

**ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
ST. PAUL, MINNESOTA**

**COMBINED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Association of Minnesota Counties
and Minnesota Counties Research Foundation
St. Paul, Minnesota

We have audited the accompanying combined balance sheets of the Association of Minnesota Counties and Minnesota Counties Research Foundation as of December 31, 2010 and 2009, and the related combined statements of activities, the combined statements of changes in net assets and the combined statements of cash flows for the years then ended. These combined financial statements are the responsibility of the entities' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Association of Minnesota Counties and Minnesota Counties Research Foundation at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Cornell Kahler Shidell & Mair, PLLP

March 16, 2011
St. Paul, Minnesota

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
COMBINED BALANCE SHEETS
DECEMBER 31,

<u>ASSETS</u>	<u>2010</u>	<u>2009</u> <u>(Restated)</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 251,849	\$ 204,101
Short term investments	1,604,658	1,426,230
Accounts receivable	218,603	242,242
Interest receivable	15,529	27,672
Prepaid expenditures	<u>21,768</u>	<u>17,228</u>
Total current assets	<u>2,112,407</u>	<u>1,917,473</u>
<u>PROPERTY, EQUIPMENT AND FURNITURE - NET</u>	<u>1,008,970</u>	<u>1,074,201</u>
<u>LONG TERM INVESTMENTS</u>	<u>388,704</u>	<u>342,492</u>
Total assets	<u><u>\$ 3,510,081</u></u>	<u><u>\$ 3,334,166</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 103,338	\$ 222,124
Accrued liabilities:		
Salaries	23,128	24,005
Vacation and sick leave	146,238	170,225
Payroll taxes and other	3,078	5,140
Deferred revenue	<u>230,127</u>	<u>172,083</u>
Total current liabilities	<u>505,909</u>	<u>593,577</u>
<u>NET ASSETS</u>		
Unrestricted		
Investment in land, building and equipment	1,008,971	1,074,201
Unrestricted	<u>1,963,707</u>	<u>1,636,233</u>
Total unrestricted net assets	2,972,678	2,710,434
Temporarily restricted net assets	<u>31,494</u>	<u>30,155</u>
Total net assets	<u>3,004,172</u>	<u>2,740,589</u>
Total liabilities and net assets	<u><u>\$ 3,510,081</u></u>	<u><u>\$ 3,334,166</u></u>

See notes to combined financial statements

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31,

<u>UNRESTRICTED NET ASSETS</u>	<u>2010</u>	<u>2009</u> <u>(Restated)</u>
<u>REVENUE</u>		
Membership dues	\$1,192,750	\$ 1,195,673
Investment income	89,541	128,009
Endorsement fees	235,437	231,513
Revenue for affiliated services	144,413	225,461
Meeting service fees	363,303	428,989
Other income	41,959	43,226
Net assets released from restriction	<u>2,000</u>	<u>2,250</u>
Total revenue	<u>2,069,403</u>	<u>2,255,121</u>
<u>EXPENSES</u>		
Salaries and benefits	1,026,229	1,202,217
Consultant contracts	140,473	128,451
Travel and expenses	94,042	100,265
Meeting expense	253,757	434,466
Building expenses	70,184	70,606
Office supplies and support	69,532	81,900
Depreciation	80,720	70,137
Printing, mailing and communications	35,045	56,764
Contracted services	19,541	45,791
Staff support	10,029	23,232
Scholarships	2,000	2,250
Investment expenses	3,321	2,686
Miscellaneous expenses	<u>2,286</u>	<u>5,336</u>
Total expenses	<u>1,807,159</u>	<u>2,224,101</u>
Change in unrestricted net assets	<u>262,244</u>	<u>31,020</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Contribution revenue	3,339	2,962
Net assets released from restriction	<u>(2,000)</u>	<u>(2,250)</u>
Change in temporarily restricted net assets	<u>1,339</u>	<u>712</u>
Change in net assets	<u>\$ 263,583</u>	<u>\$ 31,732</u>

