

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

STEARNS COUNTY
ST. CLOUD, 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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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Year Ended December 31, 2012



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

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**ORGANIZATION SCHEDULE
2012**

| Office | Name | Term of Office | |
|--|----------------------|----------------|---------------|
| | | From | To |
| Commissioners | | | |
| 1st District | DeWayne Mareck* | January 2009 | January 2013 |
| 2nd District | Mark Bromenschenkel | January 2011 | January 2013 |
| 3rd District | Jeff Mergen | January 2011 | January 2013 |
| 4th District | Leigh Lenzmeier | January 2009 | January 2013 |
| 5th District | Don Otte | January 2011 | January 2013 |
| Officers | | | |
| Elected | | | |
| Attorney | Janelle Kendall | January 2011 | January 2015 |
| Auditor-Treasurer | Randy Schreifels | January 2011 | January 2015 |
| County Recorder/Registrar of Titles | Diane Grundhoefer | January 2011 | January 2015 |
| Sheriff | John Sanner | January 2011 | January 2015 |
| Appointed | | | |
| Administrator | George Rindelaub | | Indefinite |
| Agriculture Inspector | John Waldorf** | | Indefinite |
| Assessor | Gary Grossinger | January 2009 | December 2012 |
| Building Facilities | Ralph Braegelmann*** | | Indefinite |
| Emergency Management | Marv Klug | | Indefinite |
| Environmental Service | Don Adams | | Indefinite |
| Extension (State Regional) | Sarah Chur | | Indefinite |
| Highway Engineer | Jodi Teich | April 2012 | May 2013 |
| Human Resources | Jennifer Thorsten | | Indefinite |
| Human Services Administrator | Mark Sizer | | Indefinite |
| Information Services | George McClure | | Indefinite |
| Parks | Charles Wocken | | Indefinite |
| Purchasing | Bill Davison | | Indefinite |
| Veterans Service Officer | Terry Ferdinandt | March 2012 | March 2016 |

*Chair

**Retired in June 2012; a replacement had not been formally appointed at December 31, 2012.

***Retired in April 2012; a replacement had not been formally appointed at December 31, 2012.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Stearns County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County, Minnesota, as of and for the year ended December 31, 2012, including the Housing and Redevelopment Authority (HRA) of Stearns County as of and for the year ended June 30, 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 did not audit the financial statements of the HRA of Stearns County, the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA of Stearns County, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United State 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County as of December 31, 2012, including the HRA of Stearns County as of June 30, 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 Stearns County's basic financial statements. The supplementary information and other information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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.

The other information section as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, on our consideration of Stearns County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Stearns County's internal control over financial reporting and compliance. It does not include the HRA of Stearns County, which was audited by other auditors.

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

September 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

This section of Stearns County's annual financial report presents an overview and analysis of the County's financial performance during the fiscal year that ended on December 31, 2012.

FINANCIAL HIGHLIGHTS

- The assets of Stearns County exceeded its liabilities by \$328,317,935 (net position). Of this amount, \$49,580,186 represents unrestricted net position that may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position increased by \$13,822,188, or about 4.4 percent, over the prior year.
- As of the close of the fiscal year, Stearns County's governmental funds reported combined ending fund balances of \$76,002,451. Of this amount, \$63,321,370, or approximately 83.3 percent, is available for spending at the County's discretion.
- At the end of the year, the total fund balance for the General Fund increased by \$2,299,488 to \$29,933,288. The General Fund's unassigned fund balance increased to \$28,496,767. This is approximately 58.4 percent of total General Fund expenditures during the year. The assigned fund balance at year-end was \$5,557.
- Stearns County's total bonded debt decreased by \$3,985,000 (15.6 percent) during the current fiscal year. In 2012, the County did not issue any bonds and paid \$3,985,000 of bond principal.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts--Independent Auditor's Report; required supplementary information, which includes the Management's Discussion and Analysis (MD&A) (this section); the basic financial statements; and supplementary information. The basic financial statements include two kinds of statements that present different views of the County.

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

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

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

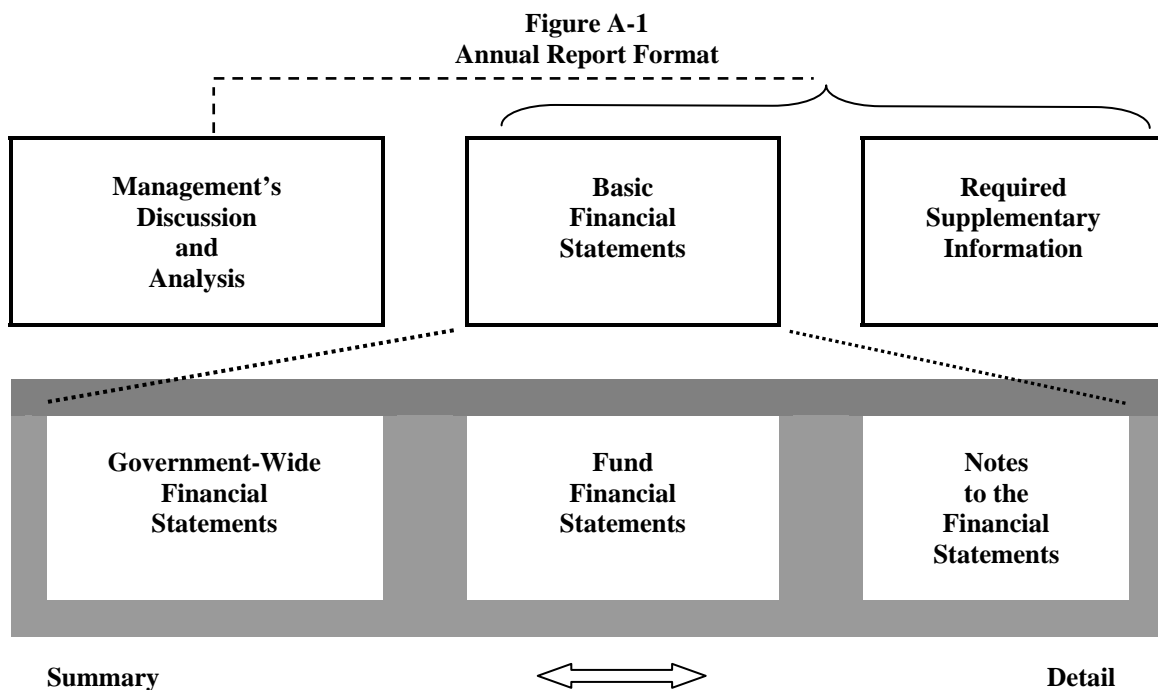


Figure A-2 summarizes the major features of the County’s financial statements, including the portion of the County’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and content of each of the statements.

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

County-Wide Statements

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

The two county-wide statements report the County's net position and how it has changed. Net position--the difference between the County's assets and liabilities--is one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County, additional nonfinancial factors such as changes in the County's property tax base and the condition of County buildings and other facilities need to be considered.

In the county-wide financial statements, the County's activities are shown in two categories:

- Governmental activities - The County's basic services are included here. Property taxes and state aids finance most of these activities.
- Business-type activities - Those activities supported to a large extent by user fees and charges.

Fund Financial Statements

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

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

The County has three kinds of funds:

- Governmental funds - The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the county-wide statements, both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to explain the relationship (or differences) between them.

- Proprietary funds - The County maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Stearns County uses an enterprise fund to account for its Septic Loan Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among Stearns County's various functions. Stearns County uses internal service funds to account for its information services improvements and self-insurance. These services benefit governmental functions and have been allocated to governmental activities in the government-wide financial statements.
- Fiduciary funds - The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the county-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

The County's net position was \$328,317,935 on December 31, 2012. (See Table A-1.)

Table A-1
Net Position

| | <u>2012</u> | <u>2011</u> | <u>Percent (%) Change</u> |
|----------------------------------|-----------------------|-----------------------|-----------------------------------|
| Assets | | | |
| Current and other assets | \$ 90,970,401 | \$ 88,003,773 | 3.4 |
| Capital assets | <u>279,673,905</u> | <u>269,800,148</u> | 3.7 |
| Total Assets | <u>\$ 370,644,306</u> | <u>\$ 357,803,921</u> | 3.6 |
| Liabilities | | | |
| Current liabilities | \$ 9,530,294 | \$ 17,343,567 | (45.0) |
| Long-term liabilities | <u>32,796,077</u> | <u>25,964,607</u> | 26.3 |
| Total Liabilities | <u>\$ 42,326,371</u> | <u>\$ 43,308,174</u> | (2.3) |
| Net Position | | | |
| Net investment in capital assets | \$ 268,672,625 | \$ 263,255,983 | 2.1 |
| Restricted | 10,065,124 | 8,799,852 | 14.4 |
| Unrestricted | <u>49,580,186</u> | <u>42,439,912</u> | 16.8 |
| Total Net Position | <u>\$ 328,317,935</u> | <u>\$ 314,495,747</u> | 4.4 |

Changes in Net Position

The county-wide total revenues were \$131,336,614 for the year ended December 31, 2012. Property taxes and intergovernmental revenues accounted for 88.7 percent of total revenue for the year. (See Figure A-2.)

