

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WABASHA COUNTY
WABASHA, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

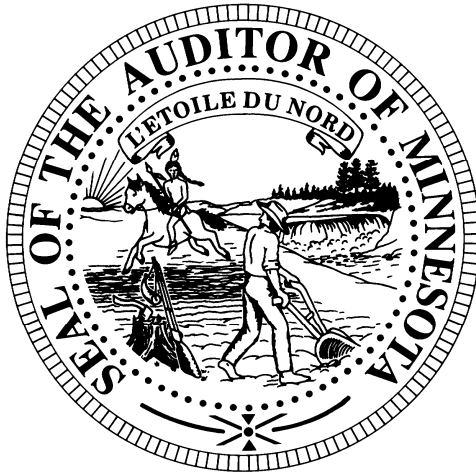
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**WABASHA COUNTY
WABASHA, MINNESOTA**

Year Ended December 31, 2012



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**WABASHA COUNTY
WABASHA, MINNESOTA**

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**WABASHA COUNTY
WABASHA, MINNESOTA**

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**WABASHA COUNTY
WABASHA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2012

		<u>Term Expires</u>
Elected		
Commissioners		
Board Member	Richard H. Hall	District 1 January 2013
Board Member	Debra Roschen	District 2 January 2015
Board Member	Merl Norman	District 3 January 2013
Vice Chair	Michael Wobbe	District 4 January 2015
Chair	Dave Harms	District 5 January 2015
Attorney	James C. Nordstrom	January 2015
Auditor/Treasurer	Denise Anderson	January 2015
County Recorder	Jeffery Aitken	January 2015
County Sheriff	Rodney Bartsh	January 2015
 Appointed		
Coordinator	Bridget Hoffman	Indefinite ¹
Assessor	Loren Benz	December 2016
County Engineer	Dietrich Flesch	May 2015
Coroner	Dr. Kent Jeffery	December 2014
	Dr. Thomas Peyla	December 2014
Finance Director	Deb Koenig	Indefinite
Social Services Director	Terry Smith	Indefinite
Public Health Director	Judy Barton	Indefinite
Court Services Director	Traci Green	Indefinite
Surveyor	David Johnson	January 2017
Veterans Service Officer	Nathan Pelz	Interim
Zoning Administrator	Kevin Krause	Indefinite

¹The position of County Coordinator has been eliminated as of January 22, 2013.

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Wabasha County

Report on the Financial Statements

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 Wabasha County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Wabasha County as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wabasha County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2013, on our consideration of Wabasha County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wabasha County’s internal control over financial reporting and compliance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 13, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WABASHA COUNTY
WABASHA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(Unaudited)**

INTRODUCTION

Wabasha County's Management's Discussion and Analysis (MD&A) provides the readers of Wabasha County's financial statements with a narrative overview and analysis of the financial activities of Wabasha County for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information in the financial statements, including the information in the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- At the end of 2012, the assets of Wabasha County exceeded its liabilities by \$85,659,401. Of this amount, \$13,313,099 represents unrestricted net position that may be used to meet the County's ongoing obligation to citizens and creditors. The remaining \$72,346,302 is invested in capital assets or restricted to specific purposes.
- At the end of the fiscal year, Wabasha County's governmental funds reported a combined ending fund balance of \$16,563,889.
- Wabasha County's total long-term liabilities decreased by \$752,208 during the fiscal year. The key factor in this decrease is attributed to the annual principal payment on the bonds related to the construction of the Criminal Justice Center.

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to Wabasha County's basic financial statements. Wabasha County's financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements.

Management's Discussion and Analysis
(required supplementary information)

Government-Wide
Financial Statements



Fund Financial
Statements

Required Supplementary Information
(other than MD&A)

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start with Exhibit 3. Fund financial statements report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. Exhibit 7 provides financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--The Statement of Net Position and the Statement of Activities

The government-wide financial statements are designed to provide the readers with a broad overview of Wabasha County's finances in a manner similar to a private-sector business. Our analysis of the County as a whole begins with Exhibit 1. The Statement of Net Position presents information on all Wabasha County's assets and liabilities, with the differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Wabasha County is improving or deteriorating. The Statement of Activities presents information showing how Wabasha County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

In the Statement of Net Position and the Statement of Activities, we divide the County into two kinds of activities:

- Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Component units--The Reads Landing Water and Sanitary District is presented in a separate column. Although legally separate, component units are important because the County is financially accountable for them.

Fund Financial Statements

Our analysis of the County's major funds begins with Exhibit 3. The fund financial statements provide information about the County's significant funds, not the County as a whole. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of a governmental fund financial statement is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds: General Fund, Road and Bridge Special Revenue Fund, Social Service Special Revenue Fund, and Criminal Justice Center Debt Service Fund.

- Governmental funds--Most of the County's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation in a statement following each governmental fund financial statement.
- Fiduciary funds (agency funds)--Fiduciary funds are used to account for resources held for the benefit of parties outside County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Wabasha County's own programs.

The County as a Whole

The County's combined net position increased from \$81,816,243 to \$85,659,401. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental activities.

Table 1
Net Position

	Governmental Activities	
	2012	2011
Assets		
Current and other assets	\$ 21,417,180	\$ 21,405,623
Capital assets	87,655,150	84,228,014
Total Assets	<u>\$ 109,072,330</u>	<u>\$ 105,633,637</u>
Liabilities		
Long-term liabilities outstanding	\$ 20,482,742	\$ 21,234,950
Other liabilities	2,930,187	2,582,444
Total Liabilities	<u>\$ 23,412,929</u>	<u>\$ 23,817,394</u>
Net position		
Net investment in capital assets	\$ 68,933,140	\$ 64,642,482
Restricted	3,413,162	4,042,480
Unrestricted	13,313,099	13,131,281
Total Net Position	<u>\$ 85,659,401</u>	<u>\$ 81,816,243</u>

Net position of the County's governmental activities increased 4.7 percent (\$85,659,401 compared to \$81,816,243). Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, changed from \$13,131,281 at December 31, 2011, to \$13,313,099 at the end of 2012.

**Table 2
Changes in Net Position**

	Governmental Activities	
	2012	2011
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 1,715,210	\$ 1,870,515
Operating grants and contributions	9,078,344	10,248,972
Capital grants and contributions	4,698,995	993,153
General revenues		
Property taxes	11,541,734	11,674,895
Other taxes	63,216	14,643
Grants and contributions	1,044,658	1,621,368
Other general revenues	724,394	767,420
Total Revenues	<u>\$ 28,866,551</u>	<u>\$ 27,190,966</u>
Program Expenses		
General government	\$ 3,486,914	\$ 3,941,059
Public safety	5,736,440	5,945,130
Highways and streets	7,284,776	9,808,386
Human services	4,374,701	3,852,349
Health	1,305,135	1,517,528
Sanitation	193,037	212,667
Culture and recreation	270,563	286,216
Conservation of natural resources	365,108	377,237
Economic development	1,210,594	900,367
Interest	796,125	829,576
Total Program Expenses	<u>\$ 25,023,393</u>	<u>\$ 27,670,515</u>
Increase (Decrease) in Net Position	\$ 3,843,158	\$ (479,549)
Net Position - January 1	<u>81,816,243</u>	<u>82,295,792</u>
Net Position - December 31	<u>\$ 85,659,401</u>	<u>\$ 81,816,243</u>

Governmental Activities

Revenues for the County's governmental activities were \$28,866,551, while expenses were \$25,023,393. This resulted in a \$3,843,158 increase in net position for the year ended December 31, 2012.

The cost of all governmental activities in 2012 was \$25,023,393 compared to \$27,670,515 in 2011. However, as shown in the Statement of Activities, Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes and other general revenues was only \$9,530,844, because some of the cost was paid by those who directly benefited from the

programs (\$1,715,210) or by other governments and organizations that subsidized certain programs with grants and contributions (\$13,777,339). Overall, the County’s governmental program revenues, including intergovernmental aid and fees for services, increased from \$13,112,640 in 2011 to \$15,492,549 in 2012, primarily caused by an increase in grants and contributions. The County paid for the remaining “public benefit” portion of governmental activities with \$13,374,002 in general revenues, primarily taxes.

Table 3 presents the cost of each of the County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table 3
Governmental Activities**

	Total Cost of Service		Net Cost of Service	
	2012	2011	2012	2011
Highways and streets	\$ 7,284,776	\$ 9,808,386	\$ (2,049,447)	\$ 3,587,397
Public safety	5,736,440	5,945,130	4,641,008	4,136,538
Human services	4,374,701	3,852,349	1,887,577	1,057,178
General government	3,486,914	3,941,059	2,969,838	3,397,043
Health	1,305,135	1,517,528	431,615	332,432
All others	2,835,427	2,606,063	1,650,253	2,047,287
Totals	\$ 25,023,393	\$ 27,670,515	\$ 9,530,844	\$ 14,557,875

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of Wabasha County, assets exceeded liabilities by \$85,659,401 at the end of 2012, an increase of \$3,843,158.

The County’s \$68,933,140 investment in capital assets, net of related debt, is 80 percent of total net position. Wabasha County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Wabasha County’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate liabilities.

Four percent of Wabasha County’s net position (\$3,413,162) are subject to restrictions on how they may be used. The remaining 16 percent (\$13,313,099) of unrestricted net position may be used to meet Wabasha County’s ongoing obligations to citizens and creditors.

Wabasha County’s total liabilities (\$23,412,929) are 21 percent of total assets and 110 percent of current assets.

Financial Analysis of the Government's Funds

The focus of Wabasha County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Wabasha County's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

As of the end of 2012, Wabasha County's governmental funds report combined fund balances of \$16,563,889. This is an increase of \$403,350 from the prior year. Approximately 59 percent of this amount (\$9,695,272) constitutes unassigned fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned for specific purposes.

The General Fund is the chief operating fund of Wabasha County. At the end of 2012, the unassigned fund balance was \$9,999,578, while the total fund balance was \$10,875,134. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 92 percent of total General Fund expenditures, while total fund balance represents 101 percent of the same amount.

The Road and Bridge Special Revenue Fund ended the year with a negative fund balance of \$170,649. This was an increase of \$103,913. There was a decrease in the Social Service Special Revenue Fund balance of \$955,824, with a total fund balance of \$3,060,164.

General Fund Budgetary Highlights

Wabasha County did not make revisions to the General Fund budget during 2012. The General Fund's actual revenues were \$1,675,229 above budget. Total expenditures exceeded the budget by \$409,730. The majority of this was caused by flood recovery buyouts covered by grant funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Wabasha County's investment in capital assets as of December 31, 2012, amounts to \$87,655,150 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, infrastructure, and software. (See Table 4.)

