

**KANABEC COUNTY
MORA, MINNESOTA**

**BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2010

**KANABEC COUNTY
MORA, MINNESOTA
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2010**

INTRODUCTORY SECTION	
ORGANIZATION	1
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	4
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	15
STATEMENT OF ACTIVITIES	17
FUND FINANCIAL STATEMENTS	
BALANCE SHEET – GOVERNMENTAL FUNDS	18
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES	20
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	21
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES	23
STATEMENT OF FIDUCIARY NET ASSETS – AGENCY FUNDS	24
NOTES TO THE FINANCIAL STATEMENTS	25
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	59
BUDGETARY COMPARISON SCHEDULE – ROAD AND BRIDGE SPECIAL REVENUE FUND	61
BUDGETARY COMPARISON SCHEDULE – WELFARE SPECIAL REVENUE FUND	62
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	63

**KANABEC COUNTY
MORA, MINNESOTA
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL SECTION (CONTINUED)

SUPPLEMENTARY INFORMATION

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – ALL
AGENCY FUNDS** 64

SCHEDULE OF INTERGOVERNMENTAL REVENUE 68

REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS* AND SINGLE AUDIT (A-133)

**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*** 69

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133** 71

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 73

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS 79

REPORT ON MINNESOTA LEGAL COMPLIANCE 82

INTRODUCTORY SECTION

**KANABEC COUNTY
MORA, MINNESOTA
ORGANIZATION
DECEMBER 31, 2010**

Office	Name	Term	
		From	To
County Board of Commissioners			
1st District	Kevin Troupe	January 2007	January 2011
2nd District	Roger Crawford	January 2009	January 2013
3rd District	Les Nielsen *	January 2007	January 2011
4th District	Kathi Ellis	January 2009	January 2013
5th District	Kim Smith	January 2007	January 2011
Officers			
Elected			
Attorney	Amy Brosnahan	January 2007	January 2011
Auditor-Treasurer	Denise Cooper	January 2007	January 2011
County Recorder	Rhonda Olson	January 2007	January 2011
Sheriff	Steve Schulz	January 2007	January 2011
Appointed			
Assessor	Dan Weber	January 2009	December 2012
Coordinator	Dan Weber	Indefinite	
Court Administrator	Rosemary Nelson	Indefinite	
Examiner of Titles	Norman J. Loren	Indefinite	
Highway Engineer	Gregory Nikodym	May 2007	May 2011
Court Services Director	Todd Eustice	Indefinite	
Surveyor	Morrell B. Rud	January 2010	January 2013

* Denotes Board Chair

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Kanabec County
Mora, Minnesota

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2011, on our consideration of Kanabec 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of County Commissioners
Kanabec County

The management's discussion and analysis and budgetary comparison information, on pages 4 through 14 and 59 through 63 respectively, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kanabec County's basic financial statements. The supplementary information listed in the table of contents and included on pages 64 to 68 is presented for purposes of additional analysis and is 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* and is also not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Larson Allen LLP
LarsonAllen LLP

Brainerd, Minnesota
July 28, 2011

REQUIRED SUPPLEMENTARY INFORMATION

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

This section of Kanabec County's (County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2010. The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year, 2010, and the prior year, 2009, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2010 include the following:

- County-wide net assets (excluding the Kanabec Hospital component unit) increased \$3,099,758 during 2010. This is primarily due to the County's continued investment into capital assets.
- Overall fund-level revenues totaled \$23,254,556 and were \$108,770 less than expenditures due primarily to continued construction of the jail project.
- The General Fund's fund balance decreased \$3,016 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are County-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the County-wide statements.
 - The governmental funds statements tell how basic services such as general government, human services, and highways and streets were financed in the short-term as well as what remains for future spending.
 - Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

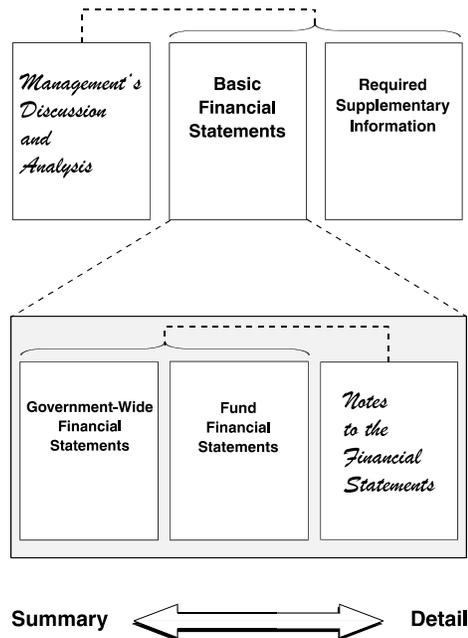
**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the County's Government-Wide and Fund Financial Statements			
Type of Statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	Instances in which the County is the trustee or agent for someone else's resources.
Required financial statements	Statement of net assets.	Balance sheet.	Statement of fiduciary net assets.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balance.	
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both short-term and long-term, Agency's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

COUNTY-WIDE STATEMENTS

The County-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two County-wide statements report the County's net assets and how they have changed. Net assets – the difference between the County's assets and liabilities – are one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the County, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of county buildings and other facilities.
- In the County-wide financial statements, the County's activities are shown in one category: Governmental activities and the County's basic services are included here. Property taxes and state aids finance most of these activities.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or “major” funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

THE COUNTY HAS TWO KINDS OF FUNDS:

- Governmental funds – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the County-wide statements, we provide additional information that explains the relationship (or differences) between them.
- Fiduciary funds – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the County-wide financial statements because the County cannot use these assets to finance its operations.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

NET ASSETS

The County's net assets were \$60,959,072 on December 31, 2010 (see Table A-1).

**Table A-1
The County's Net Assets**

	Governmental Activities		% Change
	2010	2009	
Current and Other Assets	\$ 13,101,814	\$ 13,136,303	(0.3)%
Capital Assets	65,099,409	62,877,900	3.5
Total Assets	<u>78,201,223</u>	<u>76,014,203</u>	2.9
Current Liabilities	3,535,426	4,007,190	(11.8)
Long-Term Liabilities	13,706,725	14,147,699	(3.1)
Total Liabilities	<u>17,242,151</u>	<u>18,154,889</u>	(5.0)
Net Assets			
Invested in Capital Assets			
Net of Related Debt	51,455,392	48,717,683	5.6
Restricted	3,033,415	2,563,231	18.3
Unrestricted	6,470,265	6,578,400	(1.6)
Total Net Assets	<u>\$ 60,959,072</u>	<u>\$ 57,859,314</u>	5.4

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET ASSETS

The County-wide total revenues were \$23,912,282 for the year ended December 31, 2010. Property taxes and intergovernmental revenues accounted for 80% of total revenue for the year (see Figure A-3).

**Table A-2
Change in Net Assets**

	Governmental Activities		Total % Change
	2010	2009	
REVENUES			
<u>Program Revenues</u>			
Charges for Services	\$ 3,791,979	\$ 4,484,724	(15.4)%
Operating Grants and Contributions	5,891,115	6,805,712	(13.4)
Capital Grants and Contributions	1,513,200	1,279,867	18.2
<u>General Revenues</u>			
Property Taxes	9,788,678	9,768,754	0.2
Unrestricted State Aid	1,879,752	2,152,541	(12.7)
Investment Earnings	82,291	129,256	(36.3)
Other	965,267	202,821	375.9
Total Revenues	<u>23,912,282</u>	<u>24,823,675</u>	(3.7)
EXPENSES			
General Government	3,844,718	4,119,575	(6.7)
Public Safety	5,196,319	4,477,710	16.0
Highways and Streets	3,467,361	3,342,030	3.8
Sanitation	78,144	86,152	(9.3)
Human Services	4,857,418	4,908,578	(1.0)
Health	2,611,592	2,381,893	9.6
Culture and Recreation	156,084	168,707	(7.5)
Conservation of Natural Resources	56,566	60,407	(6.4)
Interest	544,322	561,392	(3.0)
Total Expenses	<u>20,812,524</u>	<u>20,106,444</u>	3.5
CHANGE IN NET ASSETS	3,099,758	4,717,231	(34.3)
Net Assets - Beginning of Year	57,859,314	53,142,083	8.9
NET ASSETS - END OF YEAR	<u>\$ 60,959,072</u>	<u>\$ 57,859,314</u>	5.4

Total revenues surpassed expenses, increasing net assets \$3,099,758 over last year (see Table A-2). This is primarily due to the continued investment by the County into long-term capital assets.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET ASSETS (CONTINUED)

The County-wide cost of all governmental activities this year was \$20,812,524.

- Some of the cost was paid by the users of the County's programs (\$3,791,979).
- The federal and state governments subsidized certain programs with grants and contributions (\$7,404,315).
- The remainder of the County's governmental activities costs, (\$9,616,230), however, was paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid from the combination of \$9,788,678 in property taxes, \$1,879,752 of state aid, and \$1,047,558 of investment earnings and other general revenues.

Figure A-3 Sources of County's Revenues for 2010

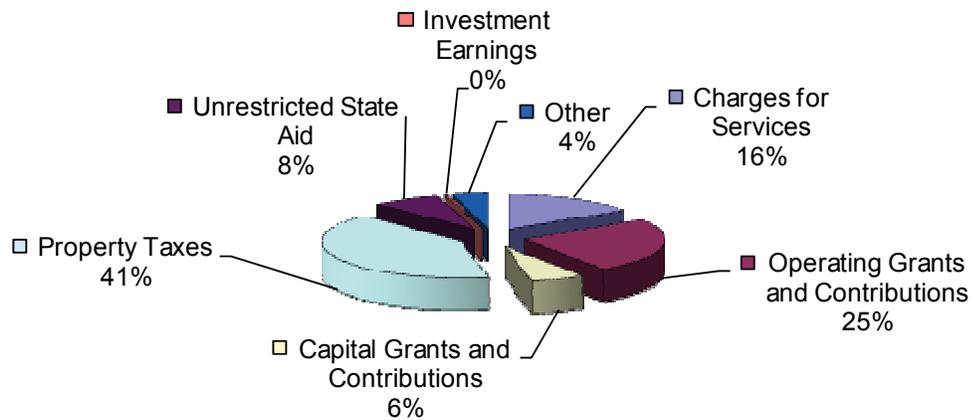
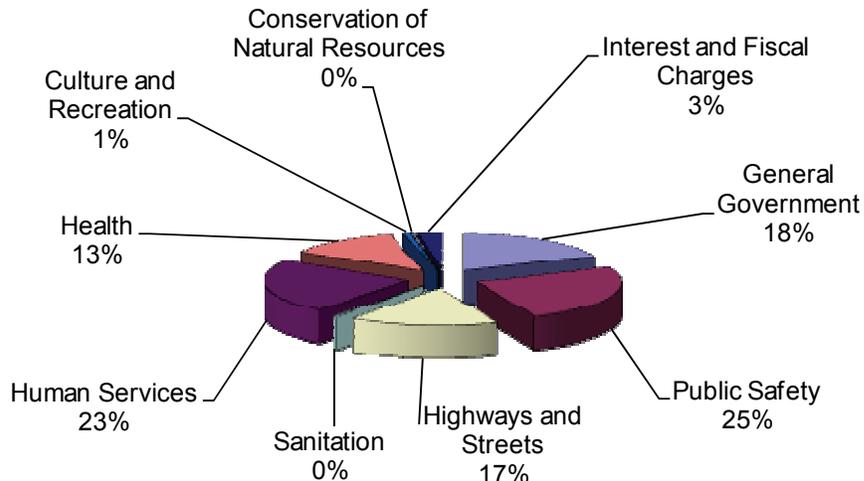


Figure A-4 County's Expenses for 2010



**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)

CHANGES IN NET ASSETS (CONTINUED)

**Table A-3
Expenses and Net (Revenue) Cost of Services**

	Total Cost of Services		Percentage Change	Net Revenue (Cost) of Services		Percentage Change
	2010	2009		2010	2009	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 3,844,718	\$ 4,119,575	(6.7)%	\$ (2,572,763)	\$ (2,195,019)	17.2 %
Public Safety	5,196,319	4,477,710	16.0	(3,753,797)	(3,364,653)	11.6
Highways and Streets	3,467,361	3,342,030	3.8	(261,203)	1,153,808	(122.6)
Sanitation	78,144	86,152	(9.3)	(20,969)	68,840	(1.3)
Human Services	4,857,418	4,908,578	(1.0)	(1,805,735)	(1,800,551)	0.3
Health	2,611,592	2,381,893	9.6	(444,791)	(608,060)	(26.9)
Culture and Recreation	156,084	168,707	(7.5)	(156,084)	(168,707)	(7.5)
Conservation of Natural Resources	56,566	60,407	(6.4)	(56,566)	(60,407)	(6.4)
Interest and Fiscal Charges on Long-Term Liabilities	544,322	561,392	(3.0)	(544,322)	(561,392)	(3.0)
Total	<u>\$ 20,812,524</u>	<u>\$ 20,106,444</u>	3.5	<u>\$ (9,616,230)</u>	<u>\$ (7,536,141)</u>	27.6

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$8,615,967.

