,000	\$ 15,000
Expenditures				
Current				
General government				
Oakland park	-	-	12,170	(12,170)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 2,830	\$ 2,830
Fund Balance - January 1	<u>2,135,666</u>	<u>2,135,666</u>	<u>2,135,666</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 2,135,666</u>	<u>\$ 2,135,666</u>	<u>\$ 2,138,496</u>	<u>\$ 2,830</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 6

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2012**

<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%
January 1, 2011	-	493,738	493,738	-	4,675,993	10.6%

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 7

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFIT PLAN
FOR THE YEAR ENDED DECEMBER 31, 2012**

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
December 31, 2011	52,813	10,505	19.9%	195,941
December 31, 2012	52,015	19,301	37.1%	228,655

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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.

B. Excess of Expenditures Over Budget

The following departments had expenditures in excess of budget for the year ended December 31, 2012:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund			
General government			
Court reporter	\$ 1	\$ -	\$ (1)
County administration	1,010	1,000	(10)
County auditor	297,679	286,475	(11,204)
County treasurer	146,234	141,992	(4,242)
Data processing	160,138	153,217	(6,921)
Public safety			
Coroner	22,751	12,258	(10,493)
County jail	1,009,997	1,005,050	(4,947)
DARE program	5,950	3,500	(2,450)
Emergency services	107,059	40,000	(67,059)
Jail canteen fund	63,688	56,500	(7,188)
Juvenile justice	7,794	5,000	(2,794)
Law enforcement center	556,560	523,565	(32,995)
Other public safety	1,388	-	(1,388)
Health			
Parenting education	3,560	3,000	(560)
Conservation of natural resources			
Agriculture inspection	41	40	(1)
Soil and water conservation	153,701	147,759	(5,942)

**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>
Economic development			
Economic development	\$ 20,000	\$ 10,000	\$ (10,000)
Capital outlay			
General government	11,222	3,000	(8,222)
Public safety	70,464	40,500	(29,964)
Road and Bridge Special Revenue Fund			
Highways and streets			
Construction	1,845,759	1,510,000	(335,759)
Township roads	174,927	-	(174,927)
Human Services Special Revenue Fund			
Human services			
Income maintenance	1,385,516	1,248,745	(136,771)
Social services	3,458,526	3,230,326	(228,200)
Capital outlay			
Human services	22,760	-	(22,760)
Ditch Special Revenue Fund			
Conservation of natural resources			
Administration	517	-	(517)
Ditch maintenance and repairs	227,309	152,000	(75,309)
Middle River/Snake River Watershed	567	-	(567)
Red Lake Watershed	356	-	(356)
Debt service			
Interest	4,723	-	(4,723)
Capital Improvement Special Revenue Fund			
General government			
Oakland Park	12,170	-	(12,170)

II. Other Post-Employment Benefits (OPEB)

Since the last actuarial valuation as of January 1, 2008, the following actuarial assumptions have been changed:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- Claim costs were developed by age adjusting the premium information from Pennington County. As of January 1, 2008, premium information, actual claims and enrollment experience were used.

There have been no changes to the plan provisions since the last actuarial valuation as of January 1, 2008. Currently, only two 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 Schedules 6 and 7 of this section and the Notes to the Financial Statements Section V., 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 restricted and assigned to various sanitation purposes.

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, 2012**

	Solid Waste Special Revenue	Debt Service (Statement 4)	Total Nonmajor Governmental Funds (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 476,331	\$ 441,807	\$ 918,138
Taxes receivable - prior	241	9,045	9,286
Contracts receivable	-	-	-
Advances to other funds	105,600	-	105,600
Total Assets	\$ 582,172	\$ 450,852	\$ 1,033,024
 <u>Liabilities, Deferred Inflows and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 871	\$ -	\$ 871
Due to other governments	2,060	-	2,060
Total Liabilities	\$ 2,931	\$ -	\$ 2,931
Deferred Inflows			
Taxes	\$ 199	\$ 7,470	\$ 7,669
Fund Balances			
Non-spendable for advances to other funds	\$ 105,600	\$ -	\$ 105,600
Restricted for debt service	-	443,382	443,382
Assigned to sanitation	473,442	-	473,442
Total Fund Balances	\$ 579,042	\$ 443,382	\$ 1,022,424
Total Liabilities, Deferred Inflows and Fund Balances	\$ 582,172	\$ 450,852	\$ 1,033,024