Table A-2
Changes in Net Position

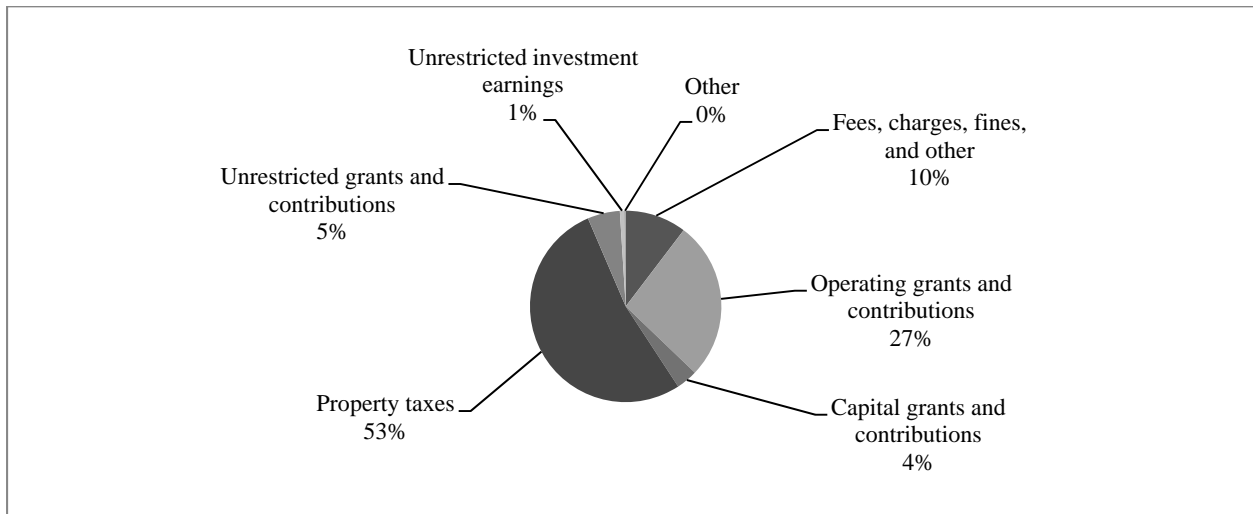
| | <u>2012</u> | <u>2011</u> | <u>Percent (%) Change</u> |
|---------------------------------------|-----------------------|-----------------------|-----------------------------------|
| Revenues | | | |
| Program revenues | | | |
| Fees, charges, fines, and other | \$ 13,578,991 | \$ 10,930,168 | 24.2 |
| Operating grants and contributions | 35,216,750 | 34,367,278 | 2.5 |
| Capital grants and contributions | 4,752,030 | 15,750,122 | (69.8) |
| General revenues | | | |
| Property taxes | 69,337,849 | 66,902,915 | 3.6 |
| Unrestricted grants and contributions | 7,173,052 | 9,725,388 | (26.2) |
| Unrestricted investment earnings | 977,427 | 1,652,439 | (40.8) |
| Other | 300,515 | 286,800 | 4.8 |
| Total Revenues | <u>\$ 131,336,614</u> | <u>\$ 139,615,110</u> | (5.9) |
| Expenses | | | |
| General government | \$ 23,015,220 | \$ 20,316,720 | 13.3 |
| Public safety | 28,887,784 | 28,278,203 | 2.2 |
| Highways and streets | 17,992,979 | 12,444,486 | 44.6 |
| Sanitation | 577,646 | 494,967 | 16.7 |
| Human services | 33,310,072 | 32,877,287 | 1.3 |
| Health | 2,858,249 | 3,101,608 | (7.8) |
| Culture and recreation | 4,030,534 | 4,214,792 | (4.4) |
| Conservation of natural resources | 5,511,146 | 4,527,515 | 21.7 |
| Economic development | 585,712 | 1,029,798 | (43.1) |
| Interest | 745,084 | 834,165 | (10.7) |
| Total Expenses | <u>\$ 117,514,426</u> | <u>\$ 108,119,541</u> | 8.7 |
| Increase in Net Position | <u>\$ 13,822,188</u> | <u>\$ 31,495,569</u> | (56.1) |
| Beginning Net Position | <u>314,495,747</u> | <u>283,000,178</u> | 11.1 |
| Ending Net Position | <u>\$ 328,317,935</u> | <u>\$ 314,495,747</u> | 4.4 |

Total revenues surpassed expenses, increasing net position by \$13,822,188 over last year.

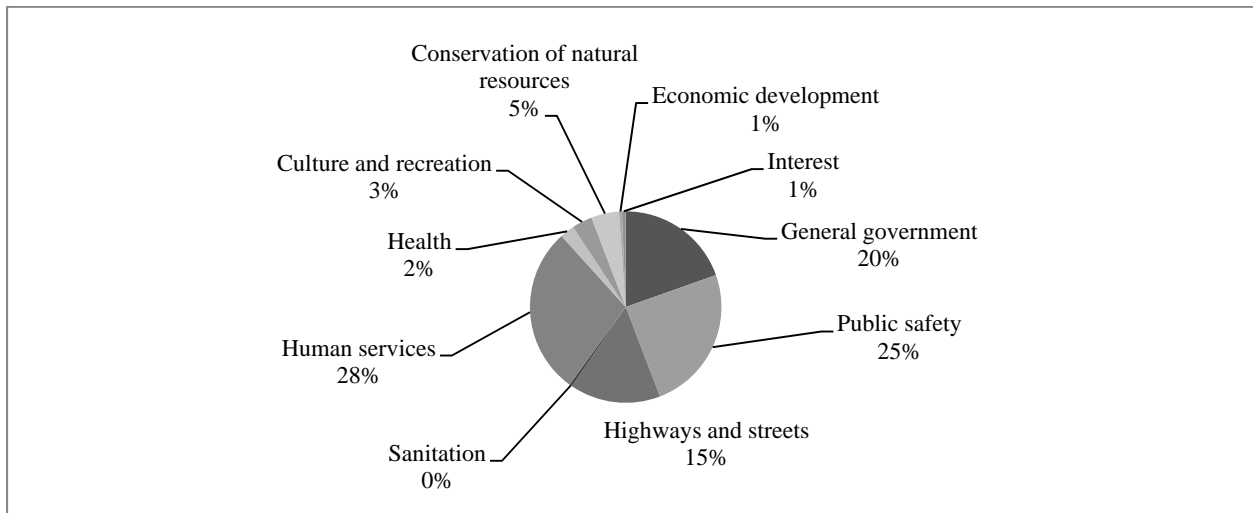
The county-wide cost of all governmental activities this year was \$117,514,426.

- Some of the cost was paid by the users of the County’s programs (\$13,578,991).
- The federal and state governments subsidized certain programs with grants and contributions (\$39,968,780).
- The remaining County costs (\$63,966,655), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$69,337,849 in property taxes, \$7,173,052 in state aid, and \$1,277,942 with investment earnings and other general revenues.

**Figure A-3
Sources of County Revenues for 2012**



**Figure A-4
County Expenses for 2012**



(Unaudited)

**Table A-3
Cost of Services
Governmental Activities**

| | Total Cost of Services | | | Net Cost of Services | | |
|--------------------------------------|------------------------|-----------------------|--------------------------|----------------------|----------------------|--------------------------|
| | 2012 | 2011 | Percent (%) Change | 2012 | 2011 | Percent (%) Change |
| General government | \$ 23,015,220 | \$ 20,316,720 | 13.3 | \$ 15,283,791 | \$ 14,533,636 | 5.2 |
| Public safety | 28,887,784 | 28,278,203 | 2.2 | 22,379,437 | 23,657,642 | (5.4) |
| Highways and streets | 17,992,979 | 12,444,486 | 44.6 | 1,675,543 | (14,157,298) | (111.8) |
| Sanitation | 577,206 | 494,297 | 16.8 | (1,254,462) | (908,753) | 38.0 |
| Human services | 33,310,072 | 32,877,287 | 1.3 | 17,073,288 | 15,676,908 | 8.9 |
| Health | 2,858,249 | 3,101,608 | (7.8) | 849,131 | 540,471 | 57.1 |
| Culture and recreation | 4,030,534 | 4,214,792 | (4.4) | 3,593,819 | 3,569,622 | 0.7 |
| Conservation of natural resources | 5,511,146 | 4,527,515 | 21.7 | 3,627,855 | 2,996,156 | 21.1 |
| Economic development | 585,712 | 1,029,798 | (43.1) | (5,628) | 331,231 | (101.7) |
| Interest | 745,084 | 834,165 | (10.7) | 745,084 | 834,165 | (10.7) |
| Total | \$ 117,513,986 | \$ 108,118,871 | 8.7 | \$ 63,967,858 | \$ 47,073,780 | 35.9 |

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$76,002,451. Of this amount, \$63,321,370, or approximately 83 percent, is available for spending at the County's discretion.

Revenues for the County's governmental funds were \$131,474,714, while total expenditures were \$132,310,000.

General Fund

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

The following schedule presents a summary of General Fund revenues:

**Table A-4
General Fund Revenues**

| Source | Year Ended December 31 | | Change | |
|------------------------------------|------------------------|----------------------|-------------------------|--------------------------|
| | 2012 | 2011 | Increase/ (Decrease) | Percent (%) Change |
| | Taxes | \$ 33,572,585 | \$ 32,762,067 | \$ 810,518 |
| Intergovernmental | 9,771,968 | 9,027,204 | 744,764 | 8.3 |
| Charges for services | 4,569,103 | 3,922,354 | 646,749 | 16.5 |
| Investment income | 980,884 | 1,583,840 | (602,956) | (38.1) |
| Miscellaneous and other | 3,689,742 | 3,139,543 | 550,199 | 17.5 |
| Total General Fund Revenues | \$ 52,584,282 | \$ 50,435,008 | \$ 2,149,274 | 4.3 |

Total General Fund revenues increased by \$2,149,274, or 4.3 percent, from the previous year.

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

| Function | Year Ended December 31 | | Change | |
|-----------------------------------|------------------------|----------------------|-------------------------|--------------------------|
| | 2012 | 2011 | Increase/ (Decrease) | Percent (%) Change |
| | General government | \$ 20,051,083 | \$ 18,656,537 | \$ 1,394,546 |
| Public safety | 20,892,736 | 19,871,893 | 1,020,843 | 5.1 |
| Culture and recreation | 2,659,432 | 2,743,898 | (84,466) | (3.1) |
| Conservation of natural resources | 4,779,751 | 4,683,766 | 95,985 | 2.0 |
| Economic development | 65,362 | 65,273 | 89 | 0.1 |
| Community development | 316,023 | 639,214 | (323,191) | (50.6) |
| Total General Fund | \$ 48,764,387 | \$ 46,660,581 | \$ 2,103,806 | 4.5 |

General Fund Budgetary Highlights

Over the course of the year, the County revised the annual operating budget, increasing budgeted expenditures by \$1,333,159.