The net increase in Wabasha County's investment in capital assets for the current year was \$3,427,136. If you need more information on Wabasha County's capital assets, please see the notes to the financial statements.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2012	2011
Land (not depreciated)	\$ 5,488,420	\$ 5,247,031
Construction in process (not depreciated)	4,527,892	830,479
Buildings and improvements	19,778,872	20,241,707
Machinery, vehicles, furniture, and equipment	1,868,005	2,070,603
Infrastructure	55,848,586	55,639,319
Software	143,375	198,875
Total	\$ 87,655,150	\$ 84,228,014

Construction in process relates to an unfinished project by the County Highway Department.

Debt

At the end of 2012, the County had total debt outstanding in the amount of \$18,722,010 as shown in Table 5. More detailed information about the County's long-term liabilities is presented in Note 3.C. to the financial statements.

Table 5
Outstanding Debt

	Governmental Activities	
	2012	2011
General obligation jail bonds (net of unamortized discount)	\$ 12,200,035	\$ 12,743,787
Certificates of participation (net of unamortized discount)	6,422,060	6,716,252
Capital leases	99,915	125,493
Total	\$ 18,722,010	\$ 19,585,532

The County's general obligation bond rating is "AA," a rating assigned by national rating agencies to the County's debt. Minn. Stat. § 475.53 limits the amount of general obligation debt a county can incur to no more than three percent of taxable market value without the approval of the majority of the voters of the county voting on the questions of issuing the obligation at an election. The County's outstanding net debt is significantly below the state-imposed limit of \$72,765,432 based on the 2011 taxable market value of \$2,425,514,400.

Other obligations include compensated absences and other postemployment benefits.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged.

- The Wabasha County Board of Commissioners uses a conservative approach to budgeting. Expenditures are reduced where possible, and new revenue sources are explored. All capital expenditures are thoroughly reviewed initially by the budget committee and again by the Board of Commissioners.
- The unemployment rate in Wabasha County decreased from 5.2 percent at the end of 2011 to 4.8 percent at the end of 2012. At the end of 2012, the Minnesota rate was 5.4 percent, and the U.S. rate was 7.6 percent.
- The 2013 County budget was adopted on December 11, 2012. The property tax levy included in the budget was not increased. The budgeted expenditures decreased by 12.8 percent mainly due to fewer costs associated with highway projects planned for 2013. Related to this is a decrease in federal grant funding also.
- The County is expecting to see a decrease in state aid to local governments in 2013 which will have some impact on the budget.
- Wabasha County did not balance the budget in 2013. The major contributing factor to this is highway construction projects involving roads that are not eligible for state aid funding and the County Board choosing to use fund balance to cover the costs instead of increasing the levy. The fund balance is anticipated to be replenished using future levies.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Wabasha County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report, or additional financial information, should be addressed to the Finance Director, Wabasha County, 625 Jefferson Street, Wabasha, Minnesota 55981.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Reads Landing Water and Sanitary District Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 18,411,946	\$ 14,361
Petty cash and change funds	3,225	-
Investment in joint venture	883,289	-
Taxes receivable		
Prior - net	263,059	-
Special assessments receivable	-	7,702
Accounts receivable - net	105,655	7,665
Accrued interest receivable	22,013	-
Due from other governments	1,455,912	-
Inventories	133,657	-
Deferred debt issuance costs	138,424	-
Capital assets		
Non-depreciable	10,016,312	-
Depreciable - net of accumulated depreciation	77,638,838	1,016,690
	\$ 109,072,330	\$ 1,046,418
<u>Liabilities</u>		
Accounts payable	\$ 373,969	\$ 162
Salaries payable	395,777	-
Contracts payable	590,517	-
Due to other governments	121,250	4,244
Advance from other governments	990,000	-
Accrued interest payable	315,411	-
Unearned revenue	143,263	63
Long-term liabilities		
Net OPEB obligation	475,534	-
Due within one year	961,761	1,430
Due in more than one year	19,045,447	89,121
	\$ 23,412,929	\$ 95,020

**WABASHA COUNTY
WABASHA, MINNESOTA**

***EXHIBIT 1
(Continued)***

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

	<u>Primary Government Governmental Activities</u>	<u>Reads Landing Water and Sanitary District Component Unit</u>
<u>Net Position</u>		
Net investment in capital assets	\$ 68,933,140	\$ 926,139
Restricted for		
General government	368,611	-
Public safety	43,055	-
Highways and streets	724,546	-
Human services	83,039	-
Health	21,197	-
Debt service	2,172,714	12,414
Equipment replacement	-	1,947
Unrestricted	<u>13,313,099</u>	<u>10,898</u>
Total Net Position	<u>\$ 85,659,401</u>	<u>\$ 951,398</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 3,486,914	\$ 429,272
Public safety	5,736,440	463,285
Highways and streets	7,284,776	77,209
Sanitation	193,037	127,352
Human services	4,374,701	275,288
Health	1,305,135	339,175
Culture and recreation	270,563	3,469
Conservation of natural resources	365,108	160
Economic development	1,210,594	-
Interest	796,125	-
Total Governmental Activities	<u>\$ 25,023,393</u>	<u>\$ 1,715,210</u>
Component unit		
Reads Landing Water and Sanitary District	<u>\$ 88,699</u>	<u>\$ 65,883</u>
General Revenues		
		Property taxes
		Mortgage registry and deed tax
		Tax increment
		Payments in lieu of tax
		Grants and contributions not restricted to specific programs
		Unrestricted investment earnings
		Miscellaneous
		Gain on sale of capital assets
		Total general revenues
		Change in net position
		Net Position - Beginning
		Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Reads Landing Water and Sanitary District Component Unit
\$ 87,804	\$ -	\$ (2,969,838)	
585,498	46,649	(4,641,008)	
4,153,195	5,103,819	2,049,447	
58,032	-	(7,653)	
2,211,836	-	(1,887,577)	
534,345	-	(431,615)	
69,978	-	(197,116)	
926,183	-	561,235	
-	-	(1,210,594)	
-	-	(796,125)	
\$ 8,626,871	\$ 5,150,468	\$ (9,530,844)	
\$ -	\$ -		\$ (22,816)
		\$ 11,541,734	\$ -
		18,769	-
		44,447	-
		250,650	-
		1,044,658	-
		149,200	14
		298,536	-
		26,008	-
		\$ 13,374,002	\$ 14
		\$ 3,843,158	\$ (22,802)
		81,816,243	974,200
		\$ 85,659,401	\$ 951,398

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**WABASHA COUNTY
WABASHA, MINNESOTA**

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

	General	Road and Bridge Special Revenue
<u>Assets</u>		
Cash and pooled investments	\$ 11,226,539	\$ 1,346,593
Petty cash and change funds	3,225	-
Taxes receivable		
Prior	156,944	28,818
Accounts receivable	16,573	-
Accrued interest receivable	20,244	-
Due from other governments	174,223	761,380
Inventories	-	133,657
	-	133,657
Total Assets	\$ 11,597,748	\$ 2,270,448

EXHIBIT 3

<u>Social Service Special Revenue</u>	<u>Criminal Justice Center Debt Service Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 3,107,030	\$ 2,161,849	\$ 569,935	\$ 18,411,946
-	-	-	3,225
33,824	37,194	6,279	263,059
57,947	-	31,135	105,655
-	1,769	-	22,013
413,693	-	106,616	1,455,912
-	-	-	133,657
<u>\$ 3,612,494</u>	<u>\$ 2,200,812</u>	<u>\$ 713,965</u>	<u>\$ 20,395,467</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

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

	General	Road and Bridge Special Revenue
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 142,966	\$ 23,368
Salaries payable	235,268	54,643
Contracts payable	-	590,517
Due to other governments	72,715	1,936
Advance from other governments	-	990,000
Deferred revenue - unavailable	147,390	780,633
Deferred revenue - unearned	124,275	-
	\$ 722,614	\$ 2,441,097
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 133,657
Restricted for		
Law library	27,258	-
Recorder's unallocated fund	224,076	-
Recorder's technology fund	63,328	-
Veteran's programs	7,927	-
Sheriff's contingency	3,456	-
Sheriff's forfeited property	13,415	-
Attorney's forfeited property	38,293	-
Jail Stone Preservation	200	-
Sheriff's permit to carry	26,184	-
Health	-	-
Tobacco settlement	7,529	-
Human services/health care	-	-
Debt service	-	-
Assigned to		
Human Services	-	-
Public Health	-	-
Regional Railroad Authority	-	-
Public Safety	288,890	-
Highway shop	175,000	-
Electronic document management system	-	-
Unassigned	9,999,578	(304,306)
Total Fund Balances	\$ 10,875,134	\$ (170,649)
Total Liabilities and Fund Balances	\$ 11,597,748	\$ 2,270,448

**EXHIBIT 3
(Continued)**

<u>Social Service Special Revenue</u>	<u>Criminal Justice Center Debt Service Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 206,678	\$ -	\$ 957	\$ 373,969
67,436	-	38,430	395,777
-	-	-	590,517
42,275	-	4,324	121,250
-	-	-	990,000
235,941	28,098	24,740	1,216,802
-	-	18,988	143,263
<u>\$ 552,330</u>	<u>\$ 28,098</u>	<u>\$ 87,439</u>	<u>\$ 3,831,578</u>
\$ -	\$ -	\$ -	\$ 133,657
-	-	-	27,258
-	-	-	224,076
-	-	-	63,328
-	-	-	7,927
-	-	-	3,456
-	-	-	13,415
-	-	-	38,293
-	-	-	200
-	-	-	26,184
-	-	21,197	21,197
-	-	-	7,529
83,039	-	-	83,039
-	2,172,714	-	2,172,714
2,777,125	-	-	2,777,125
-	-	579,484	579,484
-	-	25,845	25,845
-	-	-	288,890
-	-	-	175,000
200,000	-	-	200,000
-	-	-	9,695,272
<u>\$ 3,060,164</u>	<u>\$ 2,172,714</u>	<u>\$ 626,526</u>	<u>\$ 16,563,889</u>
<u>\$ 3,612,494</u>	<u>\$ 2,200,812</u>	<u>\$ 713,965</u>	<u>\$ 20,395,467</u>

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**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)		\$ 16,563,889
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.		87,655,150
Investment in joint venture is not available to pay for current period expenditures and, therefore, is not reported in the governmental funds.		883,289
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,216,802
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	\$ (12,220,000)	
Certificates of participation	(6,515,000)	
Bond discount	112,905	
Deferred debt issuance charges	138,424	
Capital leases	(99,915)	
Accrued interest payable	(315,411)	
Net OPEB obligation	(475,534)	
Compensated absences	(1,285,198)	
	<u>(1,285,198)</u>	<u>(20,659,729)</u>
Net Position of Governmental Activities (Exhibit 1)		<u>\$ 85,659,401</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