Revenues for the County's governmental funds were \$23,254,556 while total expenditures were \$23,363,326.

GENERAL FUND

The General Fund includes the primary operations of the County in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund Revenues:

Revenue Source	Year Ended		Change	
	December 31, 2010	December 31, 2009	Increase	Percent
Taxes	\$ 4,892,611	\$ 4,519,200	\$ 373,411	8.3 %
Intergovernmental	3,171,314	2,953,004	218,310	7.4
Charges for Services	1,595,695	1,538,541	57,154	3.7
Interest	72,200	120,242	(48,042)	(40.0)
Miscellaneous and Other	1,666,249	1,567,910	98,339	6.3
Total General Fund Revenues	<u>\$ 11,398,069</u>	<u>\$ 10,698,897</u>	<u>\$ 699,172</u>	6.5

Total General Fund revenue increased by \$699,172, or 6.5%, from the previous year. The increase is primarily due to the increase in tax revenues, and intergovernmental revenues.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Expenditures:

**Table A-4
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2010	December 31, 2009	Increase (Decrease)	Percent
General Government	\$ 3,539,104	\$ 3,842,734	\$ (303,630)	(7.9)%
Public Safety	4,888,401	4,077,928	810,473	19.9
Sanitation	78,144	86,152	(8,008)	(9.3)
Health	2,579,982	2,325,787	254,195	10.9
Conservation of Natural Resources	56,636	63,568	(6,932)	(10.9)
Intergovernmental	156,084	168,707	(12,623)	(7.5)
Capital Outlay	155,849	94,922	60,927	64.2
Debt Service	22,842	22,842	-	-
Total Expenditures	<u>\$ 11,477,042</u>	<u>\$ 10,682,640</u>	<u>\$ 794,402</u>	7.4

The General Fund had total fund balance of \$3,680,400 at the end of the current fiscal year. The fund balance of the General Fund decreased \$3,016 during the current fiscal year primarily due to a greater increase in expenditures over revenues for the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

- Actual revenues were \$461,037 more than budget, primarily resulting from the contract with the City of Mora to provide policing services for 2010.
- The actual expenditures were \$654,050 more than budget related primarily to grant expenditures and wages and related costs to providing policing services to the City of Mora for 2010.
- The County did not make any budget amendments in 2010.

OTHER MAJOR FUNDS ANALYSIS

The Road and Bridge Fund had total fund balance of \$1,467,837 at the end of the current fiscal year. The total change in fund balance of the Road and Bridge Fund was a decrease of \$445,595 during the current fiscal year primarily due to the timing of construction projects and the receipt of state aids.

The Welfare Fund had total fund balance of \$2,554,850 at the end of the current fiscal year. The fund balance of the Welfare Fund increased \$314,513 during the current fiscal year, which is an increase of 14% over the prior year fund balance primarily due to an increase in tax revenue and intergovernmental revenues and a decrease in spending.

The Forfeited Tax Fund had total fund balance of \$1,665 at the end of the current fiscal year. The fund balance of the Forfeited Tax Fund decreased \$10,690 during the current fiscal year primarily due to pay out of additional forfeiture sales to local taxing districts.

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

OTHER MAJOR FUNDS ANALYSIS (CONTINUED)

The Regional Rail Authority Fund had a total fund balance of \$12,818 at the end of the current fiscal year. The fund balance of the Regional Rail Authority Fund increased \$2,710 during the current fiscal year primarily due to a transfer in from the General Fund.

The Debt Service Fund had total fund balance of \$766,331 at the end of the current fiscal year. The fund balance of the Debt Service Fund increased \$662,119 during the current fiscal year, which is primarily due to a large transfer from the capital projects fund that was more than able to offset the increase in principal and interest.

The Capital Projects Fund had total fund balance of \$132,066 at the end of the current fiscal year. The fund balance of the Capital Project Fund decreased \$641,161; this is due primarily to the jail project expenditures and the transfer of unspent bond proceeds into the County's Debt Service Fund to pay for future debt maturities.

CONSTRUCTION PROJECTS AND DEBT SERVICE

During 2010, the County finished the construction of its jail remodel and expansion which had an approximate final cost of \$11 million. The County also had numerous road projects in progress at the end of 2010.

An annual levy is made to fund the bond payments for all previous bond issues.

CAPITAL ASSETS

By the end of 2010, the County had invested approximately \$82,500,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure (see Table A-5). (More detailed information about capital assets can be found in Note 3.A to the financial statements). Total depreciation expense for the year was \$1,791,526.

**Table A-5
The County's Capital Assets**

	Governmental Activities		Percent Change
	2010	2009	
Land	\$ 3,119,024	\$ 2,983,679	4.5 %
Construction-in-Progress	568,251	14,974,761	(96.2)
Infrastructure	53,175,895	46,453,749	14.5
Buildings	20,814,935	9,389,224	121.7
Machinery, Equipment, and Vehicles	4,818,552	4,735,300	1.8
Less: Accumulated Depreciation	(17,397,248)	(15,658,812)	11.1
Total	\$ 65,099,409	\$ 62,877,901	3.5

**KANABEC COUNTY
MORA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2010**

LONG-TERM LIABILITIES

At year-end, the County had \$15,614,778 in long-term liabilities outstanding.

- The County's governmental activities total debt decreased \$344,189, due primarily to the repayment of debt.

**Table A-6
The County's Long-Term Liabilities**

	2010	2009	Percent Change
Governmental Activities			
General Obligation Bonds	\$ 13,705,000	\$ 14,225,000	(3.7)%
Loans Payable	482,183	397,760	21.2
Compensated Absences Payable	1,427,595	1,336,207	6.8
Total	<u>\$ 15,614,778</u>	<u>\$ 15,958,967</u>	(2.2)

FACTORS BEARING ON THE COUNTY'S FUTURE

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the legislature and the stagnant housing market may decrease revenues. The state of the economy continues to increase the cost of services provided and general expenditures.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dan Weber, County Coordinator, or Denise Cooper, County Auditor-Treasurer at (320) 679-6430. The County also recognizes Kanabec Hospital as a discrete component unit that issues its own financial statements and notes. If you have any questions concerning Kanabec Hospital, contact their finance department at 301 South Hwy 65, Mora, Minnesota 55051.

BASIC FINANCIAL STATEMENTS

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

ASSETS	Governmental Activities	Discretely Presented Component Unit
Cash and Pooled Investments	\$ 8,258,465	\$ 14,375,987
Petty Cash and Change Funds	675	-
Taxes Receivable		
Delinquent	1,148,129	-
Special Assessments Receivable		
Deferred	397,879	-
Delinquent	13,931	-
Accounts Receivable - Net	38,139	4,272,868
Accrued Interest Receivable	38,385	-
Due from Other Governments	2,058,430	-
Prepaid Items	-	228,800
Inventories	297,721	706,681
Investment in Joint Ventures	766,261	1,620,399
Restricted Assets		
Cash and Pooled Investments	-	2,331,492
Deferred Debt Issue Costs	83,799	269,450
Noncurrent Cash and Investments - Internally Designated	-	3,427,987
Non-Depreciable Capital Assets		
Land	3,119,024	1,601,718
Construction in Progress	568,251	3,236,128
Depreciable Capital Assets - Net of Depreciation		
Building	18,972,551	8,549,755
Improvements Other Than Buildings	-	540,857
Machinery, Vehicles, Furniture and Equipment	1,349,481	7,931,906
Infrastructure	41,090,102	-
Total Assets	78,201,223	49,094,028

See accompanying Notes to the Financial Statements.

	Governmental Activities	Discretely Presented Component Unit
LIABILITIES		
Accounts Payable	\$ 455,745	\$ 1,192,800
Salaries Payable	346,493	1,685,710
Contracts Payable	498,179	427,801
Due to Other Governments	74,063	-
Accrued Interest Payable	219,700	234,390
Deferred Revenue - Unearned	94,174	-
Other Current Liabilities	-	166,554
Compensated Absences Payable - Due within One Year	1,287,101	-
General Obligation Bonds Payable - Due within One Year	540,000	165,000
Revenue Bonds Payable - Due within One Year	-	485,000
Loans Payable - Due within One Year	19,971	-
Other Postemployment Benefits Liability	-	197,850
General Obligation Bonds Payable - Due in More Than One Year	13,104,018	2,505,000
Revenue Bonds Payable - Due in More Than One Year	-	10,655,000
Compensated Absences Payable - Due in More Than One Year	140,495	-
Loans Payable - Due in More Than One Year	462,212	-
	<u>17,242,151</u>	<u>17,715,105</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	51,455,392	3,067,458
Restricted for:		
General Government	115,518	-
Public Safety	167,990	-
Highways and Streets	283,849	
Sanitation	1,896,827	-
Debt Service	569,231	7,984,941
Unrestricted	6,470,265	20,326,524
	<u>60,959,072</u>	<u>31,378,923</u>
Total Net Assets	<u>\$ 60,959,072</u>	<u>\$ 31,378,923</u>

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

FUNCTIONS/PROGRAMS	Program Revenues				Changes in Net Assets	
	Expenses	Operating		Capital	Primary	Component
		Fees, Charges, Fines, and Other	Grants and Contributions	Grants and Contributions	Governmental Activities	Unit Kanabec Hospital
PRIMARY GOVERNMENT						
GOVERNMENTAL ACTIVITIES						
General Government	\$ 3,844,718	\$ 1,260,921	\$ 11,034	\$ -	\$ (2,572,763)	\$ -
Public Safety	5,196,319	646,233	796,289	-	(3,753,797)	-
Highways and Streets	3,467,361	217,936	1,475,022	1,513,200	(261,203)	-
Sanitation	78,144	1,225	55,950	-	(20,969)	-
Human Services	4,857,418	659,748	2,391,935	-	(1,805,735)	-
Health	2,611,592	1,005,916	1,160,885	-	(444,791)	-
Culture and Recreation	156,084	-	-	-	(156,084)	-
Conservation of Natural Resources	56,566	-	-	-	(56,566)	-
Interest	544,322	-	-	-	(544,322)	-
Total Governmental Activities	20,812,524	3,791,979	5,891,115	1,513,200	(9,616,230)	-
COMPONENT UNIT						
Kanabec Hospital	36,096,227	34,990,157	-	-	-	(1,106,070)
Total Reporting Entity	<u>\$ 56,908,751</u>	<u>\$ 38,782,136</u>	<u>\$ 5,891,115</u>	<u>\$ 1,513,200</u>	(9,616,230)	(1,106,070)
GENERAL REVENUES						
Property Taxes					9,788,678	-
Mortgage Registry and Deed Tax					7,046	-
Tax Increments and Excess TIF					222	-
Payments in Lieu of Tax					50,183	-
Grants and Contributions not Restricted for a Particular Purpose					1,879,752	67,383
Investment Earnings					82,291	216,961
Miscellaneous					907,816	2,105,806
Total General Revenues					<u>12,715,988</u>	<u>2,390,150</u>
CHANGE IN NET ASSETS						
					3,099,758	1,284,080
Net Assets - Beginning of Year					<u>57,859,314</u>	<u>30,094,843</u>
NET ASSETS - END OF YEAR						
					<u>\$ 60,959,072</u>	<u>\$ 31,378,923</u>

See accompanying Notes to the Financial Statements.