- Actual revenues were \$2,159,416 more than expected.
- The actual expenditures were \$1,060,646 less than final budget.

CONSTRUCTION PROJECTS AND DEBT SERVICE

The Capital Projects Fund is currently being used to track the capital notes and capital improvement bonds approved by the Board over the past years. The majority of the expenditures is for the construction of various capital improvements throughout the County. An annual levy is made to fund the bond payments for all previous bond issues.

CAPITAL ASSETS

By the end of 2012, the County had invested over \$279 million in a broad range of capital assets, including buildings, computers, equipment, and infrastructure. (See Table A-6.) More detailed information about capital assets can be found in Note 3.A.3. to the financial statements. Total depreciation expense for the year was \$7,796,995.

**Table A-6
Capital Assets**

| | <u>2012</u> | <u>2011</u> | Percent (%) <u>Change</u> |
|-------------------------------------|-----------------------|-----------------------|---------------------------------|
| Land | \$ 14,880,285 | \$ 14,880,285 | - |
| Construction in progress | 8,650,466 | 11,193,793 | (22.7) |
| Right-of-way | 14,620,599 | 14,087,389 | 3.8 |
| Infrastructure | 244,132,572 | 231,895,860 | 5.3 |
| Buildings | 64,601,198 | 59,828,004 | 8.0 |
| Machinery, furniture, and equipment | 22,051,456 | 21,192,769 | 4.1 |
| Less: accumulated depreciation | <u>(89,262,671)</u> | <u>(83,277,952)</u> | 7.2 |
| Total | <u>\$ 279,673,905</u> | <u>\$ 269,800,148</u> | 3.7 |

LONG-TERM LIABILITIES

At year-end, the County had \$32,796,077 in long-term liabilities outstanding. The current portion of these liabilities is \$10,656,341.

Table A-7
Long-Term Liabilities

| | <u>2012</u> | <u>2011</u> | <u>Increase/ (Decrease)</u> | <u>Percent (%) Change</u> |
|----------------------------------|----------------------|----------------------|---------------------------------|-----------------------------------|
| General obligation bonds payable | \$ 17,110,806 | \$ 20,666,507 | \$ (3,555,701) | (17.2) |
| Revenue bonds payable | 4,685,000 | 5,160,000 | (475,000) | (9.2) |
| Compensated absences payable | 8,145,285 | 7,942,407 | 202,878 | 2.6 |
| OPEB liability | <u>2,854,986</u> | <u>2,468,697</u> | <u>386,289</u> | 15.6 |
| Total | <u>\$ 32,796,077</u> | <u>\$ 36,237,611</u> | <u>\$ (3,441,534)</u> | (9.5) |

FACTORS BEARING ON THE COUNTY'S FUTURE

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the Legislature may decrease revenues again.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Jim Stegura, Financial Manager, at 320-656-3914, or Randy Schreifels, County Auditor/Treasurer, at 320-656-3901.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 1

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

| | Primary Government | | | Component Unit |
|--|------------------------------------|-------------------------------------|-----------------------|--|
| | Governmental Activities | Business-Type Activities | Total | Housing and Redevelopment Authority of Stearns County |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 77,749,196 | \$ 3,681 | \$ 77,752,877 | \$ 772,167 |
| Petty cash and change funds | 11,035 | - | 11,035 | - |
| Departmental cash | 13,493 | - | 13,493 | - |
| Taxes receivable delinquent | 2,129,264 | - | 2,129,264 | 207,739 |
| Special assessments receivable | | | | |
| Delinquent | 129,284 | - | 129,284 | - |
| Deferred | 422,389 | - | 422,389 | - |
| Accounts receivable - net | 501,868 | - | 501,868 | 12,979 |
| Accrued interest receivable | 247,481 | - | 247,481 | 20 |
| Loans receivable | 458,438 | 66,061 | 524,499 | 25,243 |
| Internal balances | 64,500 | (64,500) | - | - |
| Due from other governments | 7,579,235 | - | 7,579,235 | 75,265 |
| Inventories | 1,496,163 | - | 1,496,163 | - |
| Prepaid items | 1,823 | - | 1,823 | 6,760 |
| Deferred charges | 160,990 | - | 160,990 | 54,768 |
| Assets held for resale | - | - | - | 416,185 |
| Capital assets | | | | |
| Non-depreciable | 38,151,350 | - | 38,151,350 | 528,794 |
| Depreciable - net of accumulated depreciation | 241,522,555 | - | 241,522,555 | 3,793,524 |
| Total Assets | \$ 370,639,064 | \$ 5,242 | \$ 370,644,306 | \$ 5,893,444 |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 2,924,960 | \$ - | \$ 2,924,960 | \$ 45,305 |
| Salaries payable | 2,488,756 | - | 2,488,756 | 21,495 |
| Contracts payable | 1,829,851 | - | 1,829,851 | - |
| Due to other governments | 1,779,240 | - | 1,779,240 | - |
| Accrued interest payable | 86,034 | - | 86,034 | 16,524 |
| Unearned revenue | 421,453 | - | 421,453 | 91,113 |
| Noncurrent liabilities | | | | |
| Due within one year | 10,656,341 | - | 10,656,341 | 137,966 |
| Due in more than one year | 22,139,736 | - | 22,139,736 | 2,433,493 |
| Total Liabilities | \$ 42,326,371 | \$ - | \$ 42,326,371 | \$ 2,745,896 |

The notes to the financial statements are an integral part of this statement.

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

***EXHIBIT 1
(Continued)***

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

| | Primary Government | | | Component Unit |
|-----------------------------------|------------------------------------|-------------------------------------|-----------------------|--|
| | Governmental Activities | Business-Type Activities | Total | Housing and Redevelopment Authority of Stearns County |
| <u>Net Position</u> | | | | |
| Net investment in capital assets | \$ 268,672,625 | \$ - | \$ 268,672,625 | \$ 1,811,600 |
| Restricted for | | | | |
| General government | 1,080,865 | - | 1,080,865 | - |
| Public safety | 462,874 | - | 462,874 | - |
| Sanitation | 2,628,787 | - | 2,628,787 | - |
| Conservation of natural resources | 374,723 | - | 374,723 | - |
| Economic development | 1,119,623 | - | 1,119,623 | - |
| Debt service | 4,398,252 | - | 4,398,252 | 27,211 |
| Section 8 housing | - | - | - | 131,931 |
| Future projects | - | - | - | 46,338 |
| Unrestricted | 49,574,944 | 5,242 | 49,580,186 | 1,130,468 |
| Total Net Position | \$ 328,312,693 | \$ 5,242 | \$ 328,317,935 | \$ 3,147,548 |

**STEARNS COUNTY
ST. CLOUD, 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> | <u>Program Revenues Operating Grants and Contributions</u> |
|--|-----------------------|--|--|
| Primary government | | | |
| Governmental activities | | | |
| General government | \$ 23,015,220 | \$ 7,249,311 | \$ 482,118 |
| Public safety | 28,887,784 | 1,273,758 | 5,232,200 |
| Highways and streets | 17,992,979 | 145,753 | 11,424,427 |
| Sanitation | 577,206 | 1,213,860 | 617,808 |
| Human services | 33,310,072 | 2,406,157 | 13,830,627 |
| Health | 2,858,249 | 211,717 | 1,797,401 |
| Culture and recreation | 4,030,534 | 133,279 | 303,436 |
| Conservation of natural resources | 5,511,146 | 668,196 | 1,212,710 |
| Economic development | 585,712 | 275,317 | 316,023 |
| Interest | 745,084 | - | - |
| Total governmental activities | \$ 117,513,986 | \$ 13,577,348 | \$ 35,216,750 |
| Business-type activities | | | |
| Solid waste | 440 | 1,643 | - |
| Total Primary Government | \$ 117,514,426 | \$ 13,578,991 | \$ 35,216,750 |
| Component unit | | | |
| Housing and Redevelopment Authority of Stearns County | \$ 2,750,179 | \$ 380,849 | \$ 1,248,197 |

General Revenues

Property taxes
Tax increments
Gravel taxes
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Gain on sale of capital assets

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

| Net (Expense) Revenue and Changes in Net Position | | | | |
|--|------------------------------------|-------------------------------------|------------------------|--|
| Capital Grants and Contributions | Primary Government | | | Component Unit |
| | Governmental Activities | Business-Type Activities | Total | Housing and Redevelopment Authority of Stearns County |
| \$ - | \$ (15,283,791) | \$ - | \$ (15,283,791) | |
| 2,389 | (22,379,437) | - | (22,379,437) | |
| 4,747,256 | (1,675,543) | - | (1,675,543) | |
| - | 1,254,462 | - | 1,254,462 | |
| - | (17,073,288) | - | (17,073,288) | |
| - | (849,131) | - | (849,131) | |
| - | (3,593,819) | - | (3,593,819) | |
| 2,385 | (3,627,855) | - | (3,627,855) | |
| - | 5,628 | - | 5,628 | |
| - | (745,084) | - | (745,084) | |
| \$ 4,752,030 | \$ (63,967,858) | \$ - | \$ (63,967,858) | |
| - | - | 1,203 | 1,203 | |
| \$ 4,752,030 | \$ (63,967,858) | \$ 1,203 | \$ (63,966,655) | |
| \$ 654,765 | | | | \$ (466,368) |
| | \$ 69,337,849 | \$ - | \$ 69,337,849 | \$ 282,923 |
| | - | - | - | 47,957 |
| | 51,724 | - | 51,724 | - |
| | 199,114 | - | 199,114 | - |
| | 7,173,052 | - | 7,173,052 | 17,354 |
| | 977,427 | - | 977,427 | 6,260 |
| | 49,677 | - | 49,677 | - |
| | \$ 77,788,843 | \$ - | \$ 77,788,843 | \$ 354,494 |
| | \$ 13,820,985 | \$ 1,203 | \$ 13,822,188 | \$ (111,874) |
| | 314,491,708 | 4,039 | 314,495,747 | 3,259,422 |
| | \$ 328,312,693 | \$ 5,242 | \$ 328,317,935 | \$ 3,147,548 |