See notes to combined financial statements

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
COMBINED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Unrestricted	Investment Fixed Assets	Total Unrestricted Net Assets	Temporarily Restricted	Total Net Assets
<u>NET ASSETS - December 31, 2008</u>	1,709,209	970,205	2,679,414	29,443	2,708,857
Change in net assets	31,020	-	31,020	712	31,732
Transfer for net asset additions and disposals	(174,133)	174,133	-	-	-
Transfer depreciation	70,137	(70,137)	-	-	-
<u>NET ASSETS - December 31, 2009</u>	\$ 1,636,233	\$ 1,074,201	\$ 2,710,434	\$ 30,155	\$ 2,740,589
Change in net assets	262,244	-	262,244	1,339	263,583
Transfer for net asset additions and disposals	(15,490)	15,490	-	-	-
Transfer depreciation	80,720	(80,720)	-	-	-
<u>NET ASSETS - December 31, 2010</u>	\$ 1,963,707	\$ 1,008,971	\$ 2,972,678	\$ 31,494	\$ 3,004,172

See notes to combined financial statements

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2010	2009
	<u>2010</u>	<u>(Restated)</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Dues and other fees received	\$ 2,062,884	\$ 1,985,394
Interest received	59,555	65,822
Cash paid to employees, suppliers, and consultants	<u>(1,876,691)</u>	<u>(1,922,457)</u>
Net cash provided by operating activities	<u>245,748</u>	<u>128,759</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of short-term investments, net	(182,511)	(32,223)
Purchase of equipment	<u>(15,489)</u>	<u>(174,133)</u>
Net cash used by investing activities	<u>(198,000)</u>	<u>(206,356)</u>
Increase (decrease) in cash	47,748	(77,597)
Cash and cash equivalents - beginning of year	<u>204,101</u>	<u>281,698</u>
Cash and cash equivalents - end of year	<u>\$ 251,849</u>	<u>\$ 204,101</u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS</u>		
<u>TO NET CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	<u>\$ 263,583</u>	<u>\$ 31,732</u>
Adjustments to reconcile operations to net cash provided (used) by operating activities:		
Depreciation	80,720	70,137
Realized (gain) loss on sale of investments	9,865	47,690
Unrealized (gain) loss on investments	(51,994)	(112,208)
(Increase) decrease in operation assets		
Receivables	23,639	16,985
Interest receivable	12,143	10,224
Prepaid expenses	(4,540)	288
Deposits	-	1,000
(Decrease) increase in operating liabilities		
Accounts payable	(118,786)	106,069
Accrued liabilities	(26,926)	(14,751)
Deferred revenue	<u>58,044</u>	<u>(28,407)</u>
Total adjustments	<u>(17,835)</u>	<u>97,027</u>
Net cash provided by operating activities	<u>\$ 245,748</u>	<u>\$ 128,759</u>

See notes to combined financial statements

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Principles of Combination - The combined financial statements include the accounts of the Association of Minnesota Counties (the Association) and its affiliated organization Minnesota Counties Research Foundation (the Foundation). All significant inter-company accounts and transactions have been eliminated from the combined financial statements.
- b. Classes of Net Assets - The financial statements report amounts separately by class of net assets:
 - a. Unrestricted amounts are those currently available at the discretion of the Board for use in the Association's programs and support, and those resources invested in land, buildings and equipment.
 - b. Temporarily restricted amounts are those which are restricted by donors for specific operating purposes or for the acquisition of land, buildings and equipment.
 - c. Permanently restricted amounts are those restricted by donors in perpetuity as endowments or irrevocable trusts. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. The Association has no permanently restricted net assets.
- c. Fixed Assets - Fixed assets are carried at cost. It is the practice of the Association to capitalize renewals and betterments which extend the original estimated life of equipment or convert the equipment to a new use. Expenditures for repairs and maintenance are charged to operations. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is recognized in the results of operations.