**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, 2012**

	Special Revenue (Statement 3)	Debt Service (Statement 5)	Total Nonmajor Governmental Funds (Exhibit 5)
Revenues			
Taxes	\$ 35	\$ 241,593	\$ 241,628
Intergovernmental	55,950	54,028	109,978
Miscellaneous	8,376	-	8,376
Total Revenues	\$ 64,361	\$ 295,621	\$ 359,982
Expenditures			
Current			
Sanitation	\$ 51,828	\$ -	\$ 51,828
Conservation of natural resources	127	-	127
Total Current	\$ 51,955	\$ -	\$ 51,955
Debt Service			
Principal retirement	\$ -	\$ 235,000	\$ 235,000
Interest	-	42,523	42,523
Total Debt Service	\$ -	\$ 277,523	\$ 277,523
Capital Outlay			
Sanitation	\$ 5,338	\$ -	\$ 5,338
Total Expenditures	\$ 57,293	\$ 277,523	\$ 334,816
Excess of Revenues Over (Under) Expenditures	\$ 7,068	\$ 18,098	\$ 25,166
Fund Balance - January 1	571,974	425,284	997,258
Fund Balance - December 31	\$ 579,042	\$ 443,382	\$ 1,022,424

**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, 2012**

	Forfeited Tax Sale	Solid Waste	Total (Statement 2)
Revenues			
Taxes	\$ -	\$ 35	\$ 35
Intergovernmental	-	55,950	55,950
Miscellaneous	127	8,249	8,376
	\$ 127	\$ 64,234	\$ 64,361
Total Revenues			
Expenditures			
Current			
Sanitation	\$ -	\$ 51,828	\$ 51,828
Conservation of natural resources	127	-	127
	\$ 127	\$ 51,828	\$ 51,955
Total Current			
Capital Outlay			
Sanitation	\$ -	\$ 5,338	\$ 5,338
	\$ 127	\$ 57,166	\$ 57,293
Total Expenditures			
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 7,068	\$ 7,068
Fund Balance - January 1	-	571,974	571,974
Fund Balance - December 31	\$ -	\$ 579,042	\$ 579,042

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2012**

	Elevator and Long's Bridge	Highway Capital Improvement
<u>Assets</u>		
Cash and pooled investments	\$ 48,984	\$ 193,019
Taxes receivable - prior	1,044	4,376
Total Assets	\$ 50,028	\$ 197,395
<u>Deferred Inflows and Fund Balances</u>		
Deferred Inflows		
Taxes	\$ 862	\$ 3,614
Fund Balances		
Restricted for debt service	49,166	193,781
Total Deferred Inflows and Fund Balances	\$ 50,028	\$ 197,395

Statement 4

Law Enforcement Radio	Minimum Security Facility	Total (Statement 1)
\$ 91,045	\$ 108,759	\$ 441,807
1,135	2,490	9,045
<u>92,180</u>	<u>111,249</u>	<u>450,852</u>
\$ 937	\$ 2,057	\$ 7,470
91,243	109,192	443,382
<u>92,180</u>	<u>111,249</u>	<u>450,852</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, 2012**

	Elevator and Long's Bridge	Highway Capital Improvement
Revenues		
Taxes	\$ 286	\$ 148,866
Intergovernmental	-	4,649
	\$ 286	\$ 153,515
Expenditures		
Debt Service		
Principal retirement	\$ -	\$ 115,000
Interest	-	31,199
	\$ -	\$ 146,199
Excess of Revenues Over (Under) Expenditures	\$ 286	\$ 7,316
Fund Balance - January 1	48,880	186,465
Fund Balance - December 31	\$ 49,166	\$ 193,781

Statement 5

<u>Law Enforcement Radio</u>	<u>Minimum Security Facility</u>	<u>Total (Statement 2)</u>
\$ 21,393	\$ 71,048	\$ 241,593
47,162	2,217	54,028
<u>\$ 68,555</u>	<u>\$ 73,265</u>	<u>\$ 295,621</u>
\$ 60,000	\$ 60,000	\$ 235,000
6,416	4,908	42,523
<u>\$ 66,416</u>	<u>\$ 64,908</u>	<u>\$ 277,523</u>
\$ 2,139	\$ 8,357	\$ 18,098
<u>89,104</u>	<u>100,835</u>	<u>425,284</u>
<u>\$ 91,243</u>	<u>\$ 109,192</u>	<u>\$ 443,382</u>