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

| | General | Road and Bridge | Human Services |
|---|----------------------|----------------------------|---------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 32,694,459 | \$ 3,734,891 | \$ 14,428,979 |
| Petty cash and change funds | 9,985 | - | 225 |
| Departmental cash | 13,493 | - | - |
| Taxes receivable delinquent | 998,866 | 222,181 | 710,788 |
| Special assessments receivable | | | |
| Delinquent | - | - | - |
| Deferred | - | - | - |
| Accounts receivable | 199,794 | 5,036 | 236,047 |
| Accrued interest receivable | 247,481 | - | - |
| Loans receivable | - | - | - |
| Due from other funds | 90,723 | - | - |
| Due from other governments | 296,744 | 4,356,878 | 2,469,854 |
| Inventories | - | 1,496,163 | - |
| Advance to other funds | - | - | - |
| Prepaid items | 100 | - | 1,723 |
| | \$ 34,551,645 | \$ 9,815,149 | \$ 17,847,616 |
| Total Assets | \$ 34,551,645 | \$ 9,815,149 | \$ 17,847,616 |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 1,408,863 | \$ 48,899 | \$ 1,218,135 |
| Salaries payable | 1,330,884 | 156,759 | 972,672 |
| Contracts payable | - | 1,829,851 | - |
| Due to other funds | - | 900 | 618 |
| Due to other governments | 555,161 | 9,970 | 10,054 |
| Deferred revenue - unavailable | 972,655 | 1,765,294 | 724,825 |
| Deferred revenue - unearned | 350,794 | 69,152 | 1,507 |
| Advance from other funds | - | 283,570 | - |
| | \$ 4,618,357 | \$ 4,164,395 | \$ 2,927,811 |
| Total Liabilities | \$ 4,618,357 | \$ 4,164,395 | \$ 2,927,811 |
| Fund Balances (Note 3.D.) | | | |
| Nonspendable | \$ 100 | \$ 1,496,163 | \$ - |
| Restricted | 1,430,864 | - | - |
| Committed | - | - | - |
| Assigned | 5,557 | 4,154,591 | 14,919,805 |
| Unassigned | 28,496,767 | - | - |
| | \$ 29,933,288 | \$ 5,650,754 | \$ 14,919,805 |
| Total Fund Balances | \$ 29,933,288 | \$ 5,650,754 | \$ 14,919,805 |
| Total Liabilities and Fund Balances | \$ 34,551,645 | \$ 9,815,149 | \$ 17,847,616 |

The notes to the financial statements are an integral part of this statement.

EXHIBIT 3

| <u>Miscellaneous</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
| \$ 1,762,693 | \$ 4,466,861 | \$ 15,205,859 | \$ 4,581,543 | \$ 76,875,285 |
| - | - | - | 825 | 11,035 |
| - | - | - | - | 13,493 |
| - | 153,421 | - | 44,008 | 2,129,264 |
| - | 10,215 | - | 119,069 | 129,284 |
| - | 389,187 | - | 33,202 | 422,389 |
| - | - | - | 60,991 | 501,868 |
| - | - | - | - | 247,481 |
| 228,741 | - | - | 229,697 | 458,438 |
| - | - | - | - | 90,723 |
| 19,643 | - | 391,000 | 45,116 | 7,579,235 |
| - | - | - | - | 1,496,163 |
| - | - | - | 348,070 | 348,070 |
| - | - | - | - | 1,823 |
| <u>\$ 2,011,077</u> | <u>\$ 5,019,684</u> | <u>\$ 15,596,859</u> | <u>\$ 5,462,521</u> | <u>\$ 90,304,551</u> |
| \$ 26,441 | \$ - | \$ 52,942 | \$ 5,294 | \$ 2,760,574 |
| - | - | - | 28,441 | 2,488,756 |
| - | - | - | - | 1,829,851 |
| - | - | 63,592 | 25,613 | 90,723 |
| 1,178,887 | - | 6 | 25,162 | 1,779,240 |
| 228,741 | 535,398 | - | 421,020 | 4,647,933 |
| - | - | - | - | 421,453 |
| - | - | - | - | 283,570 |
| <u>\$ 1,434,069</u> | <u>\$ 535,398</u> | <u>\$ 116,540</u> | <u>\$ 505,530</u> | <u>\$ 14,302,100</u> |
| \$ - | \$ - | \$ - | \$ 348,070 | \$ 1,844,333 |
| 312,677 | 4,484,286 | - | 3,923,331 | 10,151,158 |
| - | - | - | 685,590 | 685,590 |
| 264,331 | - | 15,480,319 | - | 34,824,603 |
| - | - | - | - | 28,496,767 |
| <u>\$ 577,008</u> | <u>\$ 4,484,286</u> | <u>\$ 15,480,319</u> | <u>\$ 4,956,991</u> | <u>\$ 76,002,451</u> |
| <u>\$ 2,011,077</u> | <u>\$ 5,019,684</u> | <u>\$ 15,596,859</u> | <u>\$ 5,462,521</u> | <u>\$ 90,304,551</u> |

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 4

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

| | | |
|---|--------------------|-------------------------------------|
| Fund balances - total governmental funds (Exhibit 3) | | \$ 76,002,451 |
| Amounts reported for governmental activities in the statement of net position 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. | | 279,673,905 |
| Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds. | | 4,647,933 |
| An internal service fund is used by the County to charge the cost of improvements for information services to the individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. | | 709,525 |
| Deferred debt issuance charges are not available to pay current expenditures and, therefore, are not deferred in the funds. | | 160,990 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| Bonds payable - net of premium and discount | \$ (21,795,806) | |
| Compensated absences | (8,145,285) | |
| Other postemployment benefits liability | <u>(2,854,986)</u> | (32,796,077) |
| Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds. | | <u>(86,034)</u> |
| Net Position of Governmental Activities (Exhibit 1) | | <u><u>\$ 328,312,693</u></u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> |
|---|----------------------|----------------------------|---------------------------|
| Revenues | | | |
| Taxes | \$ 33,572,585 | \$ 7,055,054 | \$ 22,572,527 |
| Special assessments | - | - | - |
| Licenses and permits | 482,953 | 70,446 | - |
| Intergovernmental | 9,771,968 | 15,284,796 | 18,695,679 |
| Charges for services | 4,569,103 | 2,753 | 1,753,621 |
| Fines and forfeits | 114,022 | - | - |
| Gifts and contributions | 3,090 | - | 11,045 |
| Investment income | 980,884 | - | - |
| Miscellaneous | 3,089,677 | 22,091 | 1,187,944 |
| Total Revenues | \$ 52,584,282 | \$ 22,435,140 | \$ 44,220,816 |
| Expenditures | | | |
| Current | | | |
| General government | \$ 20,051,083 | \$ - | \$ - |
| Public safety | 20,892,736 | - | 7,705,649 |
| Highways and streets | - | 27,374,070 | - |
| Sanitation | - | - | - |
| Human services | - | - | 33,696,744 |
| Health | - | - | 2,813,928 |
| Culture and recreation | 2,659,432 | - | - |
| Conservation of natural resources | 4,779,751 | 55,703 | - |
| Economic development | 65,362 | - | - |
| Intergovernmental | | | |
| Highways and streets | - | 695,467 | - |
| Community development | 316,023 | - | - |
| Capital outlay | | | |
| General government | - | - | - |
| Public safety | - | - | - |
| Highways and streets | - | - | - |
| Human services | - | - | - |
| Culture and recreation | - | - | - |
| Sanitation | - | - | - |
| Debt service | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| Total Expenditures | \$ 48,764,387 | \$ 28,125,240 | \$ 44,216,321 |
| Excess of Revenues Over (Under) Expenditures | \$ 3,819,895 | \$ (5,690,100) | \$ 4,495 |

EXHIBIT 5

| <u>Miscellaneous</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|----------------------|---------------------|-------------------------|-----------------------|-----------------------|
| \$ 51,724 | \$ 4,828,360 | \$ - | \$ 1,379,261 | \$ 69,459,511 |
| - | 122,298 | - | 657,115 | 779,413 |
| - | - | - | 84,271 | 637,670 |
| - | 38,409 | 1,938,294 | 314,035 | 46,043,181 |
| - | - | - | 564,374 | 6,889,851 |
| - | - | - | 205,506 | 319,528 |
| 2,100 | - | - | 184 | 16,419 |
| - | - | - | 11,453 | 992,337 |
| 1,332,579 | - | 526,005 | 178,508 | 6,336,804 |
| \$ 1,386,403 | \$ 4,989,067 | \$ 2,464,299 | \$ 3,394,707 | \$ 131,474,714 |
| | | | | |
| \$ 1,302,015 | \$ 17,908 | \$ - | \$ 356,203 | \$ 21,727,209 |
| 9,805 | - | - | 10,698 | 28,618,888 |
| - | - | - | - | 27,374,070 |
| - | - | - | 573,896 | 573,896 |
| - | - | - | - | 33,696,744 |
| - | - | - | - | 2,813,928 |
| 169,108 | - | - | 1,188,538 | 4,017,078 |
| - | - | - | 14,553 | 4,850,007 |
| - | - | - | 204,327 | 269,689 |
| - | - | - | - | 695,467 |
| - | - | - | - | 316,023 |
| - | - | 516,342 | - | 516,342 |
| - | - | 370,761 | - | 370,761 |
| - | - | 526,963 | - | 526,963 |
| - | - | 10,206 | - | 10,206 |
| - | - | 747,193 | - | 747,193 |
| - | - | 452,536 | 18,960 | 471,496 |
| - | 3,985,000 | - | - | 3,985,000 |
| - | 729,040 | - | - | 729,040 |
| \$ 1,480,928 | \$ 4,731,948 | \$ 2,624,001 | \$ 2,367,175 | \$ 132,310,000 |
| | | | | |
| \$ (94,525) | \$ 257,119 | \$ (159,702) | \$ 1,027,532 | \$ (835,286) |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> |
|---|--------------------------|----------------------------|---------------------------|
| Other Financing Sources (Uses) | | | |
| Transfers in | \$ 2,329,944 | \$ 195,390 | \$ 1,103,061 |
| Transfers out | (3,871,852) | (415,957) | (1,457,539) |
| Proceeds from sale of capital assets | 21,501 | 27,734 | - |
| | <u>21,501</u> | <u>27,734</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | \$ (1,520,407) | \$ (192,833) | \$ (354,478) |
| Net Change in Fund Balances | \$ 2,299,488 | \$ (5,882,933) | \$ (349,983) |
| Fund Balances - January 1 | 27,633,800 | 10,721,861 | 15,269,788 |
| Increase (decrease) in inventories | - | 811,826 | - |
| | <u>-</u> | <u>811,826</u> | <u>-</u> |
| Fund Balances - December 31 | \$ 29,933,288 | \$ 5,650,754 | \$ 14,919,805 |
| | <u><u>29,933,288</u></u> | <u><u>5,650,754</u></u> | <u><u>14,919,805</u></u> |

