

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Audited Financial Statements

For the Years Ended December 31, 2010 and 2009

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Mandan Remediation and Supplemental
Environmental Projects Trusts
Mandan, North Dakota

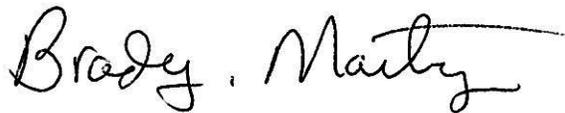
We have audited the accompanying statements of fiduciary net assets of the Mandan Remediation and Supplemental Environmental Projects Trusts (the "Trusts"), a private-purpose trust fund of the State of North Dakota, as of December 31, 2010 and 2009, and the related statements of changes in fiduciary net assets for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 audits 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Trusts, as of December 31, 2010 and 2009, and the respective changes in fiduciary net assets thereof for the years then ended December 31, 2010 and 2009 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2011, on our consideration of Mandan Remediation and Supplemental Environmental Projects Trusts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Brady, Martz". The signature is written in black ink and is positioned above the printed name of the firm.

BRADY, MARTZ & ASSOCIATES, P.C.

November 15, 2011

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Management's Discussion and Analysis

December 31, 2010 and 2009

The following is an objective discussion and analysis of the financial performance of the Mandan Remediation Trust ("MRT") and the Mandan Supplemental Environmental Projects Trust ("MSEPT") for the fiscal years ended December 31, 2010, 2009 and 2008. MRT assets are held at the Bank of North Dakota ("BND") and MSEPT assets are held at Starion Financial.

In August of 2004 the State of North Dakota and the City of Mandan reached an out of court settlement with Burlington Northern Santa Fe Railroad ("BNSF") related to contamination that lies under the central business district in Mandan, North Dakota.

The MRT was established by the State of North Dakota and the City of Mandan to pay for the investigation and remediation of the Downtown Plume off of the Mandan railyard or such other environmental remediation and mitigation related activities in the City of Mandan. The Trust is also responsible for any other activities that the State of North Dakota and the City of Mandan deem appropriate after cleanup of the Downtown Plume has been completed to the North Dakota Department of Health's satisfaction.

There are three trustees to oversee the activities of the MRT. One trustee designated by the North Dakota Department of Health, another trustee designated by the City of Mandan and the final trustee to be designated by mutual consent of the trustee designated by the North Dakota Department of Health and the City of Mandan.

The MSEPT was established by the State of North Dakota and the City of Mandan to undertake projects that enhance the environment of the City of Mandan and mitigate impacts caused by the contamination.

There are three trustees to oversee the activities of the MSEPT. One trustee designated by the North Dakota Department of Health, another trustee designated by the City of Mandan and the final trustee to be designated by mutual consent of the trustee designated by the North Dakota Department of Health and the City of Mandan.

Financial Highlights

The MRT was created in 2004 with an opening balance of \$24,000,000 as part of the settlement between the State of North Dakota, the City of Mandan and Burlington Northern Santa Fe Railroad, net assets held in MRT totaled \$8,493,735 and \$8,898,047 at the close of fiscal years ended December 31, 2010 and 2009, respectively.

The MSEPT was created in 2004 with an opening balance of \$2,500,000 as part of the settlement between the State of North Dakota, the City of Mandan and Burlington Northern Santa Fe Railroad, net assets held in MSEPT totaled \$1,564,684 and \$1,556,129 at the close of fiscal years ended December 31, 2010 and 2009, respectively.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Management's Discussion and Analysis - Continued

December 31, 2010 and 2009

Overview of the Financial Statements

This report consists of two primary parts – management's discussion and analysis (this section) and the basic financial statements. The basic financial statements are composed of a Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets, and the notes that explain the information in the financial statements and provide more detailed data.

The Statement of Fiduciary Net Assets presents information on the MRT and MSEPT assets and liabilities with the difference between the two reported as net assets.