**KANABEC COUNTY
MORA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

ASSETS	<u>General</u>	<u>Road and Bridge</u>
Cash and Pooled Investments	\$ 3,709,012	\$ 1,098,149
Petty Cash and Change Funds	500	175
Taxes Receivable - Delinquent	554,805	245,287
Special Assessments Receivable - Delinquent	13,931	-
Special Assessments Receivable - Deferred	397,879	-
Accounts Receivable	27,529	10,574
Accrued Interest Receivable	37,133	-
Due from Other Funds	46,895	678
Due from Other Governments	591,804	1,040,319
Inventories	-	297,721
Total Assets	<u>\$ 5,379,488</u>	<u>\$ 2,692,903</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 206,160	\$ 70,592
Salaries Payable	230,162	42,197
Contracts Payable	-	485,457
Due to Other Funds	678	-
Due to Other Governments	45,356	3,510
Deferred Revenue - Unavailable	1,216,732	529,136
Deferred Revenue - Unearned	-	94,174
Total Liabilities	<u>1,699,088</u>	<u>1,225,066</u>
FUND BALANCES		
Reserved For		
Law Library	19,649	-
Debt Service	-	-
Inventories	-	297,721
Recorder's Equipment Purchases	77,492	-
E-911	84,618	-
Landfill Closure/Post Closure	1,793,906	-
Sheriff's Contingency	17,484	-
Sheriff's Forfeited Property	65,888	-
Attorney Forfeited Property	18,377	-
SCORE	95,460	-
Water Planning	7,461	-
Retiree Accrued Sick Pay	29,364	-
Unreserved, Designated		
Future Expenditures	138,147	-
Cash Flows	165,683	-
Capital Improvements	107,674	-
Elections	5,000	-
Unreserved, Undesignated	<u>1,054,197</u>	<u>1,170,116</u>
Total Fund Balance	<u>3,680,400</u>	<u>1,467,837</u>
Total Liabilities and Fund Balance	<u>\$ 5,379,488</u>	<u>\$ 2,692,903</u>

See accompanying Notes to the Financial Statements.

Major Funds					Total
Welfare	Forfeited Tax	Regional Rail Authority	Debt Service	Capital Projects	Governmental Funds
\$ 2,526,990	\$ 1,665	\$ 12,818	\$ 765,116	\$ 144,715	\$ 8,258,465
-	-	-	-	-	675
232,169	-	-	22,600	93,268	1,148,129
-	-	-	-	-	13,931
-	-	-	-	-	397,879
-	-	-	-	36	38,139
-	-	-	1,215	37	38,385
-	-	-	-	-	47,573
426,307	-	-	-	-	2,058,430
-	-	-	-	-	297,721
<u>\$ 3,185,466</u>	<u>\$ 1,665</u>	<u>\$ 12,818</u>	<u>\$ 788,931</u>	<u>\$ 238,056</u>	<u>\$ 12,299,327</u>
\$ 178,993	\$ -	\$ -	\$ -	\$ -	\$ 455,745
74,134	-	-	-	-	346,493
-	-	-	-	12,722	498,179
46,895	-	-	-	-	47,573
25,197	-	-	-	-	74,063
305,397	-	-	22,600	93,268	2,167,133
-	-	-	-	-	94,174
<u>630,616</u>	<u>-</u>	<u>-</u>	<u>22,600</u>	<u>105,990</u>	<u>3,683,360</u>
-	-	-	-	-	19,649
-	-	-	766,331	-	766,331
-	-	-	-	-	297,721
-	-	-	-	-	77,492
-	-	-	-	-	84,618
-	-	-	-	-	1,793,906
-	-	-	-	-	17,484
-	-	-	-	-	65,888
-	-	-	-	-	18,377
-	-	-	-	-	95,460
-	-	-	-	-	7,461
-	-	-	-	-	29,364
-	-	-	-	-	138,147
-	-	-	-	-	165,683
-	-	-	-	132,066	239,740
-	-	-	-	-	5,000
<u>2,554,850</u>	<u>1,665</u>	<u>12,818</u>	<u>-</u>	<u>-</u>	<u>4,793,646</u>
<u>2,554,850</u>	<u>1,665</u>	<u>12,818</u>	<u>766,331</u>	<u>132,066</u>	<u>8,615,967</u>
<u>\$ 3,185,466</u>	<u>\$ 1,665</u>	<u>\$ 12,818</u>	<u>\$ 788,931</u>	<u>\$ 238,056</u>	<u>\$ 12,299,327</u>

**KANABEC COUNTY
MORA, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 8,615,967

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 65,099,409

Investment in joint ventures are reported in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds. 766,261

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the Governmental Funds. 2,167,133

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

General Obligation Bonds	\$ (13,705,000)	
Loans Payable	(482,183)	
Deferred Debt Issue Costs	83,799	
Unamortized Discounts	60,982	
Compensated Absences	(1,427,596)	
Accrued Interest Payable	(219,700)	
	(15,689,698)	(15,689,698)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 60,959,072

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010**

	General	Road and Bridge
REVENUES		
Taxes	\$ 4,892,611	\$ 1,986,160
Special Assessments	65,718	-
Licenses and Permits	53,966	20,350
Intergovernmental	3,171,314	3,296,456
Charges for Services	1,595,695	197,586
Fines and Forfeits	13,021	-
Gifts and Contributions	32,774	-
Interest on Investments	72,200	-
Miscellaneous	1,500,770	60,897
Total Revenues	11,398,069	5,561,449
EXPENDITURES		
CURRENT		
General Government	3,539,104	-
Public Safety	4,888,401	-
Highways and Streets	-	3,212,260
Sanitation	78,144	-
Human Services	-	-
Health	2,579,982	-
Conservation	56,636	-
Total Current	11,142,267	3,212,260
INTERGOVERNMENTAL		
Culture and Recreation	156,084	-
CAPITAL OUTLAY		
General Government	9,752	-
Public Safety	140,690	-
Health	5,407	-
Highways and Streets	-	2,701,477
Total Capital Outlay	155,849	2,701,477
DEBT SERVICE		
Principal	19,578	-
Interest	3,264	-
Total Debt Service	22,842	-
Total Expenditures	11,477,042	5,913,737
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(78,973)	(352,288)
OTHER FINANCING SOURCES (USES)		
Transfers In	-	27,000
Transfers Out	(32,000)	-
Loan Proceeds	104,001	-
Proceeds from the Sale of Capital Assets	3,956	-
Total Other Financing Sources (Uses)	75,957	27,000
NET CHANGE IN FUND BALANCES	(3,016)	(325,288)
Fund Balance - Beginning of Year	3,683,416	1,913,432
Increase (Decrease) in Reserved for Inventories	-	(120,307)
FUND BALANCE - END OF YEAR	\$ 3,680,400	\$ 1,467,837

See accompanying Notes to the Financial Statements.

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010**

See accompanying Notes to the Financial Statements.

Welfare	Forfeited Tax	Regional Rail Authority	Debt Service	Capital Projects	Total Governmental Funds
\$ 1,875,791	\$ -	\$ -	\$ 178,161	\$ 754,435	\$ 9,687,158
-	-	-	-	-	65,718
-	-	-	-	-	74,316
2,666,061	-	-	-	131,937	9,265,768
25,621	-	-	-	-	1,818,902
-	-	-	-	-	13,021
-	-	-	-	-	32,774
-	-	-	9,569	522	82,291
604,876	31,076	175	-	16,814	2,214,608
5,172,349	31,076	175	187,730	903,708	23,254,556
-	41,766	2,465	-	-	3,583,335
-	-	-	-	-	4,888,401
-	-	-	-	-	3,212,260
-	-	-	-	-	78,144
4,857,836	-	-	-	-	4,857,836
-	-	-	-	-	2,579,982
-	-	-	-	-	56,636
4,857,836	41,766	2,465	-	-	19,256,594
-	-	-	-	-	156,084
-	-	-	-	-	9,752
-	-	-	-	12,719	153,409
-	-	-	-	-	5,407
-	-	-	-	-	2,701,477
-	-	-	-	12,719	2,870,045
-	-	-	520,000	-	539,578
-	-	-	537,761	-	541,025
-	-	-	1,057,761	-	1,080,603
4,857,836	41,766	2,465	1,057,761	12,719	23,363,326
314,513	(10,690)	(2,290)	(870,031)	890,989	(108,770)
-	-	5,000	1,532,150	-	1,564,150
-	-	-	-	(1,532,150)	(1,564,150)
-	-	-	-	-	104,001
-	-	-	-	-	3,956
-	-	5,000	1,532,150	(1,532,150)	107,957
314,513	(10,690)	2,710	662,119	(641,161)	(813)
2,240,337	12,355	10,108	104,212	773,227	8,737,087
-	-	-	-	-	(120,307)
\$ 2,554,850	\$ 1,665	\$ 12,818	\$ 766,331	\$ 132,066	\$ 8,615,967

**KANABEC COUNTY
MORA, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ (813)

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

In the fund level, under the modified accrual basis, distributions of joint venture equity interest are recorded as revenue. In the statement of net assets, an asset is reported for the equity interest in joint ventures and distributions (decreases) and increases in joint venture equity are reported in the statement of activities. The change in net assets differs from the change in fund balance by the increases and decreases in the investment in joint venture.

Increase in Investment in Joint Venture 317,916

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 depreciation expense.

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Assets Adjustments	\$ 4,017,931	
Net Book Value of Disposed Assets	(4,897)	
Current Year Depreciation	<u>(1,791,526)</u>	2,221,508

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 340,562

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:

Loan Proceeds (104,001)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets.

Principal Repayments		
General Obligation Bonds	520,000	
CWP Loan	<u>19,578</u>	539,578

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

Change in Accrued Interest Payable	6,985	
Amortization of Discounts and Deferred Issuance Charges	(10,282)	
Change in Accrued Compensated Absences	(91,388)	
Change in Inventories	<u>(120,307)</u>	<u>(214,992)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 3,099,758

**KANABEC COUNTY
MORA, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2010**

ASSETS	
Cash and Pooled Investments	<u>\$ 931,494</u>
Total Assets	<u><u>\$ 931,494</u></u>
LIABILITIES	
Funds Held in Trust	\$ 383,377
Due to Other Governments	<u>548,117</u>
Total Liabilities	<u><u>\$ 931,494</u></u>

See accompanying Notes to the Financial Statements.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kanabec County's (County) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2010. 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

Kanabec County was established March 13, 1858, and is an organized county having the powers, duties, and privileges granted counties by *Minnesota Statutes* §373. As required by accounting principles generally accepted in the United States of America, these financial statements present Kanabec County (Primary Government) and its component unit for which the County is financially accountable. The County is governed by a five-member board of commissioners elected from districts within the County. The board is organized with a chair and vice-chair elected at the annual meeting in January of each year. The County Coordinator, appointed by the board, serves as the clerk of the board but has no vote.