EXHIBIT 5
(Continued)

| <u>Miscellaneous</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
|----------------------|---------------------|-------------------------|-----------------------|----------------------|
| \$ - | \$ - | \$ 2,506,700 | \$ 19,501 | \$ 6,154,596 |
| - | - | (23,250) | - | (5,768,598) |
| - | - | - | 442 | 49,677 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,483,450</u> | <u>\$ 19,943</u> | <u>\$ 435,675</u> |
| \$ (94,525) | \$ 257,119 | \$ 2,323,748 | \$ 1,047,475 | \$ (399,611) |
| 671,533 | 4,227,167 | 13,156,571 | 3,909,516 | 75,590,236 |
| - | - | - | - | 811,826 |
| <u>\$ 577,008</u> | <u>\$ 4,484,286</u> | <u>\$ 15,480,319</u> | <u>\$ 4,956,991</u> | <u>\$ 76,002,451</u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ (399,611)

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 - unavailable - December 31 | \$ 4,647,933 | |
| Deferred revenue - unavailable - January 1 | <u>(3,952,648)</u> | 695,285 |

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

| | | |
|--|--------------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ 20,035,467 | |
| Net book value of assets sold | (2,364,715) | |
| Current year depreciation | <u>(7,796,995)</u> | 9,873,757 |

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

| | | |
|--|---------------|-----------|
| Principal repayments | | |
| General obligation bonds | \$ 3,510,000 | |
| Revenue bonds | 475,000 | |
| Current year amortization of issuance costs, discounts, and premiums | <u>18,635</u> | 4,003,635 |

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 | \$ 11,022 | |
| Change in compensated absences | (202,878) | |
| Change in other postemployment benefits liability | (386,289) | |
| Change in inventories | <u>811,826</u> | 233,681 |

| | | |
|---|--|------------------|
| An internal service fund is used to charge improvements for information services to the individual funds. The increase or decrease in net position of the internal service fund is reported in the government-wide statement of activities. | | <u>(585,762)</u> |
|---|--|------------------|

Change in Net Position of Governmental Activities (Exhibit 2) \$ 13,820,985

PROPRIETARY FUNDS

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012**

| | Business-Type Activities | Governmental Activities |
|-----------------------------|--|------------------------------------|
| | Septic Loan Enterprise Fund | Internal Service Funds |
| <u>Assets</u> | | |
| Current assets | | |
| Cash and pooled investments | \$ 3,681 | \$ 873,911 |
| Noncurrent assets | | |
| Loans receivable | 66,061 | - |
| Total Assets | \$ 69,742 | \$ 873,911 |
| <u>Liabilities</u> | | |
| Current liabilities | | |
| Accounts payable | \$ - | \$ 164,386 |
| Noncurrent liabilities | | |
| Advance from other funds | 64,500 | - |
| Total Liabilities | \$ 64,500 | \$ 164,386 |
| <u>Net Position</u> | | |
| Unrestricted | \$ 5,242 | \$ 709,525 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Business-Type Activities | Governmental Activities |
|---|--|------------------------------------|
| | Septic Loan Enterprise Fund | Internal Service Funds |
| Operating Revenues | | |
| Charges for services | \$ - | \$ 1,524,262 |
| Interest on loans | 1,643 | - |
| Miscellaneous | - | 12,771 |
| | \$ 1,643 | \$ 1,537,033 |
| Operating Expenses | | |
| Cost of services | - | 1,744,865 |
| | \$ 1,643 | \$ (207,832) |
| Nonoperating Revenues (Expenses) | | |
| Intergovernmental | \$ - | \$ 8,068 |
| Interest expense | (440) | - |
| | \$ (440) | \$ 8,068 |
| Income (Loss) Before Transfers | \$ 1,203 | \$ (199,764) |
| Transfers | | |
| Transfers in | - | 70,450 |
| Transfers out | - | (456,448) |
| | \$ 1,203 | \$ (585,762) |
| Change in Net Position | \$ 1,203 | \$ (585,762) |
| Net Position - January 1 | 4,039 | 1,295,287 |
| Net Position - December 31 | \$ 5,242 | \$ 709,525 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

| | Business-Type Activities Septic Loan Enterprise Fund | Governmental Activities Internal Service Funds |
|--|---|---|
| Cash Flows from Operating Activities | | |
| Septic system loans made | \$ (46,713) | \$ - |
| Interest received on loans | 1,643 | - |
| Receipts from customers and users | 4,112 | - |
| Receipts from internal services provided | - | 1,537,033 |
| Payments to suppliers | - | (1,738,823) |
| | \$ (40,958) | \$ (201,790) |
| Cash Flows from Noncapital Financing Activities | | |
| Advance from other funds | \$ 31,000 | \$ - |
| Intergovernmental | - | 8,068 |
| Interest paid | (440) | - |
| Transfers in | - | 70,450 |
| Transfers out | - | (456,448) |
| | \$ 30,560 | \$ (377,930) |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ (10,398) | \$ (579,720) |
| Cash and Cash Equivalents at January 1 | 14,079 | 1,453,631 |
| Cash and Cash Equivalents at December 31 | \$ 3,681 | \$ 873,911 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | | |
| Net operating income (loss) | \$ 1,643 | \$ (207,832) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | |
| (Increase) decrease in loans receivable | \$ (42,601) | \$ - |
| Increase (decrease) in accounts payable | - | 6,042 |
| | \$ (42,601) | \$ 6,042 |
| Total adjustments | \$ (42,601) | \$ 6,042 |
| Net Cash Provided by (Used in) Operating Activities | \$ (40,958) | \$ (201,790) |

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FIDUCIARY FUND

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STEARNS COUNTY
ST. CLOUD, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2012

| | <u>Agency Fund</u> |
|-----------------------------|----------------------------|
| <u>Assets</u> | |
| Cash and pooled investments | \$ <u>3,625,540</u> |
| <u>Liabilities</u> | |
| Accounts payable | \$ 80,974 |
| Due to other governments | <u>3,544,566</u> |
| Total Liabilities | \$ <u>3,625,540</u> |

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**STEARNS COUNTY
ST. CLOUD, 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). 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

Stearns County was established February 23, 1854, 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 Stearns County and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

Blended component units are entities which are legally separate from the County, but are so intertwined that they are, in substance, the same as the County. They are reported as part of the primary government.

The Stearns County Regional Rail Authority is governed by a five-member board consisting of three Stearns County Commissioners and two St. Cloud City Council members, and has the power to levy taxes, issue bonds, and enter into contracts. The Authority was established for the preservation and improvement of local rail service. Although it is legally separate from the County, the activity of the Regional Rail Authority is included in the Stearns County reporting entity as the Regional Rail Authority Special Revenue Fund because Stearns County Commissioners comprise a voting majority of the Authority's governing body. Separate financial statements are not available for the Stearns County Regional Rail Authority.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discrete Component Unit

The Housing and Redevelopment Authority (HRA) of Stearns County is a component unit of Stearns County and is reported in a separate column in the County's government-wide financial statements to emphasize that the HRA is legally separate from Stearns County. The HRA operates as a local governmental unit for the purpose of providing housing and redevelopment services to Stearns County. The governing body consists of a five-member Board of Commissioners appointed by the Stearns County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended June 30, 2012.

The complete financial statements of the HRA of Stearns County can be obtained by writing to the Housing and Redevelopment Authority of Stearns County, 401 West Wind Court, P. O. Box 484, Cold Spring, Minnesota 56320.

Joint Ventures

The County participates in joint ventures described in Note 4.C. The County also participates in a jointly-governed organization described in Note 4.D.

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 unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The principal operating revenues of the County's enterprise fund includes interest on septic system loans. Operating expenses for enterprise and internal service fund activities may include cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County reports the following major governmental funds:

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

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

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

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of general long-term debt.

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

The Miscellaneous Fund is used to account for gravel tax, missing heirs, forfeited tax sale, and other activities.

The County reports the following major enterprise fund:

The Septic Loan Fund is used to account for loans issued to individuals within the County for septic system upgrades.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

The Internal Service Funds account for information service projects and health insurance premiums and payments.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. This fund accounts for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, 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. Stearns 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.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

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 Auditor-Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to 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 \$980,884.

Cash and cash equivalents are identified only for the purpose of the statement of cash flows for the proprietary funds. Pooled investments, which have the characteristics of demand deposits, are considered to be cash and cash equivalents on the statement of cash flows.

Stearns County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). The investment in the pool is measured at the net asset value per share provided by the pool.

2. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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."

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

2. Receivables and Payables (Continued)

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

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.

Loans receivable consist of contracts for deed between the County and private landowners for the purchase of tax forfeited property.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. The inventory in the Road and Bridge Special Revenue Fund consists of expendable supplies held for consumption. The cost of the inventory is recorded as an expenditure at the time individual inventory items are purchased. Significant inventory balances are equally offset by nonspendable fund balance to indicate that they do not constitute available spendable resources.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

Capital assets, including property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items) are reported in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the County are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|------------------------------------|--------------|
| Buildings and improvements | 20 - 50 |
| Office furniture and equipment | 5 - 10 |
| Machinery and automotive equipment | 3 - 12 |
| Infrastructure | 50 - 75 |
| Software | 5 - 10 |

5. Compensated Absences

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line 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 fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

8. Classification of Net Position (Continued)

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. Classification 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 reported in the governmental funds.