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

	General	Road and Bridge Special Revenue
Revenues		
Taxes	\$ 7,023,932	\$ 1,245,738
Licenses and permits	224,285	-
Intergovernmental	3,081,762	9,916,185
Charges for services	718,181	18,308
Fines and forfeits	18,410	-
Gifts and contributions	11,701	-
Investment earnings	143,533	-
Miscellaneous	357,849	52,254
	\$ 11,579,653	\$ 11,232,485
Expenditures		
Current		
General government	\$ 3,677,702	\$ -
Public safety	5,098,780	-
Highways and streets	-	11,133,218
Sanitation	193,235	-
Human services	-	-
Health	-	-
Culture and recreation	237,884	-
Conservation of natural resources	364,318	-
Economic development	1,210,594	-
Debt service		
Principal	25,578	-
Interest	8,730	-
Administrative (fiscal) charges	-	-
	\$ 10,816,821	\$ 11,133,218
Excess of Revenues Over (Under) Expenditures	\$ 762,832	\$ 99,267
Other Financing Sources (Uses)		
Transfers in	\$ 500,000	\$ -
Transfers out	(2,625)	-
Proceeds from sale of capital assets	39,472	1,500
	\$ 536,847	\$ 1,500
Change in Fund Balance	\$ 1,299,679	\$ 100,767
Fund Balance - January 1	9,575,455	(274,562)
Increase (decrease) in inventories	-	3,146
Fund Balance - December 31	\$ 10,875,134	\$ (170,649)

EXHIBIT 5

<u>Social Service Special Revenue</u>	<u>Criminal Justice Center Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 1,381,419	\$ 1,658,250	\$ 259,913	\$ 11,569,252
12,400	-	138	236,823
2,390,606	24,012	561,919	15,974,484
158,107	-	376,524	1,271,120
-	-	-	18,410
2,695	-	2,174	16,570
-	5,667	-	149,200
98,153	-	4,242	512,498
\$ 4,043,380	\$ 1,687,929	\$ 1,204,910	\$ 29,748,357
\$ -	\$ -	\$ -	\$ 3,677,702
-	-	-	5,098,780
-	-	-	11,133,218
-	-	-	193,235
4,499,204	-	-	4,499,204
-	-	1,303,655	1,303,655
-	-	6,420	244,304
-	-	-	364,318
-	-	-	1,210,594
-	845,000	-	870,578
-	779,507	-	788,237
-	5,300	-	5,300
\$ 4,499,204	\$ 1,629,807	\$ 1,310,075	\$ 29,389,125
\$ (455,824)	\$ 58,122	\$ (105,165)	\$ 359,232
\$ -	\$ -	\$ 2,625	\$ 502,625
(500,000)	-	-	(502,625)
-	-	-	40,972
\$ (500,000)	\$ -	\$ 2,625	\$ 40,972
\$ (955,824)	\$ 58,122	\$ (102,540)	\$ 400,204
4,015,988	2,114,592	729,066	16,160,539
-	-	-	3,146
\$ 3,060,164	\$ 2,172,714	\$ 626,526	\$ 16,563,889

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 400,204

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

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

Deferred revenue - December 31	\$ 1,216,802	
Deferred revenue - January 1	<u>(2,124,111)</u>	(907,309)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 6,739,695	
Net book value of assets sold	(23,489)	
Current year depreciation	<u>(3,289,070)</u>	3,427,136

In the statement of net position, an asset is reported for the equity interest in joint ventures. The change in net position differs from the change in fund balance by the increases or decreases in the investment in joint venture. 163,305

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position.

Principal repayments		
General obligation bonds	\$ 545,000	
Certificates of participation	300,000	
Capital lease	<u>25,578</u>	870,578

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT 6
(Continued)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

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	\$	13,119	
Amortization of discounts and bond issuance costs		(15,707)	
Change in compensated absences		(18,645)	
Change in net OPEB obligation		(92,669)	
Change in inventories		3,146	(110,756)
Change in Net Position of Governmental Activities (Exhibit 2)			<u><u>\$ 3,843,158</u></u>

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FIDUCIARY FUNDS

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**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT 7

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

<u>Assets</u>	
Cash and pooled investments	\$ <u>689,477</u>
 <u>Liabilities</u>	
Accounts payable	\$ 22,893
Due to other governments	<u>666,584</u>
Total Liabilities	\$ <u>689,477</u>

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**WABASHA COUNTY
WABASHA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. 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

Wabasha County was established March 5, 1853, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Wabasha County (primary government) and its component units for which Wabasha 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. As of December 31, 2012, the County Coordinator, appointed by the Board, served as the clerk of the Board of Commissioners but had no vote.

Blended Component Unit

Blended component units are legally separate organizations so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Wabasha County has one blended component unit.

<u>Component Unit</u>	<u>Component Unit of Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Regional Railroad Authority (RRA) provides for the preservation or improvement of rail transportation within the County.	County Commissioners are the members of the RRA Board.	Separate financial statements are not prepared.

**WABASHA COUNTY
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component unit of Wabasha County is discretely presented:

<u>Component Unit</u>	<u>Component Unit of Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Reads Landing Water and Sanitary District formed under Minn. Stat. § 115.18-.37.	The Reads Landing Water and Sanitary District is a financial burden.	Separate financial statements are not prepared.

Joint Ventures

Wabasha County participates in joint ventures described in Note 6.B. Wabasha County also participates in jointly-governed organizations and a related organization described in Notes 6.C. and 6.D., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position 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 are supported by taxes and intergovernmental revenues.

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

**WABASHA COUNTY
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 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 restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. 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 a separate column in the fund financial statements. All remaining funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the County not accounted for and reported in another fund.

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Service Special Revenue Fund accounts for restricted revenue sources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

**WABASHA COUNTY
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Criminal Justice Center Debt Service Fund is used to account for all financial resources restricted for payment of principal, interest, and related costs of long-term bonded debt for the Criminal Justice Center.

Additionally, Wabasha County reports the following 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 agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Wabasha County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of 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 and then unrestricted resources as needed.

**WABASHA COUNTY
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Finance Director for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to Minn. Stat. § 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. Pooled investment earnings for 2012 were \$143,533.

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

All receivables, including those of the discretely presented component unit, 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 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.

3. Inventories

All inventories are valued at cost using the first in/first out method for highway supplies, except for fuel, which uses weighted average. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed.

**WABASHA COUNTY
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

Capital assets which include property, plant, equipment, infrastructure assets (roads, bridges, and similar items) and intangible assets (computer software, easements, land use rights, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital asset improvement costs are capitalized if the cost exceeds the capitalization thresholds, and either extends the useful life, increases the capacity, or improves the efficiency of an asset. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives will not be capitalized.

Capital assets are defined by the County as having an estimated useful life in excess of three years with initial, individual costs as follows: all land is capitalized regardless of cost, land improvements greater than \$5,000, furniture and equipment greater than \$5,000, building and building improvements greater than \$20,000, and infrastructure and intangible assets greater than \$100,000.

Property, plant, and equipment of Wabasha County, as well as its component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	15 - 50
Personal property	3 - 12
Infrastructure	10 - 50
Intangible assets	5 - 20

**WABASHA COUNTY
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. 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 statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds 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 an other financing source. 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.

**WABASHA COUNTY
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Classification of Net Position

Net position in the government-wide financial statements is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

9. Classifications of Fund Balances

Fund balance is divided into five classifications, based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions or enabling legislation.

**WABASHA COUNTY
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classifications of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board.

Unassigned - the residual classification for the General Fund, it includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned to those purposes.

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

10. Minimum Fund Balance

Wabasha County has adopted a minimum fund balance policy to address cash flow or working capital needs for the General Fund and other special revenue funds which are heavily reliant on property tax revenues to fund current operations. However, property tax revenues are not available for distribution until June. Therefore, the County Board has determined the need to maintain a minimum unassigned fund balance in the General Fund and an unrestricted fund balance in the remaining special revenue funds until the tax revenues are distributed. The

**WABASHA COUNTY
WABASHA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Minimum Fund Balance (Continued)

County Board has determined this amount to be approximately 35 to 50 percent of fund operating revenues or no less than five months of operating expenses. This amount will provide adequate funds until the next property tax revenues are received. In the event the unassigned fund balance in the General Fund falls below these levels, the County Board is to develop a plan and time frame to replenish the fund balance to the recommended level.

11. Stabilization Arrangement

Wabasha County has determined that a stabilization arrangement is needed for sound financial management and fiscal accountability. Stabilization funds are to be set aside for the purpose of providing funds for a non-routine, urgent event that affects the safety of the employees or the general public. The recognition of the urgent event must be established by the County Board at its next meeting following the event. The minimum level has been established at five percent of the General Fund year-end fund balance, not to exceed \$500,000. In the event the balance drops below this level, the County Board is to develop a plan and a time frame to replenish the fund. As of December 31, 2012, the County has not committed any funds for a stabilization arrangement.

12. 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.

**WABASHA COUNTY
WABASHA, MINNESOTA**

2. Stewardship, Compliance and Accountability

Excess of Expenditures Over Budget

The General Fund expenditures of \$10,816,821 exceeded the final budget of \$10,407,091 by \$409,730.

The Road and Bridge Special Revenue Fund expenditures of \$11,133,218 exceeded the final budget of \$10,644,489 by \$488,729.

The Social Service Special Revenue Fund expenditures of \$4,499,204 exceeded the final budget of \$4,261,151 by \$238,053.

The Regional Railroad Special Revenue Fund expenditures of \$6,420 exceeded the final budget of \$4,273 by \$2,147.

Deficit Fund Equity

The Road and Bridge Special Revenue Fund had a deficit fund balance of \$170,649 as of December 31, 2012. The deficit can be attributed to the overspending of regular construction funds. At December 31, 2012, Wabasha County had received an advance of \$990,000 on its 2013 regular construction allotment from the state.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Governmental activities	
Cash and pooled investments	\$ 18,411,946
Petty cash and change funds	3,225
Reads Landing Water and Sanitary District component unit	
Cash and pooled investments	14,361
Fiduciary funds	
Cash and pooled investments - agency funds	<u>689,477</u>
Total Cash and Investments	<u>\$ 19,119,009</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The County is required by Minn. Stat. § 118A.03 to protect deposits with insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit at the close of the financial institution's banking day, not covered by insurance or bonds.

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk.