The Statement of Changes in Fiduciary Net Assets presents information showing how the MRT and MSEPT net assets changed during the most recent fiscal period.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The MRT and MSEPT assets do not represent discretionary assets of the State of North Dakota or the City of Mandan to finance their operations. MRT and MSEPT funds can only be used for the purposes as set forth in the trust documents.

A summary of the MRT assets and liabilities as of December 31, 2010, 2009 and 2008 is presented below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Assets	\$ 8,562,647	\$ 8,968,055	\$ 9,309,094
Total Liabilities	<u>68,912</u>	<u>70,008</u>	<u>103,970</u>
Total Net Assets	<u>\$ 8,493,735</u>	<u>\$ 8,898,047</u>	<u>\$ 9,205,124</u>

A summary of the MSEPT assets and liabilities as of December 31, 2010, 2009 and 2008 is presented below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Assets	\$ 1,564,684	\$ 1,556,129	\$ 2,945,438
Total Liabilities	<u>-</u>	<u>-</u>	<u>1,402,411</u>
Total Net Assets	<u>\$ 1,564,684</u>	<u>\$ 1,556,129</u>	<u>\$ 1,543,027</u>

The bulk of the total assets in both the MRT and MSEPT is investments. MRT's investments consist of investments in U.S. treasuries and MSEPT's investments are in certificates of deposit for the year ended December 31, 2010. Investments in certificates of deposit make up the bulk of the total assets in both the MRT and MSEPT for the year ended December 31, 2009. The MRT certificates of deposit and U.S. treasuries are held by the Bank of North Dakota and for the MSEPT, the certificates of deposit are held by Starion Financial.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Management's Discussion and Analysis - Continued

December 31, 2010 and 2009

Changes in net assets:

The following are condensed Statements of Changes in Fiduciary Net Assets of MRT for the fiscal years ended December 31, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Additions and Transfers:			
Net Investment Income	\$ 33,526	\$ 69,498	\$ 134,608
Other Revenue	-	-	1,402,411
Total Additions	<u>33,526</u>	<u>69,498</u>	<u>1,537,019</u>
Deductions:			
Remediation Costs, Trustee Fees, Professional Fees & Advertising	<u>437,838</u>	<u>376,575</u>	<u>911,512</u>
Change in net Assets	(404,312)	(307,077)	625,507
Net assets - beginning of period	<u>8,898,047</u>	<u>9,205,124</u>	<u>8,579,617</u>
Net assets - end of period	<u>\$ 8,493,735</u>	<u>\$ 8,898,047</u>	<u>\$ 9,205,124</u>

The following are condensed Statements of Changes in Fiduciary Net Assets of MSEPT for the fiscal years ended December 31, 2010, 2009 and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Additions and Transfers:			
Net Investment Income	\$ 11,920	\$ 15,232	\$ 78,769
Total Additions	<u>11,920</u>	<u>15,232</u>	<u>78,769</u>
Deductions:			
Remediation Costs, Trustee Fees, Professional Fees & Advertising	<u>3,365</u>	<u>2,130</u>	<u>1,402,411</u>
Change in net Assets	8,555	13,102	(1,323,642)
Net assets - beginning of period	<u>1,556,129</u>	<u>1,543,027</u>	<u>2,866,669</u>
Net assets - end of period	<u>\$ 1,564,684</u>	<u>\$ 1,556,129</u>	<u>\$ 1,543,027</u>

Requests for information:

Questions concerning any of the information provided in this report or requests for additional information concerning the MRT or MSEPT should be addressed to Jim Neubauer, City Administrator, City of Mandan, 205 2nd Ave NW, Mandan, ND 58554.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Statements of Fiduciary Net Assets

December 31, 2010

	Mandan Remediation	Mandan Supplemental Environmental Projects
Assets		
Current Assets:		
Cash and cash equivalents	\$ 562,647	\$ 313,708
Investments	8,000,000	1,250,000
Interest receivable	-	976
	<u>8,562,647</u>	<u>1,564,684</u>
Total Assets		
Liabilities		
Current Liabilities:		
Accounts payable	68,912	-
	<u>68,912</u>	<u>-</u>
Total Liabilities		
Net Assets		
Net assets held in trust for remediation	8,493,735	1,564,684
	<u>8,493,735</u>	<u>1,564,684</u>
Total Net Assets	<u>\$ 8,493,735</u>	<u>\$ 1,564,684</u>