Fund balance classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or 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 in which constraints have been placed on the use of resources are 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.

Committed - amounts that can be used only for the specific purposes imposed by formal action of the Board of Commissioners. 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 it employed to previously commit those amounts.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Fund Balances (Continued)

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned - is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

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

10. 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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of budget at the function level for the year ended December 31, 2012:

| | <u>Expenditures</u> | <u>Final Budget</u> | <u>Excess</u> |
|-----------------------------------|---------------------|---------------------|---------------|
| General Fund | | | |
| Current | | | |
| Conservation of natural resources | \$ 4,779,751 | \$ 4,476,223 | \$ 303,528 |
| Intergovernmental | | | |
| Community development | 316,023 | - | 316,023 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations (Continued)

| | <u>Expenditures</u> | <u>Final Budget</u> | <u>Excess</u> |
|-----------------------------------|---------------------|---------------------|---------------|
| Special Revenue Funds | | | |
| Road and Bridge | | | |
| Current | | | |
| Highways and streets | 27,374,070 | 20,347,107 | 7,026,963 |
| Conservation of natural resources | 55,703 | 50,499 | 5,204 |
| Intergovernmental | | | |
| Highways and streets | 695,467 | - | 695,467 |
| Human Services | | | |
| Current | | | |
| Public safety | 7,705,649 | 7,354,368 | 351,281 |
| Health | 2,813,928 | 2,763,258 | 50,670 |
| Debt Service Fund | | | |
| Debt service | | | |
| Principal | 3,985,000 | 3,785,000 | 200,000 |
| Nonmajor funds | | | |
| County Building | | | |
| Current | | | |
| General government | 176,332 | 140,000 | 36,332 |
| Public safety | 10,698 | - | 10,698 |
| Solid Waste | | | |
| Capital outlay | | | |
| Sanitation | 18,960 | - | 18,960 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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:

| | | |
|---|--------|-----------------------|
| Government-wide statement of net assets | | |
| Governmental activities | | |
| Cash and pooled investments | \$ | 77,749,196 |
| Petty cash and change funds | | 11,035 |
| Departmental cash | | 13,493 |
| Business-type activities | | |
| Cash and pooled investments | | 3,681 |
| Statement of fiduciary net assets | | |
| Fiduciary funds | | |
| Cash and pooled investments | | <u>3,625,540</u> |
| Total Cash and Investments | \$ | <u>81,402,945</u> |

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 that is not owned or controlled by the financial institution furnishing the collateral.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the County's deposits may not be returned to it.

The County's policy is to minimize custodial risk for its deposits by monitoring the collateral balances on a daily basis and obtaining monthly updates on the par and market value of collateral pledged from financial institutions. As of December 31, 2012, the County's deposits were not exposed to custodial credit risk.

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;

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

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 in the possession of an outside party.

The County's policy is that all investment securities purchased by the County shall be held in safekeeping by a third-party institution designated by the County. At December 31, 2012, four of the County's negotiable certificates of deposit were exposed to custodial credit risk by a total of \$4,109.

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. The County's policy is to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**STEARNS COUNTY
ST. CLOUD, 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's policy is to minimize its exposure to interest rate risk by: (1) structuring its investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

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 a rating by a nationally recognized statistical rating organization.

It is the County's policy to invest in instruments which are guaranteed or direct issues of the United States or rated in the highest quality category by at least two nationally recognized rating agencies.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|--|---------------|---------------|-----------------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | |
| Federal Home Loan Bank | AAA | S&P | | 5-7 years | - |
| Federal Home Loan Bank | AAA | S&P | | 6 - 10 years | \$ 26,461,210 |
| Federal Home Loan Bank | AAA | S&P | | 11 - 15 years | 10,218,114 |
| Total Federal Home Loan Bank | | | 48.60% | | \$ 36,679,324 |
| Federal Home Loan Mortgage Corporation | AAA | S&P | | < 1 year | \$ 70,322 |
| Federal Home Loan Mortgage Corporation | AAA | S&P | | 1 - 5 years | 10,879,984 |
| Federal Home Loan Mortgage Corporation | AAA | S&P | | 6-10 years | - |
| Federal Home Loan Mortgage Corporation | AAA | S&P | | 10-15 years | - |
| Total Federal Home Loan Mortgage Corporation | | | 14.50% | | \$ 10,950,306 |
| Federal National Mortgage Association | AAA | S&P | | < 1 year | \$ 505,510 |
| Federal National Mortgage Association | AAA | S&P | | 1 - 5 years | 1,167 |
| Federal National Mortgage Association | AAA | S&P | | 6 - 10 years | 500,565 |
| Federal National Mortgage Association | AAA | S&P | | 11 - 15 years | 2,702,820 |
| Total Federal National Mortgage Association | | | 5.00% | | \$ 3,710,062 |
| Government National Mortgage Association | AAA | S&P | | > 16 years | \$ 15,380 |
| Total U.S. Government Agency Securities | | | | | \$ 51,355,072 |
| Municipals | A1/P1/F1 | S&P | | 6 - 10 years | \$ 1,879,400 |
| | | | | 11 - 15 years | 1,097,482 |
| | | | | >16 years | 500,640 |
| Total Municipals | | | | | \$ 3,477,522 |
| Commercial Paper | | | 13.20% | | \$ 9,998,450 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| Investment Type | Credit Risk | | Concentration Risk | Interest Rate Risk | Carrying (Fair) Value |
|---|---------------|---------------|-----------------------------|--------------------|-----------------------|
| | Credit Rating | Rating Agency | Over 5 Percent of Portfolio | Maturity Date | |
| Negotiable Certificates of Deposit | N/A | N/A | | < 1 year | \$ 1,396,174 |
| Negotiable Certificates of Deposit | N/A | N/A | | 1 - 5 years | 1,562,260 |
| Negotiable Certificates of Deposit | N/A | N/A | | 6 - 10 years | 200,322 |
| Total Negotiable Certificates of Deposit | | | | | <u>\$ 3,158,756</u> |
| MAGIC Fund | N/A | N/A | N/A | N/A | <u>\$ 7,481,417</u> |
| Total Investments | | | | | <u>\$ 75,471,217</u> |
| Deposits | | | | | \$ 5,907,200 |
| Petty Cash and Change Funds | | | | | 11,035 |
| Departmental Cash | | | | | <u>13,493</u> |
| Total Cash and Investments - Primary Government | | | | | <u>\$ 81,402,945</u> |

N/A - Not Applicable
S&P - Standard and Poor's
M - Moody's

2. Receivables

Property Taxes and Special Assessments

Property taxes and special assessments which remain unpaid at December 31 are delinquent. No allowance for uncollectible taxes/assessments has been provided because such amounts are not expected to be material.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

The County currently has outstanding contracts for deed with landowners for the purchase of tax forfeited properties. Economic development loans were made to private enterprises under the County's economic development loan program.

A summary of loans receivable outstanding at December 31, 2012, are as follows:

| | Original Loan Amount | Balance Repaid at December 31, 2012 | Outstanding Balance at December 31, 2012 | Term (Years) | Interest Rate (%) |
|--|----------------------------|--|---|---------------------|-------------------------|
| Governmental activities | | | | | |
| Contracts for deed | \$ 345,150 | \$ 116,409 | \$ 228,741 | 10 | 10.0 |
| Economic development loans | | | | | |
| Precision Products, Inc. | 50,000 | 28,078 | 21,922 | 10 | 3.0 |
| Felling Trailers | 150,000 | 20,410 | 129,590 | 8 | 2.0 |
| Brenny Transportation | 75,000 | 36,253 | 38,747 | 10 | 2.0 |
| Notch Manufacturing, Inc. | 75,000 | 35,562 | 39,438 | 10 | 2.0 |
| | <u>\$ 695,150</u> | <u>\$ 236,712</u> | <u>\$ 458,438</u> | | |
| Total Loans Receivable | | | | | |
| Governmental Activities | <u>\$ 695,150</u> | <u>\$ 236,712</u> | <u>\$ 458,438</u> | | |
| Business-type activities | | | | | |
| Septic system loans | | | | | |
| Various individuals | <u>\$ 118,449</u> | <u>\$ 52,388</u> | <u>\$ 66,061</u> | | |
| | | | | <u>Governmental</u> | <u>Business-Type</u> |
| | | | | Activities | Activities |
| Amounts expected to be collected within one year | | | \$ 87,514 | \$ 8,419 | |
| Amounts due in more than one year | | | <u>370,924</u> | <u>57,642</u> | |
| Total | | | <u>\$ 458,438</u> | <u>\$ 66,061</u> | |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> |
|--|------------------------------|----------------------|----------------------|---------------------------|
| Capital assets not depreciated | | | | |
| Land | \$ 14,880,285 | \$ - | \$ - | \$ 14,880,285 |
| Construction in progress | 11,193,793 | 18,383,129 | 20,926,456 | 8,650,466 |
| Right-of-way | <u>14,087,389</u> | <u>533,210</u> | <u>-</u> | <u>14,620,599</u> |
| Total capital assets not depreciated | <u>\$ 40,161,467</u> | <u>\$ 18,916,339</u> | <u>\$ 20,926,456</u> | <u>\$ 38,151,350</u> |
| Capital assets depreciated | | | | |
| Buildings | \$ 59,828,004 | \$ 4,773,194 | \$ - | \$ 64,601,198 |
| Improvements, other than buildings | 174,397 | 216,107 | - | 390,504 |
| Machinery and automotive | 12,247,045 | 1,489,769 | 789,788 | 12,947,026 |
| Office furniture and equipment | 7,256,396 | 652,462 | 1,028,687 | 6,880,171 |
| Software | 1,514,931 | 318,824 | - | 1,833,755 |
| Infrastructure | <u>231,895,860</u> | <u>14,595,228</u> | <u>2,358,516</u> | <u>244,132,572</u> |
| Total capital assets depreciated | <u>\$ 312,916,633</u> | <u>\$ 22,045,584</u> | <u>\$ 4,176,991</u> | <u>\$ 330,785,226</u> |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 16,132,126 | \$ 1,428,723 | \$ - | \$ 17,560,849 |
| Improvements, other than buildings | 11,147 | 18,830 | - | 29,977 |
| Machinery and automotive | 8,351,296 | 1,012,066 | 783,589 | 8,579,773 |
| Office furniture and equipment | 5,563,106 | 566,425 | 1,028,687 | 5,100,844 |
| Software | 1,402,574 | 58,594 | - | 1,461,168 |
| Infrastructure | <u>51,817,703</u> | <u>4,712,357</u> | <u>-</u> | <u>56,530,060</u> |
| Total accumulated depreciation | <u>\$ 83,277,952</u> | <u>\$ 7,796,995</u> | <u>\$ 1,812,276</u> | <u>\$ 89,262,671</u> |
| Total capital assets depreciated, net | <u>\$ 229,638,681</u> | <u>\$ 14,248,589</u> | <u>\$ 2,364,715</u> | <u>\$ 241,522,555</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 269,800,148</u> | <u>\$ 33,164,928</u> | <u>\$ 23,291,171</u> | <u>\$ 279,673,905</u> |