The building is being depreciated on a straight-line basis over 31 ½ years, while equipment, furniture and fixtures are being depreciated on a straight-line basis over an estimated useful life of 5 - 7 years.
- d. Income Taxes - The Association of Minnesota Counties is a non-profit organization, tax exempt under Section 501(c)(4) of the Internal Revenue Code and similar provisions of Minnesota tax laws. The Minnesota Counties Research Foundation is a non-profit organization, tax exempt under Section 501(c)(3) of the Internal Revenue Code and similar provisions of Minnesota tax laws. The Foundation has been classified as a foundation that is not a private foundation as defined by the Internal Revenue Code and, therefore, charitable contributions by donors are tax deductible.

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

The Association and the Foundation will record a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. Interest related to unrecognized tax positions is recognized in interest expense and penalties in management and general expenses. The Association and Foundation are subject to U.S. federal, state and local examination by taxing authorities for all open tax years. Neither the Association nor the Foundation has recorded liabilities for unrecognized tax positions.

- e. Deferred Revenue - Membership dues from participating counties are reflected as revenue for the period assessed. Dues received in advance of the membership year are credited to deferred revenue. Grant monies received in advance of program expenditures are also credited to deferred revenue and recognized as program costs are incurred.
- f. Cash and Cash Equivalents - For purposes of the statements of cash flows, the Association considers cash and cash equivalents to include cash on deposit and money market funds.
- g. Receivables - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. Management considers all accounts to be fully collectible and an allowance for doubtful accounts is not necessary.
- h. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- i. Advertising Costs - Advertising costs are expensed as incurred. The Association and the Foundation did not incur advertising costs for the years ended December 31, 2010 and 2009.
- j. Subsequent Events - The Association and the Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. The management of the Association and the Foundation evaluated subsequent events for financial reporting through March 16, 2011, the date the financial statements were available to be issued.

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 2. BUSINESS OPERATIONS AND RELATED PARTY TRANSACTIONS

The Association provides inter-governmental programs, membership services, consultant programs, specialized research and grant program administration to member Minnesota counties. Revenues are derived primarily from membership dues, consulting and service fees.

The Association also receives fees for providing administrative and accounting services to certain Minnesota entities whose membership base is the same as the Association's. Some of these organizations have common board members with the Association and the Foundation. Total service fees earned from these entities were \$144,413 and \$86,560 for the years ended December 31, 2010 and 2009, respectively. Total receivables from these entities at December 31, 2010 and 2009 were \$146,777 and \$147,911, respectively.

NOTE 3. CONCENTRATION OF ECONOMIC RISK

The Association and the Foundation maintain their operating cash balances in three financial institutions in Minnesota. The balances are insured by the Federal Deposit Insurance Corporation, National Credit Union Association and supplemental insurance coverage. The Association and the Foundation's deposits may at time exceed the Federal Deposit Insurance Corporation limits. The Foundation and the Association have not experienced any losses in these accounts.

The Association and the Foundation have certificates of deposit, classified as an investment on the accompanying combined balance sheet, in excess of Federal Deposit Insurance Corporation insurance limits. The Association and the Foundation have not experienced any losses in these certificates of deposits.

NOTE 4. DEFINED BENEFIT PENSION PLAN

a. Plan Description

All full-time and certain part-time employees of the Association are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), which is a cost-sharing multiple-employer retirement plan. The plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 4. DEFINED BENEFIT PENSION PLAN – (Continued)

PERF 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.

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 PERF's Coordinated Plan and Basic Plan members. The retiring member receives the higher of 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 10 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 10 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 PERF 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 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.