For financial reporting purposes, Kanabec County has included all funds, organizations, agencies, boards, commissions, and authorities, and has considered all potential component units for which the County is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause Kanabec County's financial statements to be misleading or incomplete. The Governmental Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria included appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on the organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

As required by generally accepted accounting principles, these financial statements present Kanabec County (the Primary Government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationship with the County.

Discretely Presented Component Unit

While part of the reporting entity, a discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The Kanabec Hospital (the Hospital) meets the criteria to be included as a discrete presentation. The Hospital is governed by the Hospital's board of directors as appointed by the County board. Complete financial statements for the Hospital may be obtained at the Hospital's business office.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures which are described in Note 6.C. The County also participates in jointly-governed organizations which are described in Note 6.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) display information about the Primary Government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

The 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, fines, and charges 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.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The County has no funds which are classified as nonmajor.

The County reports the following major governmental funds:

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

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

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

The Forfeited Tax Special Revenue Fund is used to account for all funds collected per state statute for forfeited tax sales and rentals.

The Regional Rail Authority Special Revenue Fund is used to account for the activities of the regional rail authority.

The Debt Service Fund is used to account for the accumulation of resources and payment of bond principal, interest and related costs of governmental funds.

The Capital Projects Fund is used to account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities.

Additionally, the County reports the following fiduciary fund type:

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.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The government-wide 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. Kanabec 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. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2010, based on market prices. Pursuant to *Minnesota Statutes* §385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Deposits and Investments (Continued)

Kanabec 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 Statutes* §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

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 to/from other funds" (i.e., the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as "due to/from other funds."

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

All receivables, including those of the discretely presented component unit, if applicable, are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Significant portions of special assessments receivable are not expected to be collected within one year due to the nature of the receivable.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories are equally offset by reserved fund balance to indicate that they do not constitute available spendable resources. Inventories at the government-wide level are recorded as expenses when consumed.

4. Restricted Assets

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. In the case of the initial capitalization of general infrastructure reported in governmental activities, the County chose to include all such items regardless of their acquisition date or amount. The County was able to estimate the historical cost for the initial reporting of these assets through backtrending (estimating the current replacement costs of the infrastructure to be capitalized and using an appropriate price-level index to deflate the costs to the acquisition year or estimated acquisition year).

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Property, plant, and equipment of the Primary Government, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	25-75
Infrastructure	15-75
Machinery, Vehicles, Furniture, and Equipment	3-15

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Compensated Absences

The liability for compensated absences reported in financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of known employee resignations and retirements.

7. Deferred Revenue

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

8. Long-Term Obligations

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

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

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

10. Net Assets

Fund equity is classified as net assets in the government-wide financial statements and is displayed in three components. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement for those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net assets are displayed as unrestricted.

11. Use of Estimates

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

E. Revenues

1. Revenues

In accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for non-exchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of accounting is used by all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is measurable and available to finance current expenditures.

2. Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on nongovernmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied, to the extent they are collected in the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes receivable but not available are reported as deferred revenue and will be recognized as revenue in the fiscal year that they become available. Fines and penalties and property forfeitures are recognized in the period received.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues (Continued)

3. Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met and the funds become measurable and available.

Voluntary non-exchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restriction or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Tax credits paid by the state are included in intergovernmental revenues and are recognized as revenue in the fiscal year that they become available. State-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

4. Exchange Transactions

Special assessments levied against benefiting properties are recognized under the modified accrual basis when available to finance current expenditures. Other revenues, such as licenses and permits, charges for services, and investment income are recognized as revenue when earned.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures Over Budget

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

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 11,477,042	\$ 10,822,992	\$ 654,050
Road and Bridge Special Revenue Fund	5,913,737	5,521,511	392,226

These over-expenditures were funded by greater than anticipated revenues and existing fund balance.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Minnesota Statutes §§118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. *Minnesota Statutes* §118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Custodial Credit Risk - Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County investment policy requires that collateral or bond be obtained for all uninsured amounts and that necessary documentation be obtained to show compliance with *Minnesota Statutes* for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes:

U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

At December 31, 2010, the County's bank balance of deposits was \$27,622,725. The County deposits were fully insured and collateralized at year-end.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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

- (a) 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 Statutes* §118a.04, Subd. 6;
- (b) Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (c) General obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (d) Bankers' acceptances of United States banks;
- (e) 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
- (f) With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

As of December 31, 2010, the County had the following investments:

Investment Type	Maturity	Fair Value	Rating	Concentration Risk
UBS Money Market	*	\$ 1,806	NR	N/A
Municipal Securities				
Illinois St.	1/1/2012	347,160	A1/A+	18%
MAGIC Fund	*	1,620,585	NR	N/A

NR = Not Rated

N/A = Not Subject To Concentration Risk Calculation

* = No Stated Maturity Date

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Interest Rate Risk

Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. The County has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County investment policy limits investments in short-term securities to those with maturities up to five years.

Credit Risk

Minnesota Statutes and the County's investment policy restrict the types of investments that the County may invest in. As of December 31, 2010, none of the County's investment had a rating, as indicated in the table above.

Concentration Credit Risk

The County's investment policy places no limit on the amount the County may invest in any one issuer. None of the County's investments as of December 31, 2010 were more than five percent of the County's total investments.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of failure by the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County limits investments only to the extent that there is SIPC and excess SIPC coverage available.

The County's total cash and investments are reported as follows:

Primary Government	
Cash and Pooled Investments	\$ 8,258,465
Petty Cash	675
Component Unit	
Kanabec County Hospital	14,375,987
Restricted Assets	
Cash and Pooled Investments	5,759,479
Agency Funds Cash	<u>931,494</u>
 Total Cash and Investments	 <u><u>\$ 29,326,100</u></u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land and Right-of-Way	\$ 2,983,679	\$ 135,345	\$ -	\$ 3,119,024
Construction-in-Progress	14,974,761	3,715,405	(18,121,915)	568,251
Total Capital Assets, Not Being Depreciated	<u>17,958,440</u>	<u>3,850,750</u>	<u>(18,121,915)</u>	<u>3,687,275</u>
Capital Assets, Being Depreciated				
Buildings	9,389,224	11,425,711	-	20,814,935
Machinery, Furniture, and Equipment	4,735,300	141,239	(57,987)	4,818,552
Infrastructure	46,453,749	6,722,146	-	53,175,895
Total Capital Assets, Being Depreciated	<u>60,578,273</u>	<u>18,289,096</u>	<u>(57,987)</u>	<u>78,809,382</u>
Less Accumulated Depreciation for				
Buildings	1,544,119	298,265	-	1,842,384
Machinery, Furniture, and Equipment	3,091,984	430,177	(53,090)	3,469,071
Infrastructure	11,022,709	1,063,084	-	12,085,793
Total Accumulated Depreciation	<u>15,658,812</u>	<u>1,791,526</u>	<u>(53,090)</u>	<u>17,397,248</u>
Total Capital Assets, Being Depreciated, Net	<u>44,919,461</u>	<u>16,497,570</u>	<u>(4,897)</u>	<u>61,412,134</u>
Governmental Activities Capital Assets, Net	<u>\$ 62,877,901</u>	<u>\$ 20,348,320</u>	<u>\$ (18,126,812)</u>	<u>\$ 65,099,409</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the Primary Government as follows:

Governmental Activities

General Government	\$	240,778
Public Safety		274,135
Highways and Streets, Including Depreciation of Infrastructure Assets		1,271,955
Health		<u>4,658</u>
Total Depreciation Expense - Governmental Activities	\$	<u><u>1,791,526</u></u>

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Reason
General Fund	Welfare Fund	\$ 46,895	Office Expenses and Legal Services
Road and Bridge Fund	General Fund	<u>678</u>	Repairs on Pooled Vehicles
Total Due To/From Other Funds		<u><u>\$ 47,573</u></u>	

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

	Amount	Reason
Transfer from the General Fund to the Road and Bridge Fund	\$ 27,000	Lawn Care at the Courthouse
Transfer from the General Fund to the Regional Rail Fund	5,000	Property Acquisition
Transfer from the Capital Projects Fund to the Debt Service Fund	1,532,150	Debt Repayment
Total Interfund Transfers	<u>\$ 1,564,150</u>	

C. Liabilities

1. Long-Term Debt

Governmental Activities

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2010
General Obligation Bonds					
2008A G.O. Bonds	2028	\$80,000- \$530,000	3.00 - 4.25	\$ 5,000,000	\$ 4,820,000
2007A G.O. Bonds	2028	\$60,000- \$540,000	3.40 - 4.20	5,000,000	4,860,000
2005 General Obligation Refunding Bonds	2019	\$330,000 - \$535,000	3.00 - 3.75	5,060,000	<u>4,025,000</u>
Subtotal					13,705,000
Less: Unamortized Discounts					<u>(60,982)</u>
Total General Obligation Bonds					<u>\$ 13,644,018</u>
Loans Payable					
Clean Water Partnership Loans	2020	\$5,060 - \$11,308	2.00	520,953	\$ 482,183

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

2. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Bonds		CWP Loans	
	Principal	Interest	Principal	Interest
2011	\$ 540,000	\$ 519,234	\$ 19,971	\$ 2,871
2012	560,000	501,143	20,373	2,470
2013	580,000	482,316	20,782	2,060
2014	600,000	462,665	21,200	1,642
2015	620,000	441,988	21,626	1,216
2016-2020	3,460,000	1,851,473	44,564	1,120
2021-2025	4,270,000	1,099,129	-	-
2026-2028	3,075,000	198,428	-	-
Total	<u>\$ 13,705,000</u>	<u>\$ 5,556,376</u>	<u>\$ 148,516</u>	<u>\$ 11,379</u>

Note: Excluded from the CWP loans payable debt service requirements listed above is a loan from the Minnesota Pollution Control Agency (MPCA) in the amount of \$333,667 that has repayment terms that are unknown at December 31, 2010.

3. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
General Obligation Bonds	\$ 14,225,000	\$ -	\$ 520,000	\$ 13,705,000	\$ 540,000
Loans Payable	397,760	104,001	19,578	482,183	19,971
Compensated Absences	1,336,207	745,311	653,923	1,427,595	1,287,101
Governmental Activity Long-Term Liabilities	<u>\$ 15,958,967</u>	<u>\$ 849,312</u>	<u>\$ 1,193,501</u>	<u>\$ 15,614,778</u>	<u>\$ 1,847,072</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities (Continued)

The General Obligation Bonds are liquidated by the debt service fund, and the loans payable and compensated absences are liquidated by the general fund.

The County participates in a program that resulted in entering into several loan agreements with the Minnesota Pollution Control Agency for financing septic systems. The revolving loans are secured by special assessments placed on the individual parcels requesting repair of septic systems.

4. Construction Commitments

The County has active construction projects as of December 31, 2010. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Public Safety	\$ 6,494,077	\$ 663,887

NOTE 4 DEFINED BENEFIT PENSION PLANS

A. Plan Description

All full-time and certain part-time employees of Kanabec County are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

GERF 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, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

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

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Plan Description (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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 receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERP, PEPFF, and PECF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

C. Funding Policy

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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. PECF members are required to contribute 5.83% of their annual covered salary. Kanabec County is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERP members, 7.0% for Coordinated Plan GERP members, 14.10% for PEPFF members, and 8.75% for PECF members.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Funding Policy (Continued)

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

	General Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2010	\$ 450,022	\$ 145,777	\$ 68,212
2009	416,134	112,193	75,486
2008	381,503	101,736	68,344

The County's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 5 DEFINED CONTRIBUTION PLAN

Two County Commissioners of Kanabec County are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP 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 Statutes*, Chapter 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 elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee 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 two percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employee	Employer	
2010	\$ 5,183	\$ 5,183	5.0 %	5.0 %	5.0 %
2009	5,468	5,468	5.0	5.0	5.0
2008	5,274	5,274	5.0	5.0	5.0

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2010. 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.