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 8

**BUDGETARY COMPARISON SCHEDULE
FORFEITED TAX SALE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Miscellaneous	\$ 10,000	\$ 10,000	\$ 127	\$ (9,873)
Expenditures				
Current				
Conservation of natural resources				
Forfeited land	10,000	10,000	127	9,873
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ -	\$ -
Fund Balance - January 1	-	-	-	-
Fund Balance - December 31	\$ -	\$ -	\$ -	\$ -

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 9

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 35	\$ 35
Intergovernmental	55,000	55,000	55,950	950
Miscellaneous	10,000	10,000	8,249	(1,751)
Total Revenues	\$ 65,000	\$ 65,000	\$ 64,234	\$ (766)
Expenditures				
Current				
Sanitation				
Solid waste	\$ 8,400	\$ 8,400	\$ 7,263	\$ 1,137
Recycling	50,000	50,000	44,565	5,435
Total Current	\$ 58,400	\$ 58,400	\$ 51,828	\$ 6,572
Capital Outlay				
Sanitation	5,000	5,000	5,338	(338)
Total Expenditures	\$ 63,400	\$ 63,400	\$ 57,166	\$ 6,234
Excess of Revenues Over (Under) Expenditures	\$ 1,600	\$ 1,600	\$ 7,068	\$ 5,468
Fund Balance - January 1	571,974	571,974	571,974	-
Fund Balance - December 31	\$ 573,574	\$ 573,574	\$ 579,042	\$ 5,468

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 10

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY CAPITAL IMPROVEMENT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 152,700	\$ 152,700	\$ 148,866	\$ (3,834)
Intergovernmental	1,700	1,700	4,649	2,949
Total Revenues	\$ 154,400	\$ 154,400	\$ 153,515	\$ (885)
Expenditures				
Debt service				
Principal retirement	\$ 115,000	\$ 115,000	\$ 115,000	\$ -
Interest	31,237	31,237	31,199	38
Total Expenditures	\$ 146,237	\$ 146,237	\$ 146,199	\$ 38
Excess of Revenues Over (Under) Expenditures	\$ 8,163	\$ 8,163	\$ 7,316	\$ (847)
Fund Balance - January 1	186,465	186,465	186,465	-
Fund Balance - December 31	\$ 194,628	\$ 194,628	\$ 193,781	\$ (847)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 11

**BUDGETARY COMPARISON SCHEDULE
LAW ENFORCEMENT RADIO DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 22,689	\$ 22,689	\$ 21,393	\$ (1,296)
Intergovernmental	46,875	46,875	47,162	287
Total Revenues	\$ 69,564	\$ 69,564	\$ 68,555	\$ (1,009)
Expenditures				
Debt service				
Principal retirement	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Interest	6,435	6,435	6,416	19
Total Expenditures	\$ 66,435	\$ 66,435	\$ 66,416	\$ 19
Excess of Revenues Over (Under) Expenditures	\$ 3,129	\$ 3,129	\$ 2,139	\$ (990)
Fund Balance - January 1	89,104	89,104	89,104	-
Fund Balance - December 31	\$ 92,233	\$ 92,233	\$ 91,243	\$ (990)

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 12

**BUDGETARY COMPARISON SCHEDULE
MINIMUM SECURITY FACILITY DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 73,412	\$ 73,412	\$ 71,048	\$ (2,364)
Intergovernmental	900	900	2,217	1,317
Total Revenues	\$ 74,312	\$ 74,312	\$ 73,265	\$ (1,047)
Expenditures				
Debt service				
Principal retirement	\$ 60,000	\$ 60,000	\$ 60,000	\$ -
Interest	4,945	4,945	4,908	37
Total Expenditures	\$ 64,945	\$ 64,945	\$ 64,908	\$ 37
Excess of Revenues Over (Under) Expenditures	\$ 9,367	\$ 9,367	\$ 8,357	\$ (1,010)
Fund Balance - January 1	100,835	100,835	100,835	-
Fund Balance - December 31	\$ 110,202	\$ 110,202	\$ 109,192	\$ (1,010)