There are different types of annuities available to members upon retirement. A single-life is an 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 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 PERF. That report may be obtained by writing PERA, 60 Empire Drive, #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 4. DEFINED BENEFIT PENSION PLAN - (Continued)

b. 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 Association makes annual contributions to the pension plans equal to the amount required by state statutes. PERF basic members and Coordinated Plan members are required to contribute 9.10% and 6.0%, respectively in 2010. The Association is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7% for Coordinated Plan PERF members. The Association's contribution to Public Employees Retirement Fund for the years ending December 31, 2010 and 2009 was \$82,795 and \$88,443, respectively. The Association's contribution was equal to the contractually required contribution as set by the state statute.

NOTE 5. FUNCTIONAL EXPENSES

Expenses by function for the years ended December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Programs	\$ 186,144	\$ 448,687
Membership Services	1,204,127	1,159,972
Administration	<u>416,888</u>	<u>476,541</u>
	<u>\$ 1,807,159</u>	<u>\$ 2,085,200</u>

NOTE 6. PROPERTY, FURNITURE AND EQUIPMENT

	<u>2010</u>	<u>2009</u>
Land	\$ 341,153	\$ 341,153
Building and improvements	1,462,565	1,462,565
Furniture and Equipment	<u>482,051</u>	<u>534,469</u>
	2,285,769	2,338,187
Less Accumulated Depreciation	<u>(1,276,799)</u>	<u>(1,263,986)</u>
	<u>\$ 1,008,970</u>	<u>\$ 1,074,201</u>

ASSOCIATION OF MINNESOTA COUNTIES
AND
MINNESOTA COUNTIES RESEARCH FOUNDATION
NOTES COMBINED TO FINANCIAL STATEMENTS

NOTE 7. INVESTMENTS

Investments are required to be measured annually at fair values as defined by generally accepted accounting principles. The accounting standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as observable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair values of the Association's investments were determined based on Level 1 imputes are summarized as follows at December 31, 2010.

	<u>Amount</u>	<u>Percentage</u>
Mutual Funds	\$ 185,772	9.33%
Equities	191,455	9.60%
Money Market Deposits	134,822	6.76%
Fixed Income	3,999	0.20%
Cash	174,428	8.75%
Certificates of Deposits	<u>1,302,886</u>	<u>65.36%</u>
	<u>\$ 1,993,362</u>	<u>100.00%</u>
Short term investments	\$ 388,704	
Long term investments	<u>1,604,658</u>	
	<u>\$ 1,993,362</u>	

	<u>Cost</u>	<u>Unrealized Gains (Losses)</u>	<u>Level I</u>
Mutual Funds	\$ 181,067	4,705	\$ 185,772
Equities	178,873	12,582	191,455
Money Market Deposits	134,822	-	134,822
Fixed Income	3,996	3	3,999
Cash	174,428	-	174,428
Certificates of Deposits	<u>1,302,886</u>	-	<u>1,302,886</u>
	<u>\$ 1,976,072</u>	<u>\$ 17,290</u>	<u>\$ 1,993,362</u>

ASSOCIATION OF MINNESOTA COUNTIES
AND
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NOTES COMBINED TO FINANCIAL STATEMENTS

NOTE 7. INVESTMENTS - (Continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Interest and Dividend Income	\$ 47,412	\$63,491
Unrealized and Realized Gains (Losses)	<u>42,129</u>	<u>64,518</u>
Total investment income	<u>\$ 89,541</u>	<u>\$ 128,009</u>

NOTE 8. NET ASSETS

The Association and Foundation's restricted net assets consist of donations to the AMC Student Scholarship Fund. Scholarships will be award to high school seniors planning to pursue post-secondary education. The scholarship recipient will share AMC's vision of a future that contains active civic participation, community pride and a sense of community responsibility.

NOTE 9. CHANGE IN REVENUE RECOGNITION POLICY

The Association and the Foundation changed its method of recording revenue for affiliated services. In prior periods the organizations recorded the total amount received from the affiliated organizations as revenue and recorded expenses at gross amounts. For the current period the organizations record only the service fee portion of the reimbursement as revenue. The prior year financial statements have been restated to reflect the change in revenue recognition policy. This change did not have an effect on the changes in net assets as originally reported in 2009.