B. 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 is a defendant in various lawsuits and has received notice of other possible claims. Although the outcome of these lawsuits and other possible claims is not presently determinable, in the opinion of the county attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures

Kanabec/Pine Community Health Services

The Kanabec/Pine Community Health Services (CHS) was established by a joint powers agreement in 1990 to contract for the procurement of efficient health care services for the participating counties. Both Pine County and Kanabec County appoint three members to the CHS Board with at least one of those appointees being a county board member. Financial responsibility of the County includes providing administrative cost reimbursements and grant financing to the CHS Board. Separate financial information is available at 18 North Vine Street, Mora, MN 55051.

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having powers, duties, and privileges granted joint powers by *Minnesota Statutes* §471.59. The commission comprises five members, one voting member from each county. At its annual meeting, the board of County commissioners of each county chooses a member and an alternate, both county commissioners, as representatives of the County. Each county has one voting member and, in the absence of the voting member, the alternate votes.

Each County's proportionate share of the total operating costs is based on the most recent census data available and is to adjust upon the admission of additional counties or the withdrawal of counties. The Commission will remain in existence so long as two or more counties remain as parties to the agreement or until July 1, 2026. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data. Complete financial statements of the East Central Solid Waste Commission can be obtained at 1756 – 180th Avenue, Mora, Minnesota 55051.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members, one County board member, and two appointees from each member county.

During 2010, the County paid \$156,084 to the East Central Regional Library. Complete financial statements of the East Central Regional Library can be obtained at 244 South Birch, Cambridge, Minnesota 55008.

Snake River Watershed Management Board (SRWMB)

The Snake River Watershed Management Board was established in April 1993, pursuant to *Minnesota Statutes* §471.59, as a joint powers entity. Its purpose is to coordinate the member county water plans and to develop objectives to promote sound hydrologic management of the water and related land resources. It comprises four member counties, Aitkin, Kanabec, Mille Lacs, and Pine. Financial responsibility exists because once the SRWMB has established a budget and determined which projects will be undertaken, each member county is required by the agreement to provide appropriate financial support. The SRWMB establishes an annual budget and participation in the administrative costs is: Aitkin County 20.8%, Kanabec County 49.5%, Mille Lacs County 9.2%, and Pine County 20.5%.

During 2010, the County paid \$24,072 for the SRWMB operations. Kanabec County is the fiscal agent and records the SRWMB's activities in an agency fund. Separate financial information can be obtained from the Snake River Watershed Management Board.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

C. Joint Ventures (Continued)

Kanabec County Economic Development Commission

The Kanabec County Economic Development Commission was established in July 1996, pursuant to *Minnesota Statutes* §471.59 as a joint powers entity. Its purpose is to facilitate economic development within the City of Mora, Kanabec County, and the boundaries of Independent School District 332. The board consists of five members: two appointed by the City of Mora, two appointed by Kanabec County, and one appointed by Independent School District 332.

Funding for the Commission is provided by members' contributions. The City of Mora is the fiscal agent and records the Commission's activities in a special revenue fund. Separate financial information is not available.

South Country Health Alliance

South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under *Minnesota Statutes* §471.59. Mower County has since withdrawn. The agreement was in accordance with Section 256B.692, which allows the formation of a board of directors to operate, control, and manage all matters concerning the participating member counties' health care functions, referred to as county-based purchasing.

The purpose of SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2010 was \$766,261. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as Human Services. The County did not receive any distributions from the SCHA during 2010 and does not anticipate any further distributions at this time.

Complete financial statements for the SCHA may be obtained from its fiscal agent at 630 Florence Avenue, P.O. Box 890, Owatonna, Minnesota 55060-0890.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)

D. Jointly-Governed Organizations

Kanabec County Collaborative

The Kanabec County Collaborative was established pursuant to *Minnesota Statutes* §121.8355 (now 124D.23). The members of the Collaborative include Kanabec County Social Services; Kanabec County Corrections; Kanabec County Public Health, Community Action Agency and Head Start; Mora School District; and Ogilvie School District. The purpose of the Collaborative is to expand prevention and early intervention services for children and families.

Control of the Kanabec County Collaborative is vested in the Executive Committee which consists of a collaborative coordinator and a voting representative of each member agency. Separate financial statements are not available.

NOTE 7 COMPONENT UNIT DISCLOSURES

A. Summary of Significant Accounting Policies

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

1. Reporting Entities

The Hospital is governed by a board of directors who are appointed by the Board of County Commissioners.

2. Method of Accounting

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

3. Proprietary Fund Accounting

The Hospital's one fund is presented as a proprietary fund and is accounted for on the accrual basis. Substantially all revenue and expenses are subject to accrual.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 7 COMPONENT UNIT DISCLOSURES (CONTINUED)

A. Summary of Significant Accounting Policies (Continued)

4. Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents are considered to be highly liquid investments with an original maturity of ninety days or less and exclude assets whose use is limited.

5. Inventories

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

6. Accounts Receivable

Patient receivables are shown at the amount expected to be collectable after determining the allowance for doubtful accounts and contractual adjustments from third-party payors.

The Hospital provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Services are sold on an unsecured basis. Payment is required 30 days after receipt of invoice. Accounts past due more than 90 days are individually analyzed for collectability. In addition, an allowance is provided for other accounts when a significant pattern of uncollectability has occurred. At December 31, 2010, the allowance for doubtful account was \$860,000. When all collection efforts have been exhausted, the account is written-off against the related allowance.

7. Capital Assets

Capital Assets are stated at cost, if purchased or at fair market value on the date received, if donated, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the property.

8. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8 COMPONENT UNIT DISCLOSURES

A. Summary of Significant Accounting Policies (Continued)

9. Net Assets

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

B. Detailed Notes on All Funds

1. Assets

Deposits

The Hospital deposits in banks at December 31, 2010 were covered by federal depository insurance or by collateral held by the Organization's custodial bank in the Hospital's name.

As of December 31, 2010, the Hospital had total cash and investments of \$20,135,466 of which \$5,109,479 was classified as noncurrent.

Receivables

Patient accounts receivable reported as current assets by the Hospital at December 31, 2010 consist of these amounts:

Receivable from Patients and Their Insurance Carriers	\$ 3,676,906
Receivable from Medicare	1,138,175
Receivable from Medicaid	230,111
Total Patient Accounts Receivable	<u>5,045,192</u>
Less: Allowance for Uncollectible Amounts	(860,000)
Net Patient Accounts Receivable	<u><u>\$ 4,185,192</u></u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Capital Assets

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

	Balance December 31, 2009	Additions and Transfers	Retirements	Balance December 31, 2010
Capital Assets, not being				
Depreciated				
Land	\$ 1,601,718	\$ -	\$ -	\$ 1,601,718
Construction-in-Progress	214,647	3,021,481	-	3,236,128
Total Capital Assets Not Being				
Depreciated	1,816,365	3,021,481	-	4,837,846
Capital Assets Depreciated				
Land Improvements	1,072,867	-	-	1,072,867
Buildings	14,056,865	58,162	-	14,115,027
Fixed Equipment	8,495,748	105,490	-	8,601,238
Movable Equipment	8,853,743	642,064	-	9,495,807
Ambulance and Minor Equipment	363,660	-	-	363,660
Total Capital Assets being				
Depreciated	32,842,883	805,716	-	33,648,599
Less: Accumulated				
Depreciation for				
Land Improvements	461,256	70,754	-	532,010
Buildings	4,848,833	716,439	-	5,565,272
Fixed Equipment	3,287,343	427,763	-	3,715,106
Movable Equipment	5,399,524	1,052,744	-	6,452,268
Ambulance and Minor Equipment	334,602	26,823	-	361,425
Total Accumulated Depreciation	14,331,558	2,294,523	-	16,626,081
Capital Assets, Net	<u>\$ 20,327,690</u>	<u>\$ 1,532,674</u>	<u>\$ -</u>	<u>\$ 21,860,364</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Long-Term Debt

Long-term debt outstanding at December 31, 2010, consists of the following:

Gross Revenue Health Facilities Bonds, Series 2006A, Due in Varying Annual Installments of \$240,000 to \$970,000 including Interest Ranging from 4.0% to 4.75% to February 1, 2026, Secured by the Revenue of Kanabec Hospital.	\$ 7,480,000
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General Obligation Medical Facilities Bonds, Series 2001, Due in Varying Annual Installments of \$120,000 to \$290,000 including Interest Ranging from 4.0% to 5.0% until May 1, 2022, Secured by the Revenue of Kanabec Hospital and Taxing Powers of Kanabec County.	2,670,000
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Gross Revenue Health Facilities Bonds, Series 2003B, Due in Varying Annual Installments of \$70,000 to \$560,000 including Interest Ranging from 4.0% to 5.1% to February 1, 2023, Secured by the Revenue of Kanabec Hospital.	<u>3,660,000</u>
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Total	13,810,000
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Less: Current Maturities	<u>(650,000)</u>
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Total Long-Term Portion	<u><u>\$ 13,160,000</u></u>
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**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)

B. Detailed Notes on All Funds (Continued)

2. Liabilities (Continued)

Long-Term Debt (Continued)

The following schedule summarizes the changes related to debt outstanding at December 31, 2010:

	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010	Due in One Year
General Obligation Bonds	\$ 2,830,000	\$ -	\$ 160,000	\$ 2,670,000	\$ 165,000
Revenue Bonds	11,610,000	-	470,000	11,140,000	485,000
Other Postemployment Benefits	122,927	101,978	27,055	197,850	-
Total	<u>\$ 14,562,927</u>	<u>\$ 101,978</u>	<u>\$ 657,055</u>	<u>\$ 14,007,850</u>	<u>\$ 650,000</u>

Following is a maturity schedule of long-term debt as of December 31, 2010:

Year Ending December 31	Long-Term Debt	
	Principal	Interest
2011	\$ 650,000	\$ 627,601
2012	685,000	599,740
2013	715,000	570,209
2014	750,000	539,055
2015	775,000	505,859
2016-2020	4,495,000	1,946,157
2021-2025	4,770,000	783,619
2026-2027	970,000	23,038
Total	<u>\$ 13,810,000</u>	<u>\$ 5,595,278</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)

C. Employee Retirement Systems and Pension Plans

All full-time and certain part-time employees of Hospital are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA) as described in Note 4. The Hospital's contributions to PERA for the years ended December 31, 2010, 2009, and 2008 were \$913,873, \$820,947, and \$767,145, respectively, and such amounts equal the required contributions for each year.

D. Other Postemployment Benefits

The Hospital administers a single-employer defined benefit healthcare plan. The plan provides healthcare insurance for eligible retirees and their spouses through the Hospital's group health insurance plan, which covers both active and retired members. The healthcare plan does not issue a publicly available financial report.

The Hospital does not contribute to the cost of premiums for eligible retired plan members and their spouses. Because the actual cost for retirees is higher than the average per-person premium for the entire group, the difference gives rise to an implicit rate subsidy. The Hospital pays the difference between the actual and apparent cost.

As of December 31, 2008, the Hospital implemented the requirements of Governmental Accounting Standards Board (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Qualified employees may chose to participate in the Hospital's insurance plan after retirement, with no contribution from the Hospital. The Hospital provides these benefits to retirees as required by *Minnesota Statutes* §471.61 subdivision 2b. As of December 31, 2010, 1 retiree was receiving benefits from the Hospital's health plan.