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

The County may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and 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;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of the rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy states the Chief Financial Officer or appointed person shall, after careful study of potential additional costs to the County, attempt to structure all investments and deposits so that the custodial risk is in category #1 according to GASB Statement 3.

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that portfolio maturities shall be staggered to avoid undue concentration of assets in a specific sector. The maturities selected shall provide for stability of income and reasonable liquidity.

The following table presents the County's deposits and investment balances at December 31, 2012, and information relating to potential investment risk.

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
U.S. Government Agency Securities					
Federal Home Mortgage Loan Corporation	AA+	S & P	17.2%	02/22/2022	\$ 701,750
Federal National Mortgage Association	AA+	S & P	12.3%	10/26/2021	\$ 502,210
Federal Home Loan Bank	AA+	S & P		10/24/2022	\$ 494,558
Federal Home Loan Bank	AA+	S & P		11/28/2022	100,000
Federal Home Loan Bank	AA+	S & P		12/21/2022	1,250,000
Federal Home Loan Bank	AA+	S & P		12/28/2022	199,750
Federal Home Loan Bank	AA+	S & P		07/18/2022	249,608
Federal Home Loan Bank	AA+	S & P		10/04/2022	574,017
Total Federal Home Loan Bank			70.4%		\$ 2,867,933
Total U.S. government agency securities					\$ 4,071,893
Wells Fargo Advantage Government Money Market Fund	Aaa	Moody's	N/A	N/A	3,379
Total investments					\$ 4,075,272
Deposits					15,040,512
Petty cash and change funds					3,225
Total Cash and Investments					\$ 19,119,009

<5% - Concentration is less than 5% of investments

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

Accounts receivable	\$ 638,908
Less: allowance for uncollectible accounts	<u>(533,253)</u>
Net Accounts Receivable	<u>\$ 105,655</u>

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,473,023	\$ 236,789	\$ -	\$ 1,709,812
Land highway right-of-way	3,774,008	9,280	4,680	3,778,608
Construction in process	<u>830,479</u>	<u>4,527,892</u>	<u>830,479</u>	<u>4,527,892</u>
Total capital assets not depreciated	<u>\$ 6,077,510</u>	<u>\$ 4,773,961</u>	<u>\$ 835,159</u>	<u>\$ 10,016,312</u>
Capital assets depreciated				
Buildings	\$ 20,781,481	\$ -	\$ -	\$ 20,781,481
Improvements other than buildings	1,285,333	11,479	28,620	1,268,192
Machinery, furniture, and equipment	6,497,531	246,472	198,549	6,545,454
Software	277,500	-	-	277,500
Infrastructure - trails	525,178	-	-	525,178
Infrastructure - highways	<u>105,214,317</u>	<u>2,538,262</u>	<u>646,137</u>	<u>107,106,442</u>
Total capital assets depreciated	<u>\$ 134,581,340</u>	<u>\$ 2,796,213</u>	<u>\$ 873,306</u>	<u>\$ 136,504,247</u>
Less: accumulated depreciation for				
Buildings	\$ 1,672,183	\$ 421,312	\$ -	\$ 2,093,495
Improvements other than buildings	152,924	38,624	14,242	177,306
Machinery, furniture, and equipment	4,426,928	444,639	194,118	4,677,449
Software	78,625	55,500	-	134,125
Infrastructure - trails	288,848	26,259	-	315,107
Infrastructure - highways	<u>49,811,328</u>	<u>2,302,736</u>	<u>646,137</u>	<u>51,467,927</u>
Total accumulated depreciation	<u>\$ 56,430,836</u>	<u>\$ 3,289,070</u>	<u>\$ 854,497</u>	<u>\$ 58,865,409</u>
Total capital assets depreciated, net	<u>\$ 78,150,504</u>	<u>\$ (492,857)</u>	<u>\$ 18,809</u>	<u>\$ 77,638,838</u>
Governmental Activities Capital Assets, Net	<u>\$ 84,228,014</u>	<u>\$ 4,281,104</u>	<u>\$ 853,968</u>	<u>\$ 87,655,150</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	\$ 45,030
Public safety	673,644
Highways and streets, including depreciation of infrastructure assets	2,505,889
Human services	37,333
Health	915
Culture and recreation	<u>26,259</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 3,289,070</u></u>

B. Interfund Receivables, Payables, and Transfers

Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer to General Fund from Human Services Fund	\$ 500,000	Budgeted interfund transfer
Transfer to Regional Railroad Special Revenue Fund from General Fund	<u>2,625</u>	Minnesota high speed rail membership
Total Interfund Transfers	<u><u>\$ 502,625</u></u>	

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Capital Leases

The County has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. These capital leases consist of the following at December 31, 2012.

	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
IBM AS-400	2014	Monthly	\$ 409	\$ 24,540	\$ 6,949
Kitchen equipment	2016	Monthly	2,450	205,800	<u>107,800</u>
Total Capital Leases					<u>\$ 114,749</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2013	\$ 34,308
2014	31,441
2015	29,400
2016	<u>19,600</u>
Total	\$ 114,749
Less: amount representing interest	<u>(14,834)</u>
Present Value of Minimum Lease Payments	<u>\$ 99,915</u>

Both leases are paid from the General Fund.

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Bonded Debt

Type of Indebtedness	Final Maturity	Principal Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
2007A G.O. Jail Bonds	2028	\$200,000 - \$725,000	4.00 - 4.10	\$ 10,000,000	\$ 8,700,000
Less: unamortized discount				-	(1,365)
2008A G.O. Jail Bonds	2028	\$80,000 - \$190,000	3.00 - 4.10	2,255,000	1,815,000
Less: unamortized discount				-	(16,676)
2009A G.O. Jail Bonds	2028	\$60,000 - \$135,000	2.00 - 4.15	1,915,000	1,705,000
Less: unamortized discount				-	(1,924)
General Obligation Bonds, Net				<u>\$ 14,170,000</u>	<u>\$ 12,200,035</u>
2008B Certificates of Participation	2028	\$280,000 - \$545,000	4.00 - 4.75	<u>\$ 7,745,000</u>	\$ 6,515,000
Less: unamortized discount					(92,940)
Certificates of Participation, Net					<u>\$ 6,422,060</u>

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

Year Ending December 31	General Obligation Jail Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest
2013	\$ 565,000	\$ 468,338	\$ 305,000	\$ 278,773
2014	585,000	447,084	305,000	266,572
2015	605,000	424,867	325,000	253,973
2016	630,000	401,502	335,000	240,772
2017	655,000	377,020	350,000	227,073
2018 - 2022	3,685,000	1,480,256	1,965,000	900,662
2023 - 2027	4,485,000	677,824	2,385,000	418,897
2028	1,010,000	20,739	545,000	12,944
Total	<u>\$ 12,220,000</u>	<u>\$ 4,297,630</u>	<u>\$ 6,515,000</u>	<u>\$ 2,599,666</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation jail bonds	\$ 12,765,000	\$ -	\$ 545,000	\$ 12,220,000	\$ 565,000
Certificates of participation	6,815,000	-	300,000	6,515,000	305,000
Less: deferred amounts for issuance discounts	(119,961)	-	(7,056)	(112,905)	-
Total bonds payable	\$ 19,460,039	\$ -	\$ 837,944	\$ 18,622,095	\$ 870,000
Capital leases	125,493	-	25,578	99,915	27,501
Net OPEB obligation	382,865	92,669	-	475,534	-
Compensated absences	1,266,553	104,502	85,857	1,285,198	64,260
Governmental Activities Long-Term Liabilities	<u>\$ 21,234,950</u>	<u>\$ 197,171</u>	<u>\$ 949,379</u>	<u>\$ 20,482,742</u>	<u>\$ 961,761</u>

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Wabasha County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees Correctional Fund), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

**WABASHA COUNTY
WABASHA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member's average yearly salary for any five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**WABASHA COUNTY
WABASHA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. 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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**WABASHA COUNTY
WABASHA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2012:

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

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2012	2011	2010
General Employees Retirement Fund	\$ 454,791	\$ 467,031	\$ 443,753
Public Employees Police and Fire Fund	141,939	151,140	154,232
Public Employees Correctional Fund	68,402	65,066	65,497

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

B. Defined Contribution Plan

One elected employee, one appointed employee, and four Board members of Wabasha County are covered by the Public Employees Defined Contribution Plan, a multiple-employer, deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate

**WABASHA COUNTY
WABASHA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 9,010	\$ 9,010
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description and Funding Policy

The County provides health insurance benefits for certain retired employees under a single-employer self-insured health care plan, financed and administered by the Southeast Service Cooperative and Wabasha County. Blue Cross and Blue Shield of Minnesota (BCBSM), under contract with the Southeast Service Cooperative, is the Claims Administrator. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees, who retire from the County when eligible to receive a retirement benefit from PERA (or a similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, are eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Retirees are required to pay 100 percent of the total group rate. Since the premium is a blended rate determined on the entire active and retiree population, the retirees, whose costs are statistically higher than the group average, are receiving an implicit rate subsidy. As of January 1, 2012, six retirees were receiving health benefits from the County's health plan. The postemployment benefit is funded on a pay-as-you go basis.

**WABASHA COUNTY
WABASHA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligations

The County's annual 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 Statement 45. The ARC represents a level of funding, if paid on an ongoing basis, projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2012, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	\$	133,342
Interest on net OPEB obligation		17,229
Adjustment to ARC		<u>(23,555)</u>
Annual OPEB cost	\$	127,016
Contribution during the year		<u>(34,347)</u>
Increase in net OPEB obligation	\$	92,669
Net OPEB - Beginning of Year		<u>382,865</u>
Net OPEB - End of Year	\$	<u>475,534</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2010, 2011, and 2012, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 130,655	\$ 18,615	14.25%	\$ 284,530
December 31, 2011	128,793	30,458	23.65	382,865
December 31, 2012	127,016	34,347	27.04	475,534

**WABASHA COUNTY
WABASHA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

The County is planning to restrict cash and investments to offset the liability of the plan. However, since such restricted cash and investments have not been irrevocably deposited into a trust for future health benefits, the actuarial value of assets is \$0.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2007	\$ -	\$ 749,441	\$ 749,441	0.00%	\$ 6,372,223	11.76%
January 1, 2010	-	782,216	782,216	0.00	8,017,063	9.76

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

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010, actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 4.5 percent discount rate (net of investment expenses) and an annual medical trend rate of 8.5 percent in 2010, reduced incrementally to an ultimate rate of 5.0 percent over 7 years. The unfunded actuarial accrued liability is being amortized over 30 years on a closed basis.