See Notes to Financial Statements

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Statements of Fiduciary Net Assets

December 31, 2009

	Mandan Remediation	Mandan Supplemental Environmental Projects
Assets		
Current Assets:		
Cash and cash equivalents	\$ 8,968,055	\$ 54,697
Investments	-	1,500,000
Interest receivable	-	1,432
	<u>8,968,055</u>	<u>1,556,129</u>
Total Assets		
Liabilities		
Current Liabilities:		
Accounts payable	70,008	-
	<u>70,008</u>	<u>-</u>
Total Liabilities		
Net Assets		
Net assets held in trust for remediation	8,898,047	1,556,129
	<u>8,898,047</u>	<u>1,556,129</u>
Total Net Assets	<u>\$ 8,898,047</u>	<u>\$ 1,556,129</u>

See Notes to Financial Statements

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Statements of Changes in Fiduciary Net Assets

For the Year Ended December 31, 2010

	<u>Mandan Remediation</u>	<u>Mandan Supplemental Environmental Projects</u>
Additions		
Interest income	\$ 33,526	\$ 11,920
Total additions	<u>33,526</u>	<u>11,920</u>
Deductions		
Remediation costs	409,803	-
Trustee fees	13,800	-
Professional fees	7,635	3,365
Miscellaneous expense	6,600	-
Total deductions	<u>437,838</u>	<u>3,365</u>
Change in net assets held in trust for remediation	(404,312)	8,555
Net assets - beginning of period	<u>8,898,047</u>	<u>1,556,129</u>
Net assets - end of period	<u>\$ 8,493,735</u>	<u>\$ 1,564,684</u>

See Notes to Financial Statements

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Statements of Changes in Fiduciary Net Assets

For the Year Ended December 31, 2009

	<u>Mandan Remediation</u>	<u>Mandan Supplemental Environmental Projects</u>
Additions		
Interest income	\$ 69,498	\$ 15,232
Total additions	<u>69,498</u>	<u>15,232</u>
Deductions		
Remediation costs	359,889	-
Trustee fees	12,700	-
Professional fees	3,825	2,130
Miscellaneous expense	161	-
Total deductions	<u>376,575</u>	<u>2,130</u>
Change in net assets held in trust for remediation	(307,077)	13,102
Net assets - beginning of period	<u>9,205,124</u>	<u>1,543,027</u>
Net assets - end of period	<u>\$ 8,898,047</u>	<u>\$ 1,556,129</u>

See Notes to Financial Statements

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Notes to the Financial Statements

December 31, 2010 and 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For financial reporting purposes, the Mandan Remediation and Supplemental Environmental Projects Trusts include all funds programs, and activities over which it is financially accountable. The Mandan Remediation and Supplemental Environmental Projects Trusts do not have any component units as defined by the Government Accounting Standards Board.

The Mandan Remediation and Supplemental Environmental Projects Trusts were established as part of a settlement agreement between the State of North Dakota, the City of Mandan, and the Burlington Northern and Santa Fe Railway Company. The settlement agreement was the result of a lawsuit filed by the State of North Dakota and the City of Mandan against the Burlington Northern and Santa Fe Railway Company for the diesel fuel contamination within Downtown Mandan. The Trusts are private-purpose trust funds of the State of North Dakota.

The Mandan Remediation was established by the State of North Dakota and the City of Mandan to pay for the investigation and remediation of the Downtown Plume off of the Mandan Railyard, or such other environmental remediation and mitigation related activities in the City of Mandan. The Trusts are also responsible for any other activities that the State of North Dakota and the City of Mandan deem appropriate after cleanup of the Downtown Plume has been completed to the North Dakota Department of Health's satisfaction.