**STEARNS COUNTY
ST. CLOUD, 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 | \$ 1,091,833 |
| Public safety | 909,159 |
| Highways and streets, including depreciation of infrastructure assets | 5,510,976 |
| Human services | 141,845 |
| Culture and recreation | 91,133 |
| Conservation of natural resources | <u>52,049</u> |
| Total Depreciation Expense - Governmental Activities | <u><u>\$ 7,796,995</u></u> |

B. Interfund Receivables, Payables, and Transfers

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

1. Advance From/To Other Funds

| Receivable Fund | Payable Fund | Amount |
|-----------------------------------|-----------------------------|--------------------------|
| Solid Waste Fund | Septic Loan Enterprise Fund | \$ 64,500 |
| Economic Development Fund | Road and Bridge Fund | <u>283,570</u> |
| Total Advance From/To Other Funds | | <u><u>\$ 348,070</u></u> |

The Economic Development Special Revenue Fund advanced funds to the Road and Bridge Special Revenue Fund for the resurfacing of roads. The advance will be repaid with state aid.

The Solid Waste Special Revenue Fund advanced funds to the Septic Loan Enterprise Fund to finance various loans to individuals for updates to septic systems. The advance will be repaid from principal and interest payments on the loans.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Interfund Transfers

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

| | Transfers In | Description |
|--|--------------|---------------------------------|
| Transfers to General Fund from | | |
| Human Services Fund | \$ 1,457,539 | Salaries adjustment |
| Road and Bridge Fund | 415,957 | Salaries adjustment |
| Internal Service Fund | 231,448 | Return of prior year transfer |
| Internal Service Fund | 225,000 | Squad car camera replacements |
| Total transfers to General Fund | \$ 2,329,944 | |
| Transfers to Road and Bridge Fund from | | |
| General Fund | \$ 115,060 | Project cost charge out |
| General Fund | 55,990 | Information services chargeback |
| General Fund | 24,340 | Salaries adjustment |
| Total transfers to Road and Bridge Fund | \$ 195,390 | |
| Transfers to Human Services Fund from | | |
| General Fund | \$ 110,149 | Project cost charge out |
| General Fund | 868,291 | Information services chargeback |
| General Fund | 48,852 | Salaries adjustment |
| General Fund | 52,519 | Attorney charges |
| Capital Projects Fund | 23,250 | Bond project |
| Total transfers to Human Services Fund | \$ 1,103,061 | |
| Transfers to Capital Projects Fund from | | |
| General Fund | \$ 2,506,700 | Future capital projects funding |
| Transfers to nonmajor funds from | | |
| General Fund | \$ 11,223 | Project cost charge out |
| General Fund | 7,934 | Information services charges |
| General Fund | 344 | Salaries adjustment |
| Total transfers to nonmajor funds | \$ 19,501 | |
| Transfers to Information Services Improvements | | |
| Internal Service Fund from | | |
| General Fund | \$ 70,450 | Technology projects |
| Total Interfund Transfers | \$ 6,225,046 | |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

| | <u>Governmental Activities</u> |
|--------------------------|------------------------------------|
| Accounts | \$ 2,924,960 |
| Salaries | 2,488,756 |
| Contracts | 1,829,851 |
| Due to other governments | 1,779,240 |
| Accrued interest | <u>86,034</u> |
| Total Payables | <u>\$ 9,108,841</u> |

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state grants that are not collected soon enough after year-end to pay liabilities of the current period, state and federal grants received but not yet earned, long-term loans receivable, state-aid highway allotments, and other revenue sources either received but unearned or not received soon enough after year-end. Deferred revenue at December 31, 2012, is summarized below by fund:

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Deferred Revenue (Continued)

| | Taxes and Special Assessments | Grants | Loans | State-Aid Highway Allotments | Other | Total |
|--------------------------|-------------------------------------|---------------------|-------------------|------------------------------------|-------------------|---------------------|
| Major governmental funds | | | | | | |
| General | \$ 881,268 | \$ 164,800 | \$ - | \$ - | \$ 277,381 | \$ 1,323,449 |
| Road and Bridge | 197,255 | 1,008,211 | - | 559,828 | 69,152 | 1,834,446 |
| Human Services | 629,345 | 96,987 | - | - | - | 726,332 |
| Miscellaneous | - | - | 228,741 | - | - | 228,741 |
| Debt Service | 535,398 | - | - | - | - | 535,398 |
| Other governmental funds | | | | | | |
| County Building | 4,051 | - | - | - | - | 4,051 |
| County Park | 24,289 | - | - | - | - | 24,289 |
| Solid Waste | 151,806 | - | - | - | - | 151,806 |
| Economic Development | 268 | - | 229,697 | - | - | 229,965 |
| Ditch | 465 | - | - | - | - | 465 |
| Regional Rail Authority | 10,444 | - | - | - | - | 10,444 |
| Total | \$ 2,434,589 | \$ 1,269,998 | \$ 458,438 | \$ 559,828 | \$ 346,533 | \$ 5,069,386 |
| Deferred Revenue | | | | | | |
| Unavailable | \$ 2,434,589 | \$ 1,103,691 | \$ 458,438 | \$ 559,828 | \$ 91,387 | \$ 4,647,933 |
| Unearned | - | 166,307 | - | - | 255,146 | 421,453 |
| Total | \$ 2,434,589 | \$ 1,269,998 | \$ 458,438 | \$ 559,828 | \$ 346,533 | \$ 5,069,386 |

3. Vacation and Sick Leave

County employees are granted paid time off, in varying amounts, depending on union/non-union status and length of service.

The County pays unused accumulated paid time off to employees upon termination based on two different severance plans. Unvested paid time off valued at \$3,550,239 at December 31, 2012, is available to employees in the event of an absence but is not paid to them at termination.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt - Bonds

Bond payments are typically made from the Debt Service Fund. Information on individual bonds payables is as follows:

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2012 |
|--|-------------------|----------------------------|-------------------------|-----------------------------|--|
| General obligation bonds | | \$40,000 - | | | |
| 2005A G.O. Drainage Bonds | 2024 | \$75,000 | 3.50 - 4.37 | \$ 1,090,000 | \$ 745,000 |
| 2008 G.O. Capital Improvement Bonds | 2022 | \$535,000 - \$1,080,000 | 3.25 - 4.25 | 12,800,000 | 9,005,000 |
| 2010A G.O. Capital Improvement Bonds | 2018 | \$305,000 - \$2,550,000 | 2.00 - 3.00 | 8,935,000 | 5,235,000 |
| 2010B Taxable G.O. Capital Improvement Bonds | | | | | |
| Recovery Zone Economic Development Bonds (RZEDBSs) | 2020 | \$330,000 - \$685,000 | 4.15 - 4.50 | 1,665,000 | 1,665,000 |
| 2010C G.O. Capital Improvement Refunding Bonds | 2013 | \$225,000 - \$750,000 | 2.00 | <u>1,935,000</u> | <u>230,000</u> |
| Total General Obligation Bonds | | | | <u>\$ 26,425,000</u> | <u>\$ 16,880,000</u> |
| Add: Unamortized premium | | | | | <u>230,806</u> |
| Total General Obligation Bonds, Net | | | | | <u>\$ 17,110,806</u> |
| Revenue bonds | | | | | |
| 2006A Public Facilities Revenue Bonds | 2020 | \$455,000 - \$2,230,000 | 2.35 | <u>\$ 11,200,000</u> | <u>\$ 4,685,000</u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

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

| Year Ending December 31 | General Obligation Bonds and Notes | | | |
|----------------------------|------------------------------------|------------|---------------|--------------|
| | Revenue Bonds | | Principal | Interest |
| 2013 | \$ 480,000 | \$ 104,749 | \$ 3,665,000 | \$ 483,089 |
| 2014 | 500,000 | 93,195 | 1,490,000 | 416,014 |
| 2015 | 510,000 | 81,289 | 1,535,000 | 369,190 |
| 2016 | 525,000 | 69,090 | 1,580,000 | 319,102 |
| 2017 | 670,000 | 55,014 | 1,630,000 | 263,571 |
| 2018 - 2020 | 2,000,000 | 68,796 | 5,165,000 | 601,987 |
| 2023 - 2025 | | | 150,000 | 9,844 |
| Total | \$ 4,685,000 | \$ 472,133 | \$ 15,215,000 | \$ 2,462,797 |

| Year Ending December 31 | Revenue Bonds | | Taxable General Obligation Bonds (RZEDBs) | |
|----------------------------|---------------|------------|--|------------|
| | Principal | Interest | Principal | Interest |
| 2013 | \$ 480,000 | \$ 104,749 | \$ - | \$ 73,120 |
| 2014 | 500,000 | 93,195 | - | 73,120 |
| 2015 | 510,000 | 81,289 | - | 73,120 |
| 2016 | 525,000 | 69,090 | - | 73,120 |
| 2017 | 670,000 | 55,014 | - | 73,120 |
| 2018 - 2020 | 2,000,000 | 68,796 | 1,665,000 | 126,810 |
| Total | \$ 4,685,000 | \$ 472,133 | \$ 1,665,000 | \$ 492,410 |