**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 FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>GROUP INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 26,425	\$ 1,452,624	\$ 1,454,594	\$ 24,455
<u>Liabilities</u>				
Accounts payable	\$ 26,425	\$ 1,452,624	\$ 1,454,594	\$ 24,455
 <u>INTER-COUNTY NURSING SERVICE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 249,901	\$ 982,975	\$ 975,102	\$ 257,774
<u>Liabilities</u>				
Due to other governments	\$ 249,901	\$ 982,975	\$ 975,102	\$ 257,774
 <u>NORTHWEST MINNESOTA HOUSING REDEVELOPMENT AUTHORITY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 41,936	\$ 41,936	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 41,936	\$ 41,936	\$ -
 <u>NORTHWEST REGIONAL DEVELOPMENT COMMISSION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 25,096	\$ 25,096	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 25,096	\$ 25,096	\$ -

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Statement 6
(Continued)*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>PREPAID TAXES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 27,873	\$ 50,416	\$ 52,834	\$ 25,455
<u>Liabilities</u>				
Due to other funds	\$ 27,873	\$ 50,416	\$ 52,834	\$ 25,455
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 4,811,890	\$ 4,811,890	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 4,811,890	\$ 4,811,890	\$ -
 <u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 30,609	\$ 2,100,003	\$ 2,094,373	\$ 36,239
<u>Liabilities</u>				
Due to other governments	\$ 30,609	\$ 2,100,003	\$ 2,094,373	\$ 36,239
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 212,256	\$ 16,864,050	\$ 16,820,536	\$ 255,770
Due from other funds	27,873	25,455	27,873	25,455
Total Assets	\$ 240,129	\$ 16,889,505	\$ 16,848,409	\$ 281,225
<u>Liabilities</u>				
Due to other governments	\$ 240,129	\$ 16,889,505	\$ 16,848,409	\$ 281,225

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

*Statement 6
(Continued)*

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,684,886	\$ 2,684,886	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 2,684,886	\$ 2,684,886	\$ -
 <u>WATERSHEDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 521,389	\$ 521,389	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 521,389	\$ 521,389	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 547,064	\$ 29,535,265	\$ 29,482,636	\$ 599,693
Due from other funds	27,873	25,455	27,873	25,455
Total Assets	\$ 574,937	\$ 29,560,720	\$ 29,510,509	\$ 625,148
<u>Liabilities</u>				
Accounts payable	\$ 26,425	\$ 1,452,624	\$ 1,454,594	\$ 24,455
Due to other funds	27,873	50,416	52,834	25,455
Due to other governments	520,639	28,057,680	28,003,081	575,238
Total Liabilities	\$ 574,937	\$ 29,560,720	\$ 29,510,509	\$ 625,148

OTHER SCHEDULES

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2012**

	Assets		
	Cash and Pooled Investments	Special Assessments Receivable Prior	Due from Other Governments
County Ditches			
1 - Rocksbury/North	\$ 1,396	\$ 47	\$ -
1 - Rocksbury/Sanders	9,236	-	-
16	6,981	21	-
21	7,067	2	-
22	-	-	-
32	13,513	1	-
33	1,116	4	-
35	8,990	8	-
36	32,918	25	-
37	1,825	66	-
38	2,856	470	-
39	1,280	187	-
41	35,121	623	-
42	1,173	-	-
43	1,931	340	-
44	29,660	56	-
45	9,096	55	-
46	6,866	-	-
47	1,835	4	-
53	1,902	18	-
55	1,955	19	-
57	2,410	5	-
58	13,525	58	-
59	480	13	-
62	3,124	254	-
70	53,546	64	-
71	7,091	-	-
73	1,038	-	-
74	1,556	-	-
75	16,093	292	-
77	18,279	-	-
96	19,655	564	-
109-2	222	3	-
Joint County Ditches			
1	1,694	102	1,777
11	8,967	29	-
13	40,489	879	996
15	13,943	500	-
18	32,518	158	-
25 - Branch 3	4,303	176	30,305
30	4,390	178	1,190
30 - Branch A	2,239	-	-
31	4,523	-	-
60	474	-	-
13 Red Lk/Penn	3,270	-	-
Watershed Ditches			
JD 14	152	5	-
109 - Red Lk Watershed	-	1,642	-
122 - Challenger Project	28	321	-
Red Lake Watershed 13	26	-	-
Red Lake Watershed 14	223,308	-	-
RLWD - Water Mngmt District 1	220,664	-	-
Total	\$ 874,724	\$ 7,189	\$ 34,268