**WABASHA COUNTY
WABASHA, MINNESOTA**

5. 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 Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, 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 three 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 \$460,000 in 2012 and \$470,000 in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits 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.

**WABASHA COUNTY
WABASHA, MINNESOTA**

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

B. Joint Ventures

Southeastern Minnesota Multi-County Housing and Redevelopment Authority

Wabasha County and other regional counties have formed the Southeastern Minnesota Multi-County Housing and Redevelopment Authority (HRA) for the purpose of providing housing and redevelopment services to Southeastern Minnesota counties. The governing body consists of a Board of Commissioners. Each member county appoints two Commissioners. The HRA adopts its own budget. Complete financial statements for the HRA can be obtained at 134 East Second Street, Wabasha, Minnesota 55981.

Family Services Collaborative

The Wabasha County Family Services Collaborative was established in 1999 under the authority of Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Wabasha County and numerous other human services-related agencies serving Wabasha County residents. The governing board consists of seven members, of whom four represent the legally required participants of a collaborative (a school district, the county, public health, and a community action agency). The purpose of the Collaborative is to provide a coordinated approach to support and nurture individuals and families through prevention and intervention so as to ensure success of every child.

Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of the termination shall be distributed by the Wabasha County Family Services Collaborative Board of Directors.

The main source of financing is provided by federal grants. Wabasha County, in an agent capacity, reports the cash transactions of the Wabasha County Family Services Collaborative as an agency fund in its financial statements.

**WABASHA COUNTY
WABASHA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement in 1998 under Minn. Stat. § 471.59. Member counties are: Brown, Dodge, Goodhue, Kanabec, Morrison, Sibley, Steele, Todd, Wabasha, Wadena, and Waseca. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the participating counties' health care functions, referred to as county-based purchasing.

The purpose of the 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, 2012, was \$883,289. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are included in the government-wide statement of activities as Human Services.

Complete financial statements for the SCHA may be obtained from Brian V. Hicks, Chief Financial Officer at 2300 Park Drive, Suite 100, Owatonna, Minnesota 55060.

**WABASHA COUNTY
WABASHA, MINNESOTA**

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

C. Jointly-Governed Organizations

Wabasha County, in conjunction with other governmental entities and various private organizations, formed the jointly-governed organizations listed below:

Minnesota Computer Cooperative

The Minnesota Computer Cooperative provides computer programming service to several counties. During 2012, the County paid \$101,041 for dues, membership, and services.

Southeast Services Cooperative

The Southeast Services Cooperative provides employee insurance programs to members. During 2012, the County paid \$150 for an annual membership fee to the Cooperative.

Southeast Minnesota Water Quality Board

The Southeast Minnesota Water Quality Board provides regional water quality services to member counties. During 2012, Wabasha County made no payments to the Board.

Region One--Southeast Minnesota Homeland Security Emergency Management Organization

The Region One--Southeast Minnesota Homeland Security Emergency Management Organization (SERHSEM) was established to regionally coordinate efforts to better respond to emergencies and natural or other disasters within the SERHSEM region. During 2012, Wabasha County made no payments to the SERHSEM.

Southeast Minnesota Regional Radio Board

The Southeast Minnesota Regional Radio Board provides for the regional administration of enhancements to the Statewide Public Safety Radio and Communications System (ARMER). During 2012, Wabasha County made no payments to the Board.

**WABASHA COUNTY
WABASHA, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Southeast Minnesota Narcotics and Gang Task Force

The Southeast Minnesota Narcotics and Gang Task Force provides specialized law enforcement services to several counties. During 2012, Wabasha County paid \$6,000 to the Task Force.

Southeastern Minnesota Library

The Southeastern Minnesota Library provides library services to several counties. During 2012, Wabasha County paid \$141,500 to the Library.

Whitewater Watershed Project

The Whitewater Watershed Project provides services to three counties and three soil and water conservation districts. During 2012, Wabasha County paid \$4,239 to the Project.

Three Rivers Community Action

Three Rivers Community Action provides various programs to several counties. During 2012, Wabasha County paid \$4,971 to Three Rivers.

Workforce Development, Inc.

Workforce Development, Inc., provides various job training services to several counties. During 2012, the County paid \$123,091 to this organization.

D. Related Organization

Wabasha County appoints Board members to the Bear Valley Watershed. The County has no other control over this Board. During 2012, the County paid \$4,532 to the Bear Valley Watershed.

**WABASHA COUNTY
WABASHA, MINNESOTA**

7. Reads Landing Water and Sanitary District - Component Unit

A. Summary of Significant Accounting Policies

Although the Reads Landing Water and Sanitary District has the option to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989, it has chosen not to do so.

Reporting Entity

The Reads Landing Water and Sanitary District is governed by a five-member Board of Directors who are appointed by existing board members. Because of the significance of its financial relationship, Wabasha County considers this entity a major component unit.

Basis of Presentation

The District is accounted for as an enterprise fund/business-type activity. The District does not prepare separate financial statements.

Basis of Accounting

The District is accounted for on the accrual basis of accounting.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

Cash and Pooled Investments

All cash of the District is on deposit with Wabasha County and included within its pooled cash and investments. The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, the District's equity in the County's investment pool is treated as a cash equivalent because it can deposit or effectively withdraw cash at any time without prior notice or penalty.

**WABASHA COUNTY
WABASHA, MINNESOTA**

7. Reads Landing Water and Sanitary District - Component Unit

A. Summary of Significant Accounting Policies (Continued)

Receivables

Receivables are shown net of any allowance for uncollectibles.

Restricted Assets

Certain funds of the District are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as needed.

Capital Assets

All purchased capital assets are valued at historical cost. All donated capital assets are valued at fair value at the date of donation. Depreciation of all exhaustible capital assets is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the assets' estimated useful lives using the straight-line method. The estimated useful life of the sewer lines is 40 years.

Deferred Revenue

Deferred revenue is made up of prepaid sewer usage fees.

**WABASHA COUNTY
WABASHA, MINNESOTA**

7. Reads Landing Water and Sanitary District - Component Unit (Continued)

B. Detailed Notes - Assets, Liabilities, and Net Position

Capital Assets

Component unit capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Infrastructure - sewer lines	\$ 1,366,978	\$ -	\$ -	\$ 1,366,978
Less: accumulated depreciation	(316,114)	(34,174)	-	(350,288)
Total Capital Assets, Net	<u>\$ 1,050,864</u>	<u>\$ (34,174)</u>	<u>\$ -</u>	<u>\$ 1,016,690</u>

Depreciation expense of \$34,174 was charged to sewer operations.

C. Liabilities

1. Long-Term Debt

Reads Landing Water and Sanitary District issued general obligation sewer revenue bonds in 2004.

Type of Indebtedness	Final Maturity	Principal Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds	2043	\$972 - \$5,166	4.375	\$ 101,000	<u>\$ 90,551</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

7. Reads Landing Water and Sanitary District - Component Unit

C. Liabilities (Continued)

2. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2013	\$ 1,430	\$ 3,962
2014	1,492	3,899
2015	1,557	3,834
2016	1,625	3,766
2017	1,697	3,694
2018 - 2022	9,664	17,292
2023 - 2027	11,971	14,985
2028 - 2032	14,828	12,127
2033 - 2037	18,367	8,587
2038 - 2042	22,754	4,202
2043	5,166	226
Total	<u>\$ 90,551</u>	<u>\$ 76,574</u>

3. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	<u>\$ 91,921</u>	<u>\$ -</u>	<u>\$ 1,370</u>	<u>\$ 90,551</u>	<u>\$ 1,430</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,914,435	\$ 6,914,435	\$ 7,023,932	\$ 109,497
Licenses and permits	211,548	211,548	224,285	12,737
Intergovernmental	1,656,474	1,656,474	3,081,762	1,425,288
Charges for services	816,868	816,868	718,181	(98,687)
Fines and forfeits	4,600	4,600	18,410	13,810
Gifts and contributions	530	530	11,701	11,171
Investment earnings	125,000	125,000	143,533	18,533
Miscellaneous	174,969	174,969	357,849	182,880
Total Revenues	\$ 9,904,424	\$ 9,904,424	\$ 11,579,653	\$ 1,675,229
Expenditures				
Current				
General government				
Commissioners	\$ 172,603	\$ 172,603	\$ 157,833	\$ 14,770
Courts	46,250	46,250	57,694	(11,444)
Other courts	9,990	9,990	6,176	3,814
County administrator	419,214	419,214	361,413	57,801
County auditor/treasurer	258,931	258,931	252,249	6,682
County assessor	424,313	424,313	356,059	68,254
Elections	98,707	98,707	66,405	32,302
Data processing	276,257	276,257	261,910	14,347
Attorney	452,773	452,773	461,760	(8,987)
Law library	10,005	10,005	4,656	5,349
Recorder	429,664	429,664	426,340	3,324
Surveyor	30,000	30,000	30,000	-
Planning and zoning	290,973	290,973	272,629	18,344
Geographic information systems (GIS)	84,432	84,432	82,827	1,605
Buildings and plant	463,710	463,710	429,337	34,373
Veterans service officer	222,226	222,226	218,042	4,184
Other general government	372,991	372,991	232,372	140,619
Total general government	\$ 4,063,039	\$ 4,063,039	\$ 3,677,702	\$ 385,337
Public safety				
Sheriff	\$ 2,651,596	\$ 2,651,596	\$ 2,643,173	\$ 8,423
Boat and water safety	20,469	20,469	23,430	(2,961)
Emergency services	67,015	67,015	63,463	3,552
Coroner	45,415	45,415	41,624	3,791
E-911 system	149,353	149,353	264,195	(114,842)
County jail	1,732,280	1,732,280	1,485,976	246,304
Community Corrections	577,388	577,388	576,919	469
Total public safety	\$ 5,243,516	\$ 5,243,516	\$ 5,098,780	\$ 144,736

The notes to the required supplementary information are an integral part of this schedule.