The Mandan Supplemental Environmental Projects Trust was established by the State of North Dakota and the City of Mandan to undertake projects that enhance the environment of the City of Mandan and mitigate impacts caused by contamination.

B. Fund Financial Statements

The Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets report information on all fiduciary activities of the Trusts. The Statement of Fiduciary Net Assets presents the reporting entity's assets and liabilities, with the difference reported as net assets. The net assets are reported as net assets held in trust for remediation.

The Statement of Changes in Fiduciary Net Assets presents additions to, deductions from, and net increase (or decrease) for the year in net assets for each fiduciary fund.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Notes to the Financial Statements - Continued

December 31, 2010 and 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Fund Accounting Structure

The Trusts use funds to report the financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain fiduciary functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The Trusts report the Mandan Remediation and Supplemental Environmental Projects Trusts as private purpose trust funds. They are used to account for the resources of the trust agreements in which the principal and income benefit the City of Mandan and the State of North Dakota.

D. Basis for Accounting

As a fiduciary fund, the Trusts' financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The Trusts are private-purpose trust funds, which are a type of fiduciary fund. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support a government's own programs. A private-purpose trust fund is a fiduciary fund used to report all trust arrangements, other than pension (and other employee benefit) trust funds and investment trust funds, under which principal and income benefit individuals, private organizations, or other governments. Revenues are mainly derived from investment income.

E. Cash and Cash Equivalents

Cash and cash equivalents includes all funds on deposit in money market accounts and certificates of deposit with original maturities of three months or less.

F. Investments

Investments include certificates of deposit and treasury bills that are reported at fair value. All investment income is recognized in the statement of changes in fiduciary net assets.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Notes to the Financial Statements - Continued

December 31, 2010 and 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Investments - Continued

Investments are accounted for at fair value. Fair value is *“the amount that can reasonably be expected to be received for an investment in a current sale between a willing buyer and a willing seller.”* Fair value was determined by calculating the change in fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost plus sales of investments at fair value.

G. Receivables

Receivables include interest on investments.

H. Federal Income Taxes

According to a private letter ruling obtained from the Internal Revenue Service, the Trusts will be treated as Qualified Settlement Funds under code section 1.468B-1 of the Income Tax Regulations and that the income of the Trusts will be excludible from gross income under 115(1) of the Internal Revenue Code.

I. Use of Estimates

The presentation 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.

NOTE 2 CASH AND CASH EQUIVALENTS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution. In the event of a depository financial institution's failure the Trusts would not be able to recover its deposits or collateralized securities that are in the possession of the outside parties. The Trusts do not have a formal policy regarding deposits for the Supplemental Environmental Project Trust. The trust agreement requires that all funds for the Remediation Trust be deposited in the Bank of North Dakota.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Notes to the Financial Statements - Continued

December 31, 2010 and 2009

NOTE 2 CASH AND CASH EQUIVALENTS - CONTINUED

These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, the deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10. The carrying amounts of the deposits of the Mandan Remediation Trust at the Bank of North Dakota at December 31, 2010 and 2009 were \$562,647 and \$8,968,055, respectively. Cash and cash equivalents of the Trusts' at December 31, 2010 and 2009 also include \$562,647 and \$8,968,055 of deposits in money markets. The carrying amount of the money markets is equal to the bank balance.

At December 31, 2010 and 2009, the carrying amount of deposits for the Mandan Supplemental Environmental Project Trust was \$1,563,708 and \$1,554,697, respectively. The deposit's carrying amount is equal to the bank balance. These deposits are collateralized by Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and the remaining balance is covered by pledged securities assigned to the Supplemental Environmental Project Trust by the City of Mandan. The pledged securities are in the name of the City of Mandan.