Annual OPEB Cost and Net OPEB Obligation

The Hospital's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)

D. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the Hospital's annual OPEB cost as of December 31, 2010, the amount actually contributed to the insurance plan, and changes in the Hospital's net OPEB obligation:

Net OPEB, Beginning of Year	\$ 122,927
Activity During the Year:	
Annual Required Contribution (ARC)	103,893
Interest on Net OPEB Obligation	5,532
Adjustment to ARC	<u>(7,447)</u>
Annual OPEB Cost	101,978
Contributions During the Fiscal Year	<u>27,055</u>
Increase in Net OPEB Obligation	<u>74,923</u>
Net OPEB, End of Year	<u>\$ 197,850</u>

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation consist of the following at December 31, 2010:

	Annual OPEB Cost	Employer Contribution	Percentage Contribution	Net OPEB Obligation
December 31, 2010	\$ 101,978	\$ 27,055	26.5 %	\$ 197,850
December 31, 2009	74,768	17,628	23.6	122,927
December 31, 2008	75,759	9,972	13.2	65,787

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funding status of the health insurance plan and the annual required contributions of the Hospital are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)

D. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

In the January 1, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% discount rate, which is based on the estimated long-term investment yield on the general assets of the Hospital. The annual healthcare cost trend rate is 9.0% initially, reduced incrementally to an ultimate rate of 5.0% after eight years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period.

E. Investment in Joint Ventures

Central Minnesota Diagnostic, Inc. (CMDI)

During 1985, Kanabec Hospital and other hospitals (all of which are unrelated parties to Kanabec Hospital) formed a nonprofit corporation known as Central Minnesota Diagnostic, Inc. (CMDI). CMDI was organized to provide certain agreed upon shared services to those hospitals who are members of this corporation.

CMDI provides the equipment for CT scans, ultrasound, MRI, mammography services, and other services for Kanabec Hospital patients. Kanabec Hospital billed and collected the revenue for these services to patients and reimbursed CMDI \$709,505 in 2010 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2010 amounted to \$136,123.

Summarized financial information from the financial statements of CMDI at December 31, 2010 and for the year then ended is presented below:

Total Assets	<u>\$ 45,186,984</u>
Total Liabilities	\$ 7,391,791
Members' Equity	
Retained Earnings	<u>37,795,193</u>
Total Liabilities and Members' Equity	<u>\$ 45,186,984</u>
Total Operating Revenue	<u>\$ 41,138,142</u>
Net Income	<u>\$ 19,455,429</u>

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010**

NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)

E. Investment in Joint Ventures (Continued)

SISU Medical Solutions, LLC

The Hospital is one of nine equal hospital members of SISU Medical Solutions, a Minnesota Limited Liability Company. Its principal business is managing health care information systems for its members and other health care organizations in Northern Minnesota. The majority of its revenue is from related-parties, principally SISU Medical Systems and member organizations.

SISU Medical Systems

The Hospital is a member hospital of SISU Medical System, a Minnesota nonprofit corporation. SISU Medical System obtained tax-free financing of approximately \$5,100,000 to purchase a computer network.

Kanabec Hospital's investment in the Joint Ventures of CMDI, SISU Medical Solutions, LLC and SISU Medical Systems consists of the following at December 31, 2010:

Balance, Beginning of Year	\$ 1,595,415
Equity in Net Income of Joint Venture	1,238,788
Less: Cash Distributions	<u>(1,213,804)</u>
Balance, End of Year	<u><u>\$ 1,620,399</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MD&A**

**KANABEC COUNTY
MORA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 4,887,741	\$ 4,887,741	\$ 4,892,611	\$ 4,870
Special Assessments	-	-	65,718	65,718
Licenses and Permits	53,875	53,875	53,966	91
Intergovernmental	3,483,151	3,483,151	3,171,314	(311,837)
Charges for Services	1,507,802	1,507,802	1,595,695	87,893
Fines and Forfeits	10,500	10,500	13,021	2,521
Gifts and Contributions	21,500	21,500	32,774	11,274
Investments Earnings	119,800	119,800	72,200	(47,600)
Miscellaneous	852,663	852,663	1,500,770	648,107
Total Revenues	<u>10,937,032</u>	<u>10,937,032</u>	<u>11,398,069</u>	<u>461,037</u>
EXPENDITURES				
CURRENT				
GENERAL GOVERNMENT				
Commissioners	164,887	164,887	165,128	(241)
Courts	47,000	47,000	34,301	12,699
Law Library	20,000	20,000	12,052	7,948
County Administration	259,217	259,217	235,430	23,787
County Auditor-Treasurer	516,940	516,940	600,785	(83,845)
County Assessor	307,057	307,057	239,906	67,151
Elections	34,500	34,500	60,068	(25,568)
Data Processing	271,279	271,279	279,981	(8,702)
Attorney	542,077	542,077	554,114	(12,037)
Recorder	132,982	132,982	222,331	(89,349)
Surveyor	15,000	15,000	24,700	(9,700)
Planning and Zoning	253,648	253,648	245,897	7,751
Buildings and Plant	482,855	482,855	438,209	44,646
Veterans Service Officer	24,759	24,759	8,333	16,426
Other General Government	309,323	309,323	408,124	(98,801)
Public Transit	-	-	9,745	(9,745)
Total General Government	<u>3,381,524</u>	<u>3,381,524</u>	<u>3,539,104</u>	<u>(157,580)</u>
PUBLIC SAFETY				
Sheriff	1,235,556	1,235,556	1,569,831	(334,275)
Boat and Water Safety	10,684	10,684	8,811	1,873
Emergency Services	58,450	58,450	205,606	(147,156)
Coroner	30,000	30,000	23,937	6,063
E-911 System	66,150	66,150	315,406	(249,256)
County Jail	2,420,476	2,420,476	2,301,839	118,637
Probation and Parole	460,140	460,140	459,899	241
ATV Program	4,939	4,939	3,072	1,867
Total Public Safety	<u>4,286,395</u>	<u>4,286,395</u>	<u>4,888,401</u>	<u>(602,006)</u>

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
EXPENDITURES (Continued)				
CURRENT (Continued)				
SANITATION				
Solid Waste	\$ 61,875	\$ 61,875	\$ 78,144	\$ (16,269)
HEALTH				
Nursing Service	2,649,170	2,649,170	2,579,982	69,188
CONSERVATION OF NATURAL RESOURCES				
County Extension	63,034	63,034	56,636	6,398
INTERGOVERNMENTAL				
Culture and Recreation	155,664	155,664	156,084	(420)
CAPITAL OUTLAY				
General Government	26,400	26,400	9,752	16,648
Public Safety	198,930	198,930	140,690	58,240
Health	-	-	5,407	(5,407)
Total Capital Outlay	<u>225,330</u>	<u>225,330</u>	<u>155,849</u>	<u>69,481</u>
DEBT SERVICE				
Principal Retirement	-	-	19,578	(19,578)
Interest	-	-	3,264	(3,264)
Total Debt Service	<u>-</u>	<u>-</u>	<u>22,842</u>	<u>(22,842)</u>
Total Expenditures	<u>10,822,992</u>	<u>10,822,992</u>	<u>11,477,042</u>	<u>(654,050)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	114,040	114,040	(78,973)	(193,013)
OTHER FINANCING SOURCES (USES)				
Transfer Out	(265,781)	(265,781)	(32,000)	233,781
Loan Proceeds	-	-	104,001	104,001
Proceeds from the Sale of Capital Assets	-	-	3,956	3,956
Total Other Financing Sources (Uses)	<u>(265,781)</u>	<u>(265,781)</u>	<u>75,957</u>	<u>341,738</u>
NET CHANGE IN FUND BALANCE	<u>\$ (151,741)</u>	<u>\$ (151,741)</u>	(3,016)	<u>\$ 148,725</u>
Fund Balance - Beginning of Year			<u>3,683,416</u>	
FUND BALANCE - END OF YEAR			<u>\$ 3,680,400</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 2,099,869	\$ 2,099,869	\$ 1,986,160	\$ (113,709)
Licenses and Permits	21,000	21,000	20,350	(650)
Intergovernmental	3,203,331	3,203,331	3,296,456	93,125
Charges for Services	-	-	197,586	197,586
Miscellaneous	150,000	150,000	60,897	(89,103)
Total Revenues	<u>5,474,200</u>	<u>5,474,200</u>	<u>5,561,449</u>	<u>87,249</u>
EXPENDITURES				
CURRENT				
HIGHWAY AND STREETS				
Administration	201,334	201,334	181,667	19,667
Maintenance	1,409,600	1,409,600	1,600,888	(191,288)
Construction	648,577	648,577	716,789	(68,212)
Equipment and Maintenance Shops	583,500	583,500	455,638	127,862
Unallocated - Highways and Streets	795,500	795,500	257,278	538,222
Total Current	<u>3,638,511</u>	<u>3,638,511</u>	<u>3,212,260</u>	<u>426,251</u>
CAPITAL OUTLAY	<u>1,883,000</u>	<u>1,883,000</u>	<u>2,701,477</u>	<u>(818,477)</u>
Total Expenditures	<u>5,521,511</u>	<u>5,521,511</u>	<u>5,913,737</u>	<u>(392,226)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(47,311)	(47,311)	(352,288)	(304,977)
OTHER FINANCING SOURCES (USES)				
Transfer In	<u>27,000</u>	<u>27,000</u>	<u>27,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (20,311)</u>	<u>\$ (20,311)</u>	(325,288)	<u>\$ (304,977)</u>
Fund Balance - Beginning of Year			1,913,432	
DECREASE IN RESERVED FOR INVENTORIES			<u>(120,307)</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,467,837</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
WELFARE SPECIAL REVENUE FUND
YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,980,333	\$ 1,980,333	\$ 1,875,791	\$ (104,542)
Intergovernmental	2,673,418	2,673,418	2,666,061	(7,357)
Charges for Services	7,000	7,000	25,621	18,621
Miscellaneous	400,600	400,600	604,876	204,276
Total Revenues	<u>5,061,351</u>	<u>5,061,351</u>	<u>5,172,349</u>	<u>110,998</u>
EXPENDITURES				
 CURRENT				
 HUMAN SERVICES				
Income Maintenance	1,665,212	1,665,212	1,659,903	5,309
Social Services	3,454,929	3,454,929	3,197,933	256,996
Total Human Services	<u>5,120,141</u>	<u>5,120,141</u>	<u>4,857,836</u>	<u>262,305</u>
NET CHANGE IN FUND BALANCE	<u>\$ (58,790)</u>	<u>\$ (58,790)</u>	314,513	<u>\$ 373,303</u>
Fund Balance - Beginning of Year			<u>2,240,337</u>	
FUND BALANCE - END OF YEAR			<u>\$ 2,554,850</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY
MORA, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2010**

I. BUDGETARY INFORMATION

The Board of County Commissioners adopts an annual budget for the following major funds: The General Fund, Road and Bridge Special Revenue Fund, and Welfare Special Revenue Fund. These budgets are prepared on the modified accrual basis of accounting. Annual budgets are not adopted for the Forfeited Tax and Regional Rail Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

Based on a process established by the Board of County Commissioners, all departments of the County submit requests for appropriations to the County Coordinator each year. After review, analysis and discussions with the departments, the County Coordinator's proposed budget is presented to the Board of County Commissioners for review. The Board of County Commissioners holds public hearings and a final budget must be prepared and adopted no later than December 31.

The overall budget is prepared by fund, function, and department. The legal level of budgetary control – the level at which expenditures may not legally exceed appropriations – is the fund level. Budgets may be amended during the year with proper approval.

Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-apportioned and honored during the subsequent year.

II. EXCESS OF EXPENDITURES OVER BUDGET

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

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 11,477,042	\$ 10,822,992	\$ 654,050
Road and Bridge Special Revenue Fund	5,913,737	5,521,511	392,226

These over-expenditures were funded by greater than anticipated revenues and existing fund balance.

SUPPLEMENTARY INFORMATION

**KANABEC COUNTY
MORA, MINNESOTA**

Agency Funds

Kanabec County Collaborative

The Kanabec County Collaborative Fund is used to account for monies passed through to the Kanabec County Collaborative.

Kanabec/Pine Community Health Services

The Kanabec/Pine Community Health Services Fund is used to account for the receipts and payment of state and federal grants for a two-county service area.

Knife Lake Improvement District

The Knife Lake Improvement District Fund is used to account for collection and payment of contributions to the Knife Lake Improvement District.

Mortgage Registry and State Deed Tax

The Mortgage Registry and State Deed Tax Fund are used to account for the collection and payment of mortgage registry and state deed tax.

Taxes and Penalties

The Taxes and Penalties Fund is used to account for the collection and distribution of property taxes within the County for all municipalities.

Prepaid Tax

The Prepaid Tax Fund is used to account for the collection and payment of prepaid taxes.

Snake River Watershed Management Board

The Snake River Watershed Management Board Fund is used to account for activities performed as a fiscal agent.

State Revenue

The State Revenue Fund is used for transfers of the state share of mortgage registry tax.

Town and Road

The Town and Road Fund are used to account for collection of state town road funds and their distribution to townships.

Withholding Tax and Social Security

The Withholding Tax and Social Security Fund is used to account for income tax and FICA deductions withheld from the salaries of County employees.

Employees Benefit Fund

The Employees Benefit Fund is used to account for receipts and disbursements used withheld for employee benefit programs.

Jail Inmate

The Jail Inmate Fund is used to account for receipts and disbursements relating to jail inmates.

Over Remittance

The Over Remittance Fund is used to account for receipts and disbursements related to over payments received by the County.

Social Welfare

The Social Welfare Fund is used to account for the receipts and disbursements related to the County's Social Welfare program.

**KANABEC COUNTY
MORA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
KANABEC COUNTY COLLABORATIVE				
ASSETS				
Cash and Pooled Investments	<u>\$ 85,648</u>	<u>\$ 47,326</u>	<u>\$ 77,303</u>	<u>\$ 55,671</u>
LIABILITIES				
Due to Other Governments	<u>\$ 85,648</u>	<u>\$ 47,326</u>	<u>\$ 77,303</u>	<u>\$ 55,671</u>
KANABEC/PINE COMMUNITY HEALTH SERVICES				
ASSETS				
Cash and Pooled Investments	<u>\$ 149,612</u>	<u>\$ 1,020,510</u>	<u>\$ 1,007,476</u>	<u>\$ 162,646</u>
LIABILITIES				
Due to Other Governments	<u>\$ 149,612</u>	<u>\$ 1,020,510</u>	<u>\$ 1,007,476</u>	<u>\$ 162,646</u>
KNIFE LAKE IMPROVEMENT DISTRICT				
ASSETS				
Cash and Pooled Investments	<u>\$ 96,533</u>	<u>\$ 38,141</u>	<u>\$ 16,376</u>	<u>\$ 118,298</u>
LIABILITIES				
Funds Held in Trust	<u>\$ 96,533</u>	<u>\$ 38,141</u>	<u>\$ 16,376</u>	<u>\$ 118,298</u>
MORTGAGE REGISTRY AND STATE DEED TAX				
ASSETS				
Cash and Pooled Investments	<u>\$ 22,311</u>	<u>\$ 232,813</u>	<u>\$ 234,852</u>	<u>\$ 20,272</u>
LIABILITIES				
Due to Other Governments	<u>\$ 22,311</u>	<u>\$ 232,813</u>	<u>\$ 234,852</u>	<u>\$ 20,272</u>

**KANABEC COUNTY
MORA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
TAXES AND PENALTIES				
ASSETS				
Cash and Pooled Investments	\$ 140,831	\$ 15,951,803	\$ 15,960,379	\$ 132,255
LIABILITIES				
Due to Other Governments	\$ 140,831	\$ 15,951,803	\$ 15,960,379	\$ 132,255
PREPAID TAX				
ASSETS				
Cash and Pooled Investments	\$ 17,304	\$ 24,656	\$ 38,363	\$ 3,597
LIABILITIES				
Due to Other Governments	\$ 17,304	\$ 24,656	\$ 38,363	\$ 3,597
SNAKE RIVER WATERSHED MANAGEMENT BOARD				
ASSETS				
Cash and Pooled Investments	\$ 185,496	\$ 355,389	\$ 372,374	\$ 168,511
LIABILITIES				
Due to Other Governments	\$ 185,496	\$ 355,389	\$ 372,374	\$ 168,511
STATE REVENUE				
ASSETS				
Cash and Pooled Investments	\$ 2,493	\$ 2,531	\$ 2,963	\$ 2,061
LIABILITIES				
Due to Other Governments	\$ 2,493	\$ 2,531	\$ 2,963	\$ 2,061

**KANABEC COUNTY
MORA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2010**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
TOWN AND ROAD				
ASSETS				
Cash and Pooled Investments	<u>\$ 2,904</u>	<u>\$ 129,435</u>	<u>\$ 129,235</u>	<u>\$ 3,104</u>
LIABILITIES				
Due to Other Governments	<u>\$ 2,904</u>	<u>\$ 129,435</u>	<u>\$ 129,235</u>	<u>\$ 3,104</u>
WITHHOLDING TAX AND SOCIAL SECURITY				
ASSETS				
Cash and Pooled Investments	<u>\$ -</u>	<u>\$ 5,977,362</u>	<u>\$ 5,977,362</u>	<u>\$ -</u>
LIABILITIES				
Due to Other Governments	<u>\$ -</u>	<u>\$ 5,977,362</u>	<u>\$ 5,977,362</u>	<u>\$ -</u>
EMPLOYEES BENEFIT FUND				
ASSETS				
Cash and Pooled Investments	<u>\$ 183,166</u>	<u>\$ 153,391</u>	<u>\$ 103,619</u>	<u>\$ 232,938</u>
LIABILITIES				
Funds Held in Trust	<u>\$ 183,166</u>	<u>\$ 153,391</u>	<u>\$ 103,619</u>	<u>\$ 232,938</u>
JAIL INMATE				
ASSETS				
Cash and Pooled Investments	<u>\$ 1,140</u>	<u>\$ 66,992</u>	<u>\$ 55,941</u>	<u>\$ 12,191</u>
LIABILITIES				
Funds Held in Trust	<u>\$ 1,140</u>	<u>\$ 66,992</u>	<u>\$ 55,941</u>	<u>\$ 12,191</u>

**KANABEC COUNTY
MORA, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)
ALL AGENCY FUNDS
YEAR ENDED DECEMBER 31, 2010**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
OVER REMITTANCE				
ASSETS				
Cash and Pooled Investments	<u>\$ -</u>	<u>\$ 215,293</u>	<u>\$ 215,293</u>	<u>\$ -</u>
LIABILITIES				
Funds Held in Trust	<u>\$ -</u>	<u>\$ 215,293</u>	<u>\$ 215,293</u>	<u>\$ -</u>
SOCIAL WELFARE				
ASSETS				
Cash and Pooled Investments	<u>\$ 15,716</u>	<u>\$ 262,759</u>	<u>\$ 258,525</u>	<u>\$ 19,950</u>
LIABILITIES				
Funds Held in Trust	<u>\$ 15,716</u>	<u>\$ 262,759</u>	<u>\$ 258,525</u>	<u>\$ 19,950</u>
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and Pooled Investments	<u>\$ 903,154</u>	<u>\$ 24,478,401</u>	<u>\$ 24,450,061</u>	<u>\$ 931,494</u>
LIABILITIES				
Funds Held in Trust	<u>\$ 296,555</u>	<u>\$ 736,576</u>	<u>\$ 649,754</u>	<u>\$ 383,377</u>
Due to Other Governments	<u>606,599</u>	<u>23,741,825</u>	<u>23,800,307</u>	<u>548,117</u>
Total Liabilities	<u>\$ 903,154</u>	<u>\$ 24,478,401</u>	<u>\$ 24,450,061</u>	<u>\$ 931,494</u>

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
YEAR ENDED DECEMBER 31, 2010**

	General	Road and Bridge	Welfare	Capital Projects	Total
SHARED REVENUE					
State					
Highway Users Tax	\$ -	\$ 1,481,287	\$ -	\$ -	\$ 1,481,287
Market Value Credit	313,864	131,500	124,675	50,243	620,282
Market Value Credit - Manufactured	3,406	1,427	1,353	545	6,731
Market Value Credit - Agriculture	111,070	46,535	44,121	17,780	219,506
PERA Rate Reimbursement	11,323	4,136	6,042	-	21,501
Disparity Reduction Aid	2,161	905	858	346	4,270
Police Aid	92,657	-	-	-	92,657
County Program Aid	391,121	163,869	155,366	62,610	772,966
E-911	89,146	-	-	-	89,146
Total Shared Revenue	1,014,748	1,829,659	332,415	131,524	3,308,346
REIMBURSEMENT FOR SERVICES					
Human Services	-	-	401,785	-	401,785
PAYMENTS					
Local					
Payments in Lieu of Taxes	47,657	1,089	1,024	413	50,183
GRANTS					
State					
Minnesota Department/Board of					
Corrections	124,385	-	-	-	124,385
Health	193,334	-	-	-	193,334
Human Services	191,964	-	697,825	-	889,789
Peace Officers Board	5,377	-	-	-	5,377
Pollution Control Agency	55,950	-	-	-	55,950
Water and Soil Board	11,431	-	-	-	11,431
Total State Grants	582,441	-	697,825	-	1,280,266
Federal					
Department of					
Agriculture	99,281	-	135,982	-	235,263
Justice	332,817	-	-	-	332,817
Transportation	13,730	1,465,708	-	-	1,479,438
Homeland Security	196,663	-	-	-	196,663
Health and Human Services	883,977	-	1,097,030	-	1,981,007
Total Federal Grants	1,526,468	1,465,708	1,233,012	-	4,225,188
Total State and Federal Grants	2,108,909	1,465,708	1,930,837	-	5,505,454
Total Intergovernmental Revenue	<u>\$ 3,171,314</u>	<u>\$ 3,296,456</u>	<u>\$ 2,666,061</u>	<u>\$ 131,937</u>	<u>\$ 9,265,768</u>

**REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*
AND SINGLE AUDIT (A-133)**

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
Kanabec County
Mora, Minnesota

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kanabec County, Minnesota, as of and for the year ended December 31, 2010, which collectively comprise the Kanabec County's basic financial statements, and have issued our report thereon dated July 28, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The County's basic financial statements include the operations of the Kanabec Hospital for the year ended December 31, 2010. Our audit, described below did not include the operations of the Kanabec Hospital because the component unit engaged for their own separate audit in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

Internal Control Over Financial Reporting (Continued)

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 06-1 through 06-4 to be material weaknesses.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items 10-1 and 10-2 to be significant deficiencies.

Compliance and Other Matters

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

Kanabec County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Kanabec County's responses and, accordingly, we express no opinion on them.

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

Larson Allen LLP
LarsonAllen LLP

Brainerd, Minnesota
July 28, 2011

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

Board of County Commissioners
Kanabec County
Mora, Minnesota

Compliance

We have audited Kanabec County, Minnesota's (County) compliance with the types of compliance requirements described in *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, 2010. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Kanabec County complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-3 to be a material weakness.