Schedule 13

Due from Other Ditches	Deferred Outflows	Total Assets and Deferred Outflows
\$ -	\$ -	\$ 1,443
-	-	9,236
-	-	7,002
-	-	7,069
-	-	-
-	-	13,514
-	-	1,120
-	-	8,998
-	-	32,943
-	-	1,891
-	-	3,326
-	-	1,467
-	-	35,744
-	-	1,173
-	-	2,271
-	-	29,716
-	-	9,151
-	-	6,866
-	-	1,839
-	-	1,920
-	-	1,974
-	-	2,415
-	-	13,583
-	-	493
-	-	3,378
-	-	53,610
-	-	7,091
-	-	1,038
-	-	1,556
-	-	16,385
-	-	18,279
41,000	-	61,219
-	24,589	24,814
-	-	3,573
-	-	8,996
-	-	42,364
-	-	14,443
-	-	32,676
72,000	-	106,784
51,000	-	56,758
-	-	2,239
-	-	4,523
-	-	474
-	-	3,270
-	-	157
-	-	1,642
-	-	349
-	79,741	79,767
-	-	223,308
-	-	220,664
\$ 164,000	\$ 104,330	\$ 1,184,511

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2012**

	<u>Liabilities</u>		
	<u>Accounts Payable</u>	<u>Advances from Other Funds</u>	<u>Due to Other Ditches</u>
County Ditches			
1 - Rocksbury/North	\$ -	\$ -	\$ -
1 - Rocksbury/Sanders	-	-	-
16	-	-	-
21	-	-	-
22	-	334	-
32	-	-	-
33	-	-	5,000
35	-	-	-
36	-	-	-
37	-	-	37,000
38	-	-	35,000
39	-	-	10,000
41	-	-	-
42	-	-	25,000
43	-	-	16,000
44	-	-	-
45	-	-	-
46	-	-	-
47	-	-	8,000
53	-	-	7,000
55	-	-	12,000
57	-	-	9,000
58	-	-	-
59	-	-	-
62	-	-	-
70	-	-	-
71	-	-	-
73	-	-	-
74	-	-	-
75	-	-	-
77	-	-	-
96	2,200	-	-
109-2	-	24,171	-
Joint County Ditches			
1	-	-	-
11	-	-	-
13	-	-	-
15	-	-	-
18	-	-	-
25 - Branch 3	43,810	-	-
30	-	-	-
30 - Branch A	-	-	-
31	-	-	-
60	-	-	-
31 Red Lk/Penn	-	-	-
Watershed Ditches			
JD 14	-	-	-
109 - Red Lk Watershed	-	-	-
122 - Challenger Project	-	-	-
Red Lake Watershed 13	-	81,095	-
Red Lake Watershed 14	-	-	-
RLWD - Water Mngmt District 1	-	-	-
Total	\$ 46,010	\$ 105,600	\$ 164,000

Schedule 13
(Continued)

<u>Total Liabilities</u>	<u>Deferred Inflows</u>	<u>Fund Balances Restricted for Conservation of Natural Resources</u>	<u>Total Liabilities, Deferred Inflows and Fund Balances</u>
\$ -	\$ 39	\$ 1,404	\$ 1,443
-	-	9,236	9,236
-	17	6,985	7,002
-	2	7,067	7,069
334	-	(334)	-
-	1	13,513	13,514
5,000	3	(3,883)	1,120
-	7	8,991	8,998
-	21	32,922	32,943
37,000	55	(35,164)	1,891
35,000	388	(32,062)	3,326
10,000	155	(8,688)	1,467
-	515	35,229	35,744
25,000	-	(23,827)	1,173
16,000	281	(14,010)	2,271
-	46	29,670	29,716
-	45	9,106	9,151
-	-	6,866	6,866
8,000	3	(6,164)	1,839
7,000	15	(5,095)	1,920
12,000	16	(10,042)	1,974
9,000	4	(6,589)	2,415
-	48	13,535	13,583
-	11	482	493
-	210	3,168	3,378
-	53	53,557	53,610
-	-	7,091	7,091
-	-	1,038	1,038
-	-	1,556	1,556
-	241	16,144	16,385
-	-	18,279	18,279
2,200	466	58,553	61,219
24,171	24,589	(23,946)	24,814
-	84	3,489	3,573
-	24	8,972	8,996
-	726	41,638	42,364
-	413	14,030	14,443
-	130	32,546	32,676
43,810	30,450	32,524	106,784
-	147	56,611	56,758
-	-	2,239	2,239
-	-	4,523	4,523
-	-	474	474
-	-	3,270	3,270
-	4	153	157
-	2	1,640	1,642
-	265	84	349
81,095	81,097	(82,425)	79,767
-	-	223,308	223,308
-	-	220,664	220,664
\$ 315,610	\$ 140,573	\$ 728,328	\$ 1,184,511