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), Stearns County issued \$1,665,000 of Recovery Zone Economic Development Bonds (RZEDBs) which were issued to finance capital improvements under an approved capital improvement plan. The 2010B bonds are direct pay tax credit RZEDBs, in which the County will receive a payment from the federal government equal to 45 percent of the amount of interest payable on each interest payment date. The County has complied with all requirements of ARRA to be eligible for the RZEDB interest credit. The Series 2010B bonds were issued as taxable obligations that the County elected to irrevocably designate as qualified RZEDBs. The entire County has been designated as a recovery zone pursuant to a resolution adopted by the Board of Commissioners of the County on November 24, 2009.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Debt Service Requirements (Continued)

Taking into consideration the above RZEDB interest credit, as of December 31, 2012, the County's net annual debt service requirements to amortize all taxable general obligation bonds outstanding, including interest of \$270,825 on the governmental activities debt is as follows:

| Year Ending December 31 | Principal | Interest | Federal Subsidy | Net Interest | Total Payment |
|----------------------------|---------------------|-------------------|--------------------|-------------------|---------------------|
| 2013 | \$ - | \$ 73,120 | \$ 32,904 | \$ 40,216 | \$ 40,216 |
| 2014 | - | 73,120 | 32,904 | 40,216 | 40,216 |
| 2015 | - | 73,120 | 32,904 | 40,216 | 40,216 |
| 2016 | - | 73,120 | 32,904 | 40,216 | 40,216 |
| 2017 | - | 73,120 | 32,904 | 40,216 | 40,216 |
| 2018 - 2020 | 1,665,000 | 126,810 | 57,065 | 69,745 | 1,734,745 |
| Total | <u>\$ 1,665,000</u> | <u>\$ 492,410</u> | <u>\$ 221,585</u> | <u>\$ 270,825</u> | <u>\$ 1,935,825</u> |

6. 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 payable | \$ 18,725,000 | \$ - | \$ 3,510,000 | \$ 15,215,000 | \$ 3,665,000 |
| Taxable general obligation bonds | 1,665,000 | - | - | 1,665,000 | - |
| Revenue bonds payable | 5,160,000 | - | 475,000 | 4,685,000 | 480,000 |
| Compensated absences | 7,942,407 | 6,921,606 | 6,718,728 | 8,145,285 | 6,511,341 |
| Bond premiums | 276,507 | - | 45,701 | 230,806 | - |
| OPEB liability | 2,468,697 | 697,371 | 311,082 | 2,854,986 | - |
| Total Long-Term Liabilities | <u>\$ 36,237,611</u> | <u>\$ 7,618,977</u> | <u>\$ 11,060,511</u> | <u>\$ 32,796,077</u> | <u>\$ 10,656,341</u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Operating Leases

The County currently has eight operating leases. The County made operating lease payments totaling \$129,889 in 2012. The following is a schedule of future minimum operating lease payments:

| Year Due | Lease Payments |
|----------|----------------|
| 2013 | \$ 109,669 |
| 2014 | 57,312 |
| 2015 | 400 |
| 2016 | 400 |
| 2017 | 400 |
| 2018 | 400 |
| Total | \$ 168,581 |

D. Fund Balances

1. Nonspendable Fund Balance

The detail of nonspendable fund balance as of December 31, 2012, is as follows:

| | General | Road and Bridge | Other Governmental Funds | Total |
|---------------------------|---------|--------------------|--------------------------------|--------------|
| Nonspendable fund balance | | | | |
| Inventories | \$ - | \$ 1,496,163 | \$ - | \$ 1,496,163 |
| Prepays | 100 | - | - | 100 |
| Advances to other funds | - | - | 348,070 | 348,070 |
| Total Nonspendable | \$ 100 | \$ 1,496,163 | \$ 348,070 | \$ 1,844,333 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balances (Continued)

2. Restricted Fund Balance

The detail of restricted fund balance as of December 31, 2012, is as follows:

| | <u>General</u> | <u>Miscellaneous</u> | <u>Debt Service</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|---------------------------------|---------------------|----------------------|-------------------------|---|----------------------|
| Restricted fund balance | | | | | |
| Recorder's technology equipment | \$ 372,150 | \$ - | \$ - | \$ - | \$ 372,150 |
| Economic development | - | - | - | 539,614 | 539,614 |
| E-911 | 418,655 | - | - | - | 418,655 |
| Recorder's compliance | 578,468 | - | - | - | 578,468 |
| Attorney's forfeited property | 11,317 | - | - | - | 11,317 |
| DWI vehicle forfeitures | 44,220 | - | - | - | 44,220 |
| Debt service | - | - | 4,484,286 | - | 4,484,286 |
| Law library | - | - | - | 112,875 | 112,875 |
| Landfill | - | 57,339 | - | - | 57,339 |
| Gravel pit closure | - | 255,338 | - | - | 255,338 |
| Regional rail authority | - | - | - | 580,009 | 580,009 |
| Ditch | - | - | - | 119,385 | 119,385 |
| HAVA grant | 6,054 | - | - | - | 6,054 |
| Sanitation | - | - | - | 2,571,448 | 2,571,448 |
| | <u>\$ 1,430,864</u> | <u>\$ 312,677</u> | <u>\$ 4,484,286</u> | <u>\$ 3,923,331</u> | <u>\$ 10,151,158</u> |

3. Committed Fund Balance

The detail of committed fund balance as of December 31, 2012, is as follows:

| | <u>Other Governmental Funds</u> |
|------------------------|---|
| Committed fund balance | |
| Parks | \$ 653,346 |
| County building | 32,244 |
| | <u>685,590</u> |
| Total Committed | <u>\$ 685,590</u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balances (Continued)

4. Assigned Fund Balance

The detail of assigned fund balance as of December 31, 2012, is as follows:

| | <u>General</u> | <u>Road and Bridge</u> | <u>Human Services</u> | <u>Miscellaneous</u> | <u>Capital Projects</u> | <u>Total</u> |
|---------------------------|-----------------|----------------------------|---------------------------|----------------------|-----------------------------|----------------------|
| Assigned fund balance | | | | | | |
| Road and bridge | \$ - | \$ 4,154,591 | \$ - | \$ - | \$ - | \$ 4,154,591 |
| Human services | - | - | 14,919,805 | - | - | 14,919,805 |
| K9 unit | - | - | - | 10,983 | - | 10,983 |
| Sheriff's equipment | - | - | - | 8,291 | - | 8,291 |
| Sheriff's mounted reserve | 5,557 | - | - | - | - | 5,557 |
| Parks contingency | - | - | - | 181,520 | - | 181,520 |
| Miscellaneous | - | - | - | 35,963 | - | 35,963 |
| Wellness activities | - | - | - | 27,574 | - | 27,574 |
| Capital projects | - | - | - | - | 15,480,319 | 15,480,319 |
| Total Assigned | <u>\$ 5,557</u> | <u>\$ 4,154,591</u> | <u>\$ 14,919,805</u> | <u>\$ 264,331</u> | <u>\$ 15,480,319</u> | <u>\$ 34,824,603</u> |

E. Other Postemployment Benefits (OPEB)

Plan Description

Pursuant to Minn. Stat. § 471.61, subd. 2a, the County provides postemployment health care and dental benefits for eligible retired employees, spouses, and dependents through a single-employer defined benefit plan.

Qualified retirees are eligible to receive a postemployment benefit that reduces the monthly premium of the health care insurance coverage provided under Minn. Stat. § 471.61, subd. 2b, by \$10 per month for each year of consecutive County service up to a maximum of 20 years of consecutive County service for a period of 24 months immediately upon retirement. In order to qualify for this benefit, retirees must meet the following criteria: (1) 12 or more consecutive years of County service, and (2) meets Public Employees Retirement Association of Minnesota (PERA) requirements for retirement benefits.

Retirees that receive health care benefits from subsequent employment are no longer eligible for this benefit. Also, retirees must take any available Medicare benefits. The benefit terminates upon the death of the retiree.

In addition, the County provides benefits for other retirees and spouses of retirees as required by Minn. Stat. § 471.61, subd. 2b. These benefits include access to the same health care and dental insurance coverage provided by the County to active employees.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

The benefits are administered by the County Board of Commissioners and can be amended through its personnel manual and labor contracts. A separate benefits plan report is not issued. The activity of the plan is reported in the government-wide financial statements.

Participants

Participants of the plan consisted of the following at January 1, 2011, the date of the most recent actuarial valuation:

| | |
|-------------------------|-------------------|
| Active employees | 810 |
| Retired employees | 40 |
| Spouses of retirees | <u>3</u> |
| Total Plan Participants | <u><u>853</u></u> |

Funding Policy

The contribution requirements of plan members and the County are established and may be amended by the Stearns County Board of Commissioners. The County finances the plan on a “pay-as-you-go” basis. During 2012, the County expended \$311,082 for these benefits.

For those qualified retirees that meet the criteria for a full medical insurance benefit, the County contributes 100 percent of the benefit cost. All other retirees and their spouses contribute 100 percent of the premium cost for medical and dental insurance. Since the premium is a blended rate determined on the entire active and retiree population, the retirees receive an implicit rate subsidy.

Annual OPEB Cost and Net OPEB Obligation

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 that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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 OPEB cost for 2012, the amount actuarially contributed to the plan, and changes in the County's net OPEB obligation.

| | | |
|---|----|-------------------------|
| ARC | \$ | 738,597 |
| Interest on net OPEB obligation | | 111,091 |
| Adjustment to ARC | | <u>(152,317)</u> |
| Annual OPEB cost | \$ | 697,371 |
| Contributions during the year | | <u>(311,082)</u> |
| | | |
| Increase in net