Kanabec County's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on the response.

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

Larson Allen LLP
LarsonAllen LLP

Brainerd, Minnesota
July 28, 2011

**KANABEC COUNTY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010**

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Kanabec County, Minnesota.
2. Material weakness in internal control over financial reporting were disclosed during the audit of the basic financial statements for the County and reported in the "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*", and are reported as Items 06-1 to 06-4.
3. No instances of noncompliance material to the basic financial statements of the County were disclosed during the audit.
4. One instance involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Independent Auditors' Report on Compliance with Requirements that Could have a Direct and Material Effect on Each Major Program and Internal Control of Compliance with OMB Circular A-133". We consider item 10-3 to be a material weakness.
5. The auditors' report on compliance for the major federal award programs for the County expresses an unqualified opinion on the major federal programs.
6. No findings relative to the major federal award programs for the County were disclosed during the audit that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major program were:

Assistance to Rural Law Enforcement to Combat Crime – ARRA	CFDA No. 16.810
Highway Planning and Construction	CFDA No. 20.205
Medical Assistance	CFDA No. 93.778
Block Grants for Prevention and Treatment of Substance Abuse	CFDA No. 93.959
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The County did not qualify, under federal guidelines, as a low-risk auditee.

**KANABEC COUNTY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

MATERIAL WEAKNESSES (FINANCIAL REPORTING)

06-1 SEGREGATION OF DUTIES

Criteria: County management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

Condition: Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control is not in place in a number of departments throughout the County.

Cause: The County has a limited number of personnel within several County departments.

Effect: The lack of adequate segregation of duties can result in incorrect financial information, failure to detect misstatements or misappropriations, and lack of adherence to the County's procedures.

Recommendation: We recommend County management be aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by organization staff.

CLIENT RESPONSE:

The County will continue to review the accounting functions of all affected departments to segregate them as it is cost beneficial.

06-2 AUDIT ADJUSTMENTS

Criteria: County management is responsible for establishing and maintaining internal controls for the proper recording of all County's receipts and disbursements, including reclassifications between funds and recording of accruals.

Condition: As part of the audit, we proposed account reclassification entries relating to the coding of receipts and disbursements, accruals, capital asset adjustments, and other reclassifications. These entries indicate a lack of controls over the year-end financial reporting process. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the County's internal control.

Cause: The County has a limited number of personnel.

Effect: The design of the internal controls over recording receipts and disbursement, including reclassifications, could affect the ability of the County to detect or prevent a misappropriation of assets or fraudulent activity.

Recommendation: We recommend County management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items.

CLIENT RESPONSE:

The County will continue to work at eliminating the need for audit adjustments.

KANABEC COUNTY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010

MATERIAL WEAKNESSES (CONTINUED)

06-3 FINANCIAL REPORTING PROCESS

Criteria: County management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance applicable accounting and reporting standards.

Condition: As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

Cause: The County has a limited number of personnel.

Effect: The design of the controls over the financial reporting process would affect the ability of the County to report their financial data consistently with the assertions of management in the financial statements.

Recommendation: We recommend that County management be aware of the responsibilities regarding financial reporting and continue to evaluate the cost/benefit of outsourcing this function. If management chooses to undertake these financial reporting responsibilities, a number of policies, procedures, and reviews will need to be developed and implemented.

CLIENT RESPONSE:

The County understands this is required communications for the preparation of the financial statements and will continue to work at this area to achieve the overall goal.

06-4 TIMELY DEPOSITS

Criteria: Standard internal control procedures recommend that deposits should be made on a daily basis.

Condition: Various departments in the County do not deposit on a daily basis.

Cause: Past practice.

Effect: The County's failure to make daily deposits increases the risk that fraud could occur and not be detected in a timely manner.

Recommendation: We recommend the departments deposit their collections with the County Auditor-Treasurer office on a daily basis in order to minimize the risk of misappropriation of assets.

CLIENT RESPONSE:

County management will work with the affected to departments to ensure departments are depositing on a timely basis to limit the County's exposure to the potential of misappropriation of assets.

**KANABEC COUNTY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

SIGNIFICANT DEFICIENCIES (FINANCIAL REPORTING)

10-1 APPROVAL OF DISBURSEMENTS

Criteria: Standard internal control procedures recommend that all disbursements should be approved by supervisory personal prior to payment.

Condition: We were not presented with supporting documentation to demonstrate supervisory approval for one of 40 disbursements tested.

Cause: Unknown.

Effect: Without proper approval of disbursements, the County is at an increased risk of funds being disbursed that are not in accordance with the County's programs, policies and goals.

Recommendation: We recommend that Kanabec County management develop and implement a process to ensure all disbursements are properly reviewed and approved by a Department Head or other authorized individual prior to being paid.

CLIENT RESPONSE:

County management will work on developing policies and procedures to implement that ensure all disbursements are properly approved prior to being paid.

10-2 SOCIAL WELFARE FUND DISBURSEMENTS

Criteria: Standard internal control procedures recommend that all disbursements should have supporting documents that support the amount being paid.

Condition: We were not presented with supporting documentation for two of 25 social welfare fund disbursements tested.

Cause: Unknown.

Effect: Without proper supporting documents in place prior to a payment, the County is at an increased risk of funds being disbursed that are not in accordance with the program's policies and goals.

Recommendation: We recommend that Kanabec County management develop and implement a process to ensure all disbursements have proper supporting documents in place prior to payment being made.

CLIENT RESPONSE:

County management will work on developing policies and procedures to implement that ensure all disbursements are properly supported prior to being paid.

**KANABEC COUNTY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE

08-3 UNCLAIMED PROPERTY

Criteria: *Minnesota Statutes* §345.41 requires the County to report and pay or deliver to the State Commissioner of Commerce any unclaimed or uncashed checks held for more than three years.

Condition: The County has held unclaimed or uncashed checks for more than three years.

Cause: Unknown.

Effect: The County is not in compliance with state statutes.

Recommendation: The County should turn over any unclaimed or uncashed checks held for more than three years to the State Commissioner of Commerce in compliance with the requirements of *Minnesota Statutes* §345.41.

CLIENT RESPONSE:

The County continues to work at resolving this comment. Due to recent staff turnover in the Auditor/Treasurer's office, this has been delayed.

09-1 BROKER ACKNOWLEDGEMENT CERTIFICATION

Criteria: *Minnesota Statutes* §118A.04 requires the County to provide brokers with a written statement of investment restrictions.

Condition: A broker acknowledgement was not received from UBS.

Cause: Unknown.

Effect: The County is not in compliance with state statutes.

Recommendation: The County should provide all brokers with a written statement of investment restrictions.

CLIENT RESPONSE:

The County will resolve this comment going forward and will obtain broker acknowledgement forms for each broker on an annual basis.

**KANABEC COUNTY, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

MAJOR PROGRAM MATERIAL WEAKNESS

10-3 ASSISTANCE TO RURAL LAW ENFORCEMENT TO COMBAT CRIME (CFDA # 16.810)

Criteria: Standard internal control procedures recommend that grant reports, filed with the awarding agency, be reviewed and approved by supervisory personnel.

Condition: During our testing of this grant, we noted that the County did not have a formal review process in place prior to submitting the quarterly 1512 reports that are required to be filed, due to this grant being ARRA funded.

Cause: Unknown.

Effect: If reports are not properly reviewed and authorized, there is a possibility that inaccurate information may be reported to the federal awarding agency.

Recommendation: We recommend the County implement procedures for proper review and approval of reports prior to submitting them.

Corrective Action Planned: The County's Sheriff and Auditor/Treasurer Departments will implement procedures to ensure all reports are review prior to submission to the federal awarding agency.

Contact Person: Denise Cooper, Auditor/Treasurer

Anticipated Completion Date: Immediately.

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Kanabec/Pine Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 99,281
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	131,701
ARRA - State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	<u>4,281</u>
Total Department of Agriculture		235,263
U.S. Department of Justice		
Direct		
Bulletproof Vest Partnership Program	16.607	4,190
ARRA - Assistance to Rural Law Enforcement to Combat Crime	16.810	<u>383,427</u>
Total Department of Justice		387,617
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	1,465,708
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	5,717
Occupant Protection Incentive Grants	20.602	3,447
Minimum Penalties for Repeat Offenders of DWI	20.608	<u>4,566</u>
Total Department of Transportation		1,479,438
U.S. Department of Health and Human Services		
Passed Through Kanabec/Pine Community Health Services Public Health Emergency Preparedness	93.069	42,406
Center for Disease Control and Prevention Investigations and Tech. Assistance	93.283	10,889
Maternal and Child Health Services Block Grant	93.994	24,215
Passed Through Minnesota Department of Health Temporary Assistance for Needy Families	93.558	12,209
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	16,408
Temporary Assistance for Needy Families	93.558	274,705

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services Title IV-D Child Support	93.563	\$ 316,908
ARRA - Title IV-D Child Support	93.563	25,295
Refugee and Energy Assistance Grant	93.566	129
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	5,401
Foster Care Title IV-E	93.658	34,507
Social Services Block Grant	93.667	106,062
Chafee Foster Care Independent Living	93.674	6,209
State Children's Insurance Program	93.767	95
Medical Assistance	93.778	403,824
Block Grants for Prevention and Treatment of Substance Abuse	93.959	572,814
Passed Through the Minnesota Council on Aging Title III-B Grants for Supportive Services and Senior Centers	93.044	8,434
Direct Drug-Free Communities Support Program Grants	93.276	<u>120,497</u>
Total Department of Health and Human Services		1,981,007
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	7,805
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grant	97.042	22,006
Homeland Security Grant Program	97.067	<u>166,852</u>
Total Department of Homeland Security		<u>196,663</u>
Total Cash Type Federal Awards		<u><u>\$ 4,279,988</u></u>

**KANABEC COUNTY
MORA, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2010**

Notes:

1. The Schedule of Expenditures of Federal Awards presents the federal award programs expended by Kanabec County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kanabec County under programs of the federal government for the year ended December 31, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*.
3. 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.
4. During 2010, Kanabec County did not pass any federal money to subrecipients.
5. ARRA denotes the program has received funding provided by the American Recovery and Reinvestment Act of 2009.
6. Reconciliation to Schedule of Intergovernmental Revenue

Federal Grant Revenue Per Schedule of Intergovernmental Revenue	\$ 4,225,188
Expenditures included in the Schedule of Expenditures of Federal Awards are not Included as Revenues on the Schedule of Intergovernmental Revenues	<u>54,800</u>
Expenditures per Schedule of Expenditure of Federal Awards	<u><u>\$ 4,279,988</u></u>

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners
Kanabec County
Mora, Minnesota

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kanabec County, Minnesota, as of and for the year ended December 31, 2010, and have issued our report thereon dated July 28, 2011.

The County's basic financial statements include the operations of the Kanabec Hospital for the year ended December 31, 2010. Our audit, described below, did not include the operations of the Kanabec Hospital because the component unit engaged for their own separate audit that included provision of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Audit Guide for Political Subdivisions*, promulgated by the state auditor pursuant to *Minnesota Statutes* Section 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 *Audit Guide for Political Subdivisions* covers seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, county and city miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for tax increment financing because the County does not have any tax increment financing districts.

The results of our tests indicate that for the items tested, Kanabec County complied with the material terms and conditions of applicable legal provisions except for the items described in detail in the attached schedule of findings and questioned costs as items 08-3 and 09-1.

Kanabec County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of County Commissioners, and the Office of the State Auditor of Minnesota, is not intended to be, and should not be used by anyone other than those specified parties.

LarsonAllen LLP
LarsonAllen LLP

Brainerd, Minnesota
July 28, 2011