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 14

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

Shared Revenue

State

County program aid	\$	820,412
Disparity reduction aid		94,082
Enhanced 911		86,263
Highway users tax		2,527,913
Market value credit		88,164
PERA rate reimbursement		16,384
Police state aid		45,308
		45,308

Total Shared Revenue **\$ 3,678,526**

Payments

Payments in lieu of taxes	\$	34,024
City of Thief River Falls		46,500
Marshall County		30,000
		30,000

Total Payments **\$ 110,524**

Grants

State

Minnesota Department/Board of

Corrections	\$	44,577
Human Services		588,334
Natural Resources		88,151
Peace Officers Standards and Training		3,653
Pollution Control		55,950
Public Safety		114,703
Transportation		69,129
Veterans Affairs		5,098
Water and Soil Resources		82,401
		82,401

Total State **\$ 1,051,996**

Federal

Department of

Agriculture	\$	93,035
Election Assistance Commission		6,367
Health and Human Services		1,351,572
Homeland Security		99,847
		99,847

Total Federal **\$ 1,550,821**

Total Grants **\$ 2,602,817**

Total Intergovernmental Revenue **\$ 6,391,867**

MANAGEMENT AND COMPLIANCE SECTION

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 15

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unmodified 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 "Independent Auditor's 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 programs were reported in the "Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Pennington County expresses an unmodified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs were:
 - Child Support Enforcement, CFDA #93.563
 - 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 15
(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 to maintain suitable skills, knowledge, and expertise to sufficiently review, understand, and approve the County's financial statements, including notes.

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**Schedule 15
(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

Thirteen of the 50 active individual ditch systems had deficit fund balances at December 31, 2012, totaling \$252,229, the largest being \$82,425. 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.



GOVERNMENTAL AUDIT SERVICES

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

1541 Hwy. 59 South
Thief River Falls, MN 56701
Phone: 218-681-4078
Fax: 218-681-4079
choffman@mncable.net

**INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pennington County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pennington County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 96-1 and 07-1, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as a management practices comment, item 96-7.

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, Pennington County complied with the material terms and conditions of applicable legal provisions.

County's Response to Findings

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hoffman, Dale, & Swenson, PLLC

August 20, 2013



GOVERNMENTAL AUDIT SERVICES

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

1541 Hwy. 59 South
Thief River Falls, MN 56701
Phone: 218-681-4078
Fax: 218-681-4079
choffman@mncable.net

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Board of County Commissioners
Pennington County

Report on Compliance for Each Major Federal Program

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 each of the County's major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on the Major Federal Programs

In our opinion, Pennington County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

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

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

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated August 20, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic

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

Hoffman, Dale, & Swenson

Hoffman, Dale, & Swenson, PLLC

August 20, 2013

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

Schedule 16

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ 93,035
U.S. Election Assistance Commission		
Passed Through Minnesota Department of Secretary of State Help America Vote Act	90.401	\$ 6,367
U.S. Department of Health and Human Services		
Passed Through Northwest Regional Development Commission/Northwest Area Agency on Aging Special Programs for the Aging - Title III B	93.044	\$ 8,968
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	2,737
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families	93.558	\$ 163,612
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	<u>10,134</u>
Total Temporary Assistance for Needy Families Cluster		173,746
Child Support Enforcement	93.563	328,496
Refugee and Entrant Assistance	93.566	228
Child Care and Development Block Grant	93.575	4,088
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,474
Foster Care Title IV-E	93.658	128,057
Social Services Block Grant	93.667	136,143
Chafee Foster Care Independence Program	93.674	985

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

**Schedule 16
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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	30
Medical Assistance Program	93.778	549,868
Block Grants for Community Mental Health Services	93.958	16,752
Total U.S. Department of Health and Human Services		\$ 1,351,572
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grants	97.042	\$ 27,498
Passed Through Headwaters Regional Development Commission		
Homeland Security Grant Program	97.067	72,349
Total U.S. Department of Homeland Security		\$ 99,847
Total Federal Awards		\$ 1,550,821

**PENNINGTON COUNTY
THIEF RIVER FALLS, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012. 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 position, 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 2012, the County did not pass any federal money to subrecipients.

V. American Recovery and Reinvestment Act

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