NOTE 3 INVESTMENTS

At December 31, 2010, the Trust's investments included two certificates of deposit at a local financial institution that mature in the next fiscal year with interest rates of 0.70% and two treasury bills at a local financial institution that mature in the next fiscal year with interest rates of 0.15% and 0.19%. At December 31, 2009, the Trust's investments included two certificates of deposits at local financial institutions that mature in the next fiscal year with interest rates of 1.00% and 0.75%.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The price of an investment typically moves in the opposite direction of the change in interest rates. The Trusts do not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Notes to the Financial Statements - Continued

December 31, 2010 and 2009

NOTE 3 INVESTMENTS - CONTINUED

The following table shows the investments by investment type and maturity at December 31, 2010.

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>Less Than 1 Year</u>
Treasury bills	<u>\$ 8,000,000</u>	<u>\$ 8,000,000</u>
Total debt securities	8,000,000	<u><u>\$ 8,000,000</u></u>
<u>Investments not subject to categorization</u>		
Cerificates of deposit	<u>1,250,000</u>	
Total investments	<u><u>\$ 9,250,000</u></u>	

NOTE 4 COMMITMENT

As of November 23, 2004, the North Dakota Department of Health entered into a quick start contract with Leggette, Brashears & Graham, Inc. (LBG) for the performance of remediation services. The amount of the contract was \$149,262. A master services agreement was signed on January 18, 2005 between LBG and the North Dakota Department of Health for the performance of remediation services. Mandan Remediation Trust agrees to pay LBG for services rendered under the quick start contract and the master services agreement pursuant to the Mandan Remediation Trust Agreement. The master services agreement provides a fee schedule for consulting services and equipment use and is based on time and materials. LBG was reimbursed \$340,785 during 2010 for services rendered under the contract.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Notes to the Financial Statements - Continued

December 31, 2010 and 2009

NOTE 5 RELATED PARTY TRANSACTIONS

Per the Trust agreements, there is to be three trustees to oversee the activities of the Trusts. One trustee was to be designated by the North Dakota Department of Health. Another trustee was to be designated by the City of Mandan. The final trustee was to be designated by mutual consent of the trustees designated by the North Dakota Department of Health and the City of Mandan. Per the Trust agreements, a trustee who is not employed in governmental service may be paid reasonable compensation for their services to the Trusts. As of December 31, 2010 and 2009, payments made under this agreement totaled \$13,800 and \$12,700, respectively.

NOTE 6 NEW GASB PRONOUNCEMENTS

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* will be effective for financial statement periods beginning after June 15, 2012 with earlier application encouraged. The statement will improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* will be effective for financial statement periods beginning after December 15, 2011 with early application encouraged. The Statement brings the authoritative accounting and financial reporting literature together in one place, with the guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial users. It will eliminate the need to financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Notes to the Financial Statements - Continued

December 31, 2010 and 2009

NOTE 7 SUBSEQUENT EVENTS

The City of Mandan has requested reimbursement from the Mandan Remediation Trust for \$37,812, for various remediation costs that have been incurred by the City of Mandan subsequent to year end. Subsequent contracts with Leggette, Brashears & Graham, Inc for various remediation efforts have been signed totaling \$169,404. A subsequent contract with Morton County for remediation efforts has been signed totaling \$240,000.

Subsequent events noted above were evaluated through November 15, 2011, which is the date these financial statements were available to be issued.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the Board of Trustees
Mandan Remediation and Supplemental
Environmental Projects Trusts
Mandan, North Dakota

We have audited the financial statements of the fiduciary net assets of the Mandan Remediation and Supplemental Environmental Projects Trusts, as of and for the year ended December 31, 2010, which collectively comprise Mandan Remediation and Supplemental Environmental Projects Trusts' basic financial statements and have issued our report thereon dated November 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mandan Remediation and Supplemental Environmental Projects Trusts' 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 Mandan Remediation and Supplemental Environmental Projects Trusts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mandan Remediation and Supplemental Environmental Projects Trusts' 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.

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 deficiency described as item 2010-3 in the accompanying schedule of findings and responses to be a material weakness.

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 as items 2010-1 and 2010-2 in the accompany schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mandan Remediation and Supplemental Environmental Projects Trusts' 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*.