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**WABASHA COUNTY
WABASHA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Highways and streets				
Equipment maintenance and shops	\$ 175,000	\$ 175,000	\$ -	\$ 175,000
Sanitation				
Hazardous waste	\$ 14,800	\$ 14,800	\$ 17,953	\$ (3,153)
SCORE	57,725	57,725	60,565	(2,840)
Environmental services	141,404	141,404	114,717	26,687
Total sanitation	\$ 213,929	\$ 213,929	\$ 193,235	\$ 20,694
Culture and recreation				
Historical society	\$ 5,700	\$ 5,700	\$ 5,700	\$ -
Snowmobile	85,000	85,000	89,259	(4,259)
Senior citizens	1,425	1,425	1,425	-
County/regional library	141,500	141,500	141,500	-
Total culture and recreation	\$ 233,625	\$ 233,625	\$ 237,884	\$ (4,259)
Conservation of natural resources				
County extension	\$ 119,709	\$ 119,709	\$ 120,106	\$ (397)
Soil and water conservation	133,000	133,000	133,913	(913)
Agricultural inspections	450	450	312	138
Agricultural society/County fair	19,130	19,130	19,126	4
Water planning	19,928	19,928	40,022	(20,094)
Wetland challenge	12,118	12,118	24,236	(12,118)
Environmental services	-	-	8,886	(8,886)
Other	26,750	26,750	17,717	9,033
Total conservation of natural resources	\$ 331,085	\$ 331,085	\$ 364,318	\$ (33,233)
Economic development				
Housing development	\$ 110,288	\$ 110,288	\$ 1,208,293	\$ (1,098,005)
Tourism	2,301	2,301	2,301	-
Total economic development	\$ 112,589	\$ 112,589	\$ 1,210,594	\$ (1,098,005)

**WABASHA COUNTY
WABASHA, MINNESOTA**

*EXHIBIT A-1
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Debt service				
Principal	\$ 25,578	\$ 25,578	\$ 25,578	\$ -
Interest	8,730	8,730	8,730	-
Total debt service	\$ 34,308	\$ 34,308	\$ 34,308	\$ -
Total Expenditures	\$ 10,407,091	\$ 10,407,091	\$ 10,816,821	\$ (409,730)
Excess of Revenues Over (Under)				
Expenditures	\$ (502,667)	\$ (502,667)	\$ 762,832	\$ 1,265,499
Other Financing Sources (Uses)				
Transfers in	\$ 500,000	\$ 500,000	\$ 500,000	\$ -
Transfers out	-	-	(2,625)	(2,625)
Proceeds from sale of capital assets	2,667	2,667	39,472	36,805
Total Other Financing Sources (Uses)	\$ 502,667	\$ 502,667	\$ 536,847	\$ 34,180
Net Change in Fund Balance	\$ -	\$ -	\$ 1,299,679	\$ 1,299,679
Fund Balance - January 1	9,575,455	9,575,455	9,575,455	-
Fund Balance - December 31	\$ 9,575,455	\$ 9,575,455	\$ 10,875,134	\$ 1,299,679

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,266,342	\$ 1,266,342	\$ 1,245,738	\$ (20,604)
Intergovernmental	9,323,747	9,323,747	9,916,185	592,438
Charges for services	40,300	40,300	18,308	(21,992)
Miscellaneous	14,100	14,100	52,254	38,154
Total Revenues	\$ 10,644,489	\$ 10,644,489	\$ 11,232,485	\$ 587,996
Expenditures				
Current				
Highways and streets				
Administration	\$ 357,291	\$ 357,291	\$ 314,373	\$ 42,918
Engineering	439,262	439,262	465,792	(26,530)
Maintenance	1,531,760	1,531,760	1,675,282	(143,522)
Construction	7,639,000	7,639,000	7,985,824	(346,824)
Equipment maintenance and shop	677,176	677,176	691,947	(14,771)
Total Expenditures	\$ 10,644,489	\$ 10,644,489	\$ 11,133,218	\$ (488,729)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 99,267	\$ 99,267
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	1,500	1,500
Net Change in Fund Balance	\$ -	\$ -	\$ 100,767	\$ 100,767
Fund Balance - January 1	(274,562)	(274,562)	(274,562)	-
Increase (decrease) in inventories	-	-	3,146	3,146
Fund Balance - December 31	\$ (274,562)	\$ (274,562)	\$ (170,649)	\$ 103,913

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,403,819	\$ 1,403,819	\$ 1,381,419	\$ (22,400)
Licenses and permits	10,000	10,000	12,400	2,400
Intergovernmental	2,496,952	2,496,952	2,390,606	(106,346)
Charges for services	189,150	189,150	158,107	(31,043)
Gifts and contributions	1,000	1,000	2,695	1,695
Miscellaneous	160,230	160,230	98,153	(62,077)
Total Revenues	\$ 4,261,151	\$ 4,261,151	\$ 4,043,380	\$ (217,771)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,208,957	\$ 1,208,957	\$ 1,198,960	\$ 9,997
Social services	3,052,194	3,052,194	3,300,244	(248,050)
Total Expenditures	\$ 4,261,151	\$ 4,261,151	\$ 4,499,204	\$ (238,053)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (455,824)	\$ (455,824)
Other Financing Sources (Uses)				
Transfers out	(500,000)	(500,000)	(500,000)	-
Net Change in Fund Balance	\$ (500,000)	\$ (500,000)	\$ (955,824)	\$ (455,824)
Fund Balance - January 1	4,015,988	4,015,988	4,015,988	-
Fund Balance - December 31	\$ 3,515,988	\$ 3,515,988	\$ 3,060,164	\$ (455,824)

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2007	\$ -	\$ 749,441	\$ 749,441	0%	\$ 6,372,223	11.76%
January 1, 2010	-	782,216	782,216	0	8,017,063	9.76

**WABASHA COUNTY
WABASHA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

On or before mid-July of each year, all departments and agencies submit requests for appropriations to the County Finance Director so that a budget can be prepared. Before September 15, the proposed budget is presented to the County Board for review. The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

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

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

2. Excess of Expenditures Over Budget

The General Fund expenditures of \$10,816,821 exceeded the final budget of \$10,407,091 by \$409,730.

The Road and Bridge Special Revenue Fund expenditures of \$11,133,218 exceeded the final budget of \$10,644,489 by \$488,729.

The Social Service Special Revenue Fund expenditures of \$4,499,204 exceeded the final budget of \$4,261,151 by \$238,053.

**WABASHA COUNTY
WABASHA, MINNESOTA**

3. Other Postemployment Benefits Funded Status

Wabasha County has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero.

See Note 4.C. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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**WABASHA COUNTY
WABASHA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Regional Railroad Fund accounts for the operations of the Regional Railroad Authority, which is a component unit of the County.

The Public Health Fund accounts for the financial activities relating to nursing services and health education.

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**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT B-1

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

	Special Revenue Funds		
	Regional Railroad	Public Health	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 25,845	\$ 544,090	\$ 569,935
Taxes receivable			
Prior	-	6,279	6,279
Accounts receivable	-	31,135	31,135
Due from other governments	-	106,616	106,616
	\$ 25,845	\$ 688,120	\$ 713,965
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ -	\$ 957	\$ 957
Salaries payable	-	38,430	38,430
Due to other governments	-	4,324	4,324
Deferred revenue - unavailable	-	24,740	24,740
Deferred revenue - unearned	-	18,988	18,988
	\$ -	\$ 87,439	\$ 87,439
Fund Balances			
Restricted for			
Health	\$ -	\$ 21,197	\$ 21,197
Assigned to			
Public health	-	579,484	579,484
Regional railroad authority	25,845	-	25,845
	\$ 25,845	\$ 600,681	\$ 626,526
Total Fund Balances	\$ 25,845	\$ 600,681	\$ 626,526
Total Liabilities and Fund Balances	\$ 25,845	\$ 688,120	\$ 713,965

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT B-2

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

	Special Revenue Funds		Total (Exhibit 5)
	Regional Railroad	Public Health	
Revenues			
Taxes	\$ -	\$ 259,913	\$ 259,913
Licenses and permits	-	138	138
Intergovernmental	-	561,919	561,919
Charges for services	-	376,524	376,524
Gifts and contributions	-	2,174	2,174
Miscellaneous	3,469	773	4,242
	\$ 3,469	\$ 1,201,441	\$ 1,204,910
Expenditures			
Current			
Health	\$ -	\$ 1,303,655	\$ 1,303,655
Culture and recreation	6,420	-	6,420
	\$ 6,420	\$ 1,303,655	\$ 1,310,075
Excess of Revenues Over (Under)			
Expenditures	\$ (2,951)	\$ (102,214)	\$ (105,165)
Other Financing Sources (Uses)			
Transfers in	2,625	-	2,625
	\$ (326)	\$ (102,214)	\$ (102,540)
Net Change in Fund Balance			
Fund Balance - January 1	26,171	702,895	729,066
Fund Balance - December 31	\$ 25,845	\$ 600,681	\$ 626,526

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT B-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Gifts and contributions	\$ 373	\$ 373	\$ -	\$ (373)
Miscellaneous	1,400	1,400	3,469	2,069
Total Revenues	\$ 1,773	\$ 1,773	\$ 3,469	\$ 1,696
Expenditures				
Current				
Culture and recreation				
Trails	\$ 1,773	\$ 1,773	\$ 3,795	\$ (2,022)
Minnesota High Speed Rail Commission	2,500	2,500	2,625	(125)
Total Expenditures	\$ 4,273	\$ 4,273	\$ 6,420	\$ (2,147)
Excess of Revenues Over (Under) Expenditures	\$ (2,500)	\$ (2,500)	\$ (2,951)	\$ (451)
Other Financing Sources (Uses)				
Transfers in	2,500	2,500	2,625	125
Net Change in Fund Balance	\$ -	\$ -	\$ (326)	\$ (326)
Fund Balance - January 1	26,171	26,171	26,171	-
Fund Balance - December 31	\$ 26,171	\$ 26,171	\$ 25,845	\$ (326)

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT B-4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 264,158	\$ 264,158	\$ 259,913	\$ (4,245)
Licenses and permits	180	180	138	(42)
Intergovernmental	685,620	685,620	561,919	(123,701)
Charges for services	448,750	448,750	376,524	(72,226)
Gifts and contributions	1,500	1,500	2,174	674
Miscellaneous	35,000	35,000	773	(34,227)
Total Revenues	\$ 1,435,208	\$ 1,435,208	\$ 1,201,441	\$ (233,767)
Expenditures				
Current				
Health				
Nursing service	\$ 662,289	\$ 662,289	\$ 513,031	\$ 149,258
Family health	222,327	222,327	213,098	9,229
Disease prevention	50,839	50,839	43,697	7,142
Health education	50,189	50,189	54,199	(4,010)
Community health services	449,564	449,564	479,630	(30,066)
Total Expenditures	\$ 1,435,208	\$ 1,435,208	\$ 1,303,655	\$ 131,553
Net Change in Fund Balance	\$ -	\$ -	\$ (102,214)	\$ (102,214)
Fund Balance - January 1	702,895	702,895	702,895	-
Fund Balance - December 31	\$ 702,895	\$ 702,895	\$ 600,681	\$ (102,214)

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
CRIMINAL JUSTICE CENTER DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,686,253	\$ 1,686,253	\$ 1,658,250	\$ (28,003)
Intergovernmental	24,012	24,012	24,012	-
Investment earnings	-	-	5,667	5,667
Total Revenues	\$ 1,710,265	\$ 1,710,265	\$ 1,687,929	\$ (22,336)
Expenditures				
Debt service				
Principal	\$ 845,000	\$ 845,000	\$ 845,000	\$ -
Interest	779,508	779,508	779,507	1
Administrative (fiscal) charges	5,300	5,300	5,300	-
Total Expenditures	\$ 1,629,808	\$ 1,629,808	\$ 1,629,807	\$ 1
Net Change in Fund Balance	\$ 80,457	\$ 80,457	\$ 58,122	\$ (22,335)
Fund Balance - January 1	2,114,592	2,114,592	2,114,592	-
Fund Balance - December 31	\$ 2,195,049	\$ 2,195,049	\$ 2,172,714	\$ (22,335)

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FIDUCIARY FUNDS

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**WABASHA COUNTY
WABASHA, MINNESOTA**

AGENCY FUNDS

The Revolving Fund accounts for the transfer of funds through various local governments and the state.

The Family Service Collaborative Fund accounts for funds received and expended by the Family Services Collaborative.

The Pre-Tax Fund accounts for collections that will be paid to the Southeast Service Cooperative.

The Taxes and Penalties Fund accounts for all taxes and penalties collected and distribution of the taxes collected.

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**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>REVOLVING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>96,877</u>	\$ <u>763,999</u>	\$ <u>785,223</u>	\$ <u>75,653</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>96,877</u>	\$ <u>763,999</u>	\$ <u>785,223</u>	\$ <u>75,653</u>
 <u>FAMILY SERVICE COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>265,335</u>	\$ <u>68,567</u>	\$ <u>125,045</u>	\$ <u>208,857</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>265,335</u>	\$ <u>68,567</u>	\$ <u>125,045</u>	\$ <u>208,857</u>
 <u>PRE-TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>178,136</u>	\$ <u>2,147,318</u>	\$ <u>2,152,584</u>	\$ <u>172,870</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>178,136</u>	\$ <u>2,147,318</u>	\$ <u>2,152,584</u>	\$ <u>172,870</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 271,911	\$ 28,327,460	\$ 28,367,274	\$ 232,097
	\$ 271,911	\$ 28,327,460	\$ 28,367,274	\$ 232,097
<u>Liabilities</u>				
Accounts payable	\$ 12,564	\$ 78,460	\$ 68,131	\$ 22,893
Due to other funds	-	11,766,059	11,766,059	-
Due to other governments	259,347	16,482,941	16,533,084	209,204
	\$ 271,911	\$ 28,327,460	\$ 28,367,274	\$ 232,097
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 812,259	\$ 31,307,344	\$ 31,430,126	\$ 689,477
	\$ 812,259	\$ 31,307,344	\$ 31,430,126	\$ 689,477
<u>Liabilities</u>				
Accounts payable	\$ 12,564	\$ 78,460	\$ 68,131	\$ 22,893
Due to other funds	-	11,766,059	11,766,059	-
Due to other governments	799,695	19,462,825	19,595,936	666,584
	\$ 812,259	\$ 31,307,344	\$ 31,430,126	\$ 689,477

COMPONENT UNIT

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**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT D-1

**STATEMENT OF NET POSITION
READS LANDING WATER AND SANITARY DISTRICT COMPONENT UNIT
DECEMBER 31, 2012**

Assets

Current assets

Cash and pooled investments	\$ 14,361
Special assessments receivable	
Current	7,702
Accounts receivable - net	<u>7,665</u>

Total current assets \$ 29,728

Noncurrent assets

Capital assets	
Depreciable - net	<u>1,016,690</u>

Total Assets \$ 1,046,418

Liabilities

Current liabilities

Accounts payable	\$ 162
Due to other governments	4,244
Deferred revenue - unearned	63
Revenue bonds payable - current	<u>1,430</u>

Total current liabilities \$ 5,899

Noncurrent liabilities

Revenue bonds payable - long-term	<u>89,121</u>
-----------------------------------	---------------

Total Liabilities \$ 95,020

Net Position

Net investment in capital assets	\$ 926,139
Restricted for	
Equipment replacement	1,947
Debt service	12,414
Unrestricted	<u>10,898</u>

Total Net Position \$ 951,398

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT D-2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
READS LANDING WATER AND SANITARY DISTRICT COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2012**

Operating Revenues	
Charges for services	\$ 59,750
Special assessments	6,133
	<hr/>
Total Operating Revenues	\$ 65,883
Operating Expenses	
Professional services	\$ 120
Contracted services	46,842
Other services and charges	72
Telephone	456
Utilities	1,259
Insurance	1,755
Depreciation	34,174
	<hr/>
Total Operating Expenses	\$ 84,678
Operating Income (Loss)	\$ (18,795)
Nonoperating Revenues (Expenses)	
Interest income	\$ 14
Interest expense	(4,021)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ (4,007)
Change in Net Position	\$ (22,802)
Net Position - January 1	974,200
	<hr/>
Net Position - December 31	\$ 951,398
	<hr/> <hr/>

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT D-3

**STATEMENT OF CASH FLOWS
READS LANDING WATER AND SANITARY DISTRICT COMPONENT UNIT
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 65,311
Payments to suppliers	<u>(50,170)</u>
Net cash provided by (used in) operating activities	<u>\$ 15,141</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	\$ (1,370)
Interest paid on long-term debt	<u>(4,021)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (5,391)</u>
Cash Flows from Investing Activities	
Investment earnings received	<u>\$ 14</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 9,764
Cash and Cash Equivalents at January 1	<u>4,597</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 14,361</u></u>
Cash and Cash Equivalents - Exhibit D-1	
Cash and pooled investments	<u><u>\$ 14,361</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	<u>\$ (18,795)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 34,174
(Increase) decrease in special assessments receivable	646
(Increase) decrease in accounts receivable	(1,261)
Increase (decrease) in accounts payable	(10)
Increase (decrease) in due to other governments	344
Increase (decrease) in unearned revenue	<u>43</u>
Total adjustments	<u>\$ 33,936</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 15,141</u></u>

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SCHEDULES

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**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT E-1

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

Shared Revenue

State

Highway users tax	\$ 4,420,656
PERA rate reimbursement	22,637
Disparity reduction aid	16,930
Police aid	113,809
County program aid	842,276
Market value credit	162,815
Enhanced 911	96,241
	96,241

Total shared revenue **\$ 5,675,364**

Reimbursement for Services

Minnesota Department of Human Services **\$ 482,316**

Payments

Local

Payments in lieu of taxes **\$ 250,650**

Grants

State

Minnesota Department of Corrections	\$ 157,226
Public Safety	375,122
Health	83,221
Employment and Economic Security	13,713
Natural Resources	923,785
Human Services	1,061,957
Veterans Services	3,222
Transportation	2,143,395
Water and Soil Resources Board	72,478
Pollution Control Agency	55,950
Peace Officer Standards and Training Board	5,313
	5,313

Total state **\$ 4,895,382**

Federal

Department of Agriculture	\$ 193,387
Commerce	38,964
Justice	2,727
Transportation	3,222,646
Education	389
Election Assistance Commission	5,837
Health and Human Services	993,827
Homeland Security	186,859
Environmental Protection Agency	26,136
	26,136

Total federal **\$ 4,670,772**

Total state and federal grants **\$ 9,566,154**

Total Intergovernmental Revenue **\$ 15,974,484**

**WABASHA COUNTY
WABASHA, MINNESOTA**

EXHIBIT E-2

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-700-00099	\$ 106,961
Passed Through Minnesota Department of Human Services State Administrative Matching Grants State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	<u>86,426</u>
Total U.S. Department of Agriculture			<u>\$ 193,387</u>
U.S. Department of Commerce			
Passed Through Southeast Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	10846	\$ 31,919
Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program (Total Public Safety Interoperable Communications Grant Program 11.555 \$38,770)	11.555	00355	6,851
Total U.S. Department of Commerce			<u>\$ 38,770</u>
U.S. Department of Justice			
Direct Bulletproof Vest Partnership Program	16.607	N/A	<u>\$ 1,382</u>
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	98907	\$ 3,208,142
Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety	20.600	9200-2982	15,650
Alcohol Impaired Driving Countermeasures Incentive Grant I	20.601		<u>608</u>
Total U.S. Department of Transportation			<u>\$ 3,224,400</u>
U.S. Environmental Protection Agency			
Passed Through Southeastern Minnesota Water Resources Board Nonpoint Source Implementation Grants	66.460	A95930	<u>\$ 8,886</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

**EXHIBIT E-2
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures
U.S. Department of Education			
Passed Through Hiawatha Valley Education District Special Education-Preschool Grants	84.173	81110114221	<u>\$ 389</u>
U.S. Election Assistance Commission			
Passed Through Minnesota Secretary of State Help America Vote Act Requirements Payments	90.401	A46904	<u>\$ 5,837</u>
U.S. Department of Health and Human Services			
Passed Through National Association of County and City Health Officials Medical Reserve Corps Small Grant Program	93.008	MRC 12 1538	\$ 6,085
Passed Through Minnesota Department of Health			
Public Health Emergency Preparedness	93.069	31420	15,941
Universal Newborn Hearing Screening	93.251	20705	300
Immunization Cooperative Agreements	93.268	52925	1,050
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families	93.558	12-700-00099	22,865
(Total Temporary Assistance for Needy Families 93.558 \$148,272)			
Maternal and Child Health Services Block Grant to the States	93.994	12-700-00099	23,710
Passed Through Minnesota Department of Human Services			
Promoting Safe and Stable Families	93.556	N/A	3,666
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families	93.558	N/A	125,407
(Total Temporary Assistance for Needy Families 93.558 \$148,272)			
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	N/A	7,797
Child Support Enforcement	93.563	N/A	238,212
Refugee and Entrant Assistance - State-Administered Program	93.566	N/A	213
Child Care and Development Block Grant	93.575	N/A	6,808
Stephanie Tubbs Jones Child Welfare Services Program	93.645	N/A	3,207
Foster Care - Title IV-E	93.658	N/A	78,599
Social Services Block Grant	93.667	N/A	124,131
Chafee Foster Care Independence Program	93.674	N/A	3,770
Children's Health Insurance Program	93.767	N/A	27
Medical Assistance Program	93.778	N/A	<u>345,680</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,007,468</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

**EXHIBIT E-2
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Expenditures
U.S. Department of Homeland Security			
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	43848	\$ 11,394
Passed Through Minnesota Department of Public Safety Hazard Mitigation Grant	97.039	46206	123,765
Emergency Management Performance Grants	97.042	N/A	19,349
Passed Through Southeast Minnesota Regional Radio Board Homeland Security Grant Program	97.067	12438	<u>33,186</u>
Total U.S. Department of Homeland Security			\$ 187,694
Total Federal Awards			<u>\$ 4,668,213</u>

**WABASHA COUNTY
WABASHA, MINNESOTA**

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Wabasha County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Wabasha County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Wabasha County, it is not intended to and does not present the financial position, change in net assets, or cash flows of Wabasha County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Highway Safety Cluster	\$	16,258
Temporary Assistance for Needy Families Cluster		156,069

**WABASHA COUNTY
WABASHA, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit E-1)	\$	4,670,772
Deferred in 2011, recognized as revenue in 2012		
Public Safety Interoperable Communications Grant Program		(194)
Bulletproof Vest Partnership Program		(1,345)
State and Community Highway Safety		(2,238)
Nonpoint Source Implementation Grants		(17,250)
Emergency Management Performance Grants		(19,248)
Grants received more than 60 days after year-end, deferred in 2012		
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program		2,562
Child Care and Development Grant		682
Foster Care - Title IV-E		8,462
Medical Assistance Program		1,935
State and Community Highway Safety		3,384
Emergency Management Performance Grants		19,349
Alcohol Impaired Driving Countermeasures Incentive Grant I		608
Homeland Security Grant Program		734
		734
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit E-2)	\$	4,668,213

6. Subrecipients

During 2012, Wabasha County passed \$123,765 (CFDA #97.039) to the Southeastern Minnesota Multi-County Housing and Redevelopment Authority, a subrecipient of Wabasha County.