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

This report is intended solely for the information and use of the Board of Trustees, management, and other state officials, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Brady Martz". The signature is written in black ink and is positioned above the firm name.

BRADY, MARTZ & ASSOCIATES, P.C.

November 15, 2011

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Schedule of Findings and Responses

As of and for the Year Ended December 31, 2010

To the Board of Trustees
Mandan Remediation and Supplemental
Environmental Projects Trusts

2010-1

Criteria

A system of internal controls over financial reporting includes the Board having the ability to determine that the financial statements and disclosures are properly stated in compliance with accounting principles generally accepted in the United States of America.

Condition

The Trusts' auditors prepared the financial statements as of December 31, 2010. The Trusts does not have the system necessary to assess whether all relevant disclosures have been included in the financial statements as required by accounting principles generally accepted in the United States of America.

Cause

It is currently not cost effective for the Trusts to internally prepare its financial statements and disclosures in accordance with accounting principles generally accepted in the United States of America.

Effect

A system of internal controls over financial reporting is not present for the Trusts to internally determine that the financial statements and all required disclosures are in compliance with accounting principles generally accepted in the United States of America.

Recommendation

Compensating controls over financial statement disclosure requirements could be provided by the use of current disclosure checklists and the continual training of Trusts' personnel on the current requirements of financial statements and disclosures in compliance with accounting principles generally accepted in the United States of America.

Views of Responsible Officials and Planned Corrective Actions

Due to the financial, efficiency and time constraints, it has been determined by Mandan Remediation and Supplemental Environmental Projects Trusts' management that it is in the best interest of Mandan Remediation and Supplemental Environmental Projects Trusts and all interested parties to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Schedule of Findings and Responses - Continued

As of and for the Year Ended December 31, 2010

2010-2

Criteria

A system of internal controls over financial reporting includes that the Trusts has the proper segregation of duties between authorization, custody, record keeping and reconciliation.

Condition

The Trusts does not have the system necessary for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause

The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure adequate internal accounting control.

Effect

A system of internal controls with proper segregation of duties is not present for the Trusts to ensure that the underlying financial information is in compliance with accounting principles generally accepted in the United States of America.

Recommendation

Compensating controls over the underlying financial information include oversight by management and the board on the financial records. The most effective controls in this situation lie in the board's knowledge of matters related to the organization's operations.

Views of Responsible Officials and Planned Corrective Actions:

This condition is a repeat from the prior years and the board has segregated the accounting duties to the appropriate individuals to the extent possible. Because of the very limited number of staff available for the Trusts, all of the accounting duties cannot be totally segregated in such a way as to eliminate this reportable condition. The only alternative available to the Trusts would be the hiring of additional staff, and current cash flows do not justify it. The Trusts has reviewed the internal controls and procedures in place and believes the procedures in place provide adequate controls under these circumstances.

**MANDAN REMEDIATION AND SUPPLEMENTAL
ENVIRONMENTAL PROJECTS TRUSTS
MANDAN, NORTH DAKOTA**

Schedule of Findings and Responses - Continued

As of and for the Year Ended December 31, 2010

2010-3 – Material Weakness

Criteria

The Trusts are required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on a GAAP basis

Condition

During our audit, material adjusting journal entries to the financial statements were proposed in order to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (GAAP). The Trusts are required to maintain internal controls at a level where a determination can be made that the general ledger accounts are properly reflected on a GAAP basis.

Cause

It is currently not cost effective for the Trusts to determine the proper balance of each general ledger account prior to the start of the audit.

Effect

The Trusts do not maintain internal controls at a level where a determination can be made that the general ledger accounts are properly reflected on a GAAP basis.

Recommendation

In order to comply with this requirement, accounting personnel will need to determine the proper balance of each general ledger account prior to the start of the audit.

Views of Responsible Officials and Planned Corrective Actions:

Due to the financial, efficiency and time constraints, it has been determined by the Trusts that it is in the best interest of the Trust and all interested parties to have adjustments proposed by the auditing firm in order for the general ledger accounts to be reflected on a GAAP basis.