7. American Recovery and Reinvestment Act

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

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**WABASHA COUNTY
WABASHA, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major programs are:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families State Program	CFDA #93.714

The threshold for distinguishing between Types A and B programs was \$300,000.

Wabasha County qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

12-1 General Ledger System Security Controls

Criteria: Internal controls should provide adequate segregation of functions and responsibilities so no one person has incompatible duties that would permit the perpetration and concealment of material irregularities.

Condition: During our review of general ledger security access, we noted individuals assigned to the County user maintenance function are also involved in the County general ledger accounting functions.

Context: The personnel assigned to the County general ledger user maintenance security function are incompatible with personnel assigned to the general ledger accounting function because it provides that individual unlimited access to make changes to the accounting records.

Effect: Personnel assigned to the County user maintenance function should be segregated from personnel assigned general ledger accounting functions to ensure the integrity of the data stored in the County's information system.

Cause: The County was not aware of the capabilities of the user maintenance security function.

Recommendation: We recommend personnel assigned to the County user maintenance function be segregated from personnel assigned to the general ledger accounting functions.

Client's Response:

Wabasha County recognizes the need to have strong internal controls over the security functions of the internal accounting system (IFSpi) used by the County in order to prevent potential losses to the County and strives to have compensating controls when segregation of duties is not always possible. The Finance Director and the Auditor-Treasurer will work with the IT department to put in place additional procedures to minimize the risks. In addition, the County will work with the software vendor for a possible enhancement that will provide a report of any changes made to the user maintenance function. The State Auditors will be updated once new procedures have been implemented.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS RESOLVED

Reporting - Review Process, Temporary Assistance for Needy Families (CFDA No. 93.558) (11-1)

During our testing of controls over reporting for the County's Public Health Department, we did not find a documented review process of reports submitted to the Minnesota Department of Health by a supervisory-level individual independent of the individual who prepares the reports.

Resolution

Review of the controls over reporting for the County's Public Health Department disclosed a review process of reports by a supervisory-level individual who is independent of the individual who prepares the reports.

Reporting - Review Process, Temporary Assistance for Needy Families (CFDA No. 93.558) (11-2)

During our testing of the reports submitted by the County to the Minnesota Department of Health, we noted that the County was submitting for reimbursement program costs based on an hourly charge and not based on direct costs of County employees working on the program.

Resolution

Review of reports submitted by the County to the Minnesota Department of Health disclosed the County is submitting for reimbursement program costs based on direct costs of County employees working on the program.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-4 Safe Driving Class

Criteria: As stated in Minn. Stat. § 169.022, in part, "... Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalty provided for in this chapter for the same offense."

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999. The statute specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation prescribed by the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state's General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the new statute.

Condition: Wabasha County has established a Safe Driving Class option in lieu of issuance or court filing of a state uniform traffic ticket. The County hands out a Safe Driving Class brochure with “simpler” traffic tickets. Motorists who are given brochures are given the option of paying \$125 and attending a two-hour Safe Driving Class in lieu of having their citations prosecuted. The County's website asserts that if a person chooses the class, the citation “will not go on your record, or affect your insurance.” The website notes that most of the \$127 paid for a speeding citation goes to the state, but that the \$125 paid for the class “will stay in the county” to be used for traffic enforcement. In a December 2004 letter to the County Sheriff, the Office of the State Auditor's General Counsel explained the position of the Office of the State Auditor that this class program was unauthorized as a diversion program or otherwise and was an effort to issue County penalties for traffic offenses regulated by state law.

Context: The Office of the State Auditor's letter to the Sheriff agreed with a December 1, 2003, letter from the Attorney General's Office to Representative Steve Smith. In this letter, the Attorney General's Office found that the state had preempted the field with respect to the offenses and procedures defined in Minn. Stat. chs. 169 and 609 through 634 so that local governments [in that case cities] may not “redefine the nature or level of criminal offences as specified by statute or modify statutory procedures for enforcement or penalties for an offense.” The Attorney General's Office found “[i]n the specific case of traffic offenses, the legislature has plainly preempted the field of enforcement.” It quoted Minn. Stat. § 169.022, which states:

“The provisions of this chapter shall be applicable and uniform throughout this state and in all political subdivisions and municipalities therein, and no local authority shall enact or enforce any rule or regulation in conflict with the provisions of this chapter unless expressly authorized herein. Local authorities may adopt traffic regulations which are not in conflict with the provisions of this chapter; provided, that when any local ordinance regulating traffic covers the same subject for which a penalty is provided for in this chapter, then the penalty provided for violation of said local ordinance shall be identical with the penalty provided for in this chapter for the same offense.”

The Attorney General also noted that Minn. Stat. §§ 169.91 and 169.99 “specify the procedures to be followed by peace officers in connection with arrest of traffic violators, and the uniform form of traffic ticket, having the effect of a summons and complaint, which must be used by all peace officers.” Local governments are precluded from creating their own enforcement systems inconsistent with those proscribed in statute.

Although Minn. Stat. § 169.89, subd. 5, authorized a trial court to order a convicted person to attend a driver improvement clinic, the Attorney General’s Office found no authority for local officials to create their own pretrial diversion programs. This lack of authority is not remedied by a “To Whom it May Concern” memo in which Judge Terrence Walters indicates he told the Sheriff he considered the Driver Safety Class to be a form of diversion.

The Minnesota Supreme Court has stated, “[a]s a creature of the state deriving its sovereignty from the state, the county should play a leadership role in carrying out legislative policy.” *Kasch v. Clearwater County*, 289 N.W. 2d 148, 152 (Minn. 1980), *quoting County of Freeborn v. Bryson*, 243 N.W. 2d 316, 321 (Minn. 1976).

Effect: The County’s Safe Driving Class is unauthorized and in violation of Minn. Stat. § 169.022.

Cause: The County asserts that the County can offer the Safe Driving Class option in lieu of issuance or court filing of a state uniform traffic ticket as a safe driving diversionary program.

Recommendation: We recommend the County comply with Minn. Stat. ch. 169, including Minn. Stat. § 169.999, or any subsequent legislation by not offering a safety class in lieu of issuance or court filing of a state uniform traffic ticket.

Client's Response:

It is the County Attorney's opinion that the State Auditor's Office misconstrues the facts and policies of the Wabasha County Safe Driving Class.

Since 2003, the Wabasha County Sheriff's Office, in conjunction with the Wabasha County Attorney's Office, the Lake City Attorney's Office, the Wabasha City Attorney's Office and with the approval of Wabasha County District Court Judge Terrence Walters, has operated a driver education program. The purpose was to create a pre-trial diversion program that would target low level minor driving behavior offenders, freeing valuable court time for serious offenses and offenders.

The Wabasha County program is not based on an administrative ticket, rather the authority is rooted in prosecutorial discretion and the County Attorney's decision to prefer driver education over in-court prosecution. The County Attorney's Office needs no permission from the State Auditor to divert a case. That is, whether or not to file charges is entirely within the County Attorney's discretion.

Wabasha County's Safe Driving Program has proven to be popular with participants and operates without the use of state or local funds. The goals of the program have been met with the added benefit of educating local drivers. Since the time that the Wabasha County Sheriff's and Attorney's Office has operated the joint program, many counties and cities have started to utilize similar programs.

As mentioned, the Wabasha County Sheriff's Office, the Wabasha County Attorney's Office, the Wabasha City Attorney's Office, the Lake City Attorney's Office and the Judge of the District Court in Wabasha County have reviewed the diversion program and the parameters under which it is held. Our conclusions differ from those reached in the State Auditor's report, and we respectfully disagree with the report's findings and recommendations.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-10 Disaster Recovery Plan

Criteria: The County needs to provide for the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements. A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan as to how the County will continue operations until normal operations are re-established;
- a list of materials the County needs to continue operations and how they will be obtained;
- identification of the space to be used; and
- a schedule for developing and periodically reviewing and updating the plan.

Condition: While reviewing the Information Technology Department, we noted Wabasha County has a data processing disaster recovery agreement with Goodhue County but has no disaster recovery plan to ensure continued operation if a disaster or major computer breakdown were to occur.

Context: A disaster recovery plan would give greater assurance that the County is prepared for a disaster or major computer breakdown.

Effect: In the event of a disaster, the County could experience a delay in reporting of financial services to the public.

Cause: The County is aware of the issue but has not had time to address establishment of a plan.

Recommendation: We recommend the County develop, implement, and test the disaster recovery plan. All County employees should be familiar with the plan.

Client's Response:

Management of Wabasha County understands and recognizes the need and importance in having a documented and tested disaster recovery plan. A committee has been formed to accomplish this.

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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*

Independent Auditor's Report

Board of County Commissioners
Wabasha County

We have audited, 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, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Wabasha County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 13, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 12-1, that we consider to be a significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Wabasha County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 08-4. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe the recommendation and information to be of benefit to the County, and it is reported for that purpose.

Wabasha County's responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The County's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 13, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Wabasha County

Report on Compliance for Each Major Federal Program

We have audited Wabasha County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. Wabasha County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Wabasha County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Wabasha County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 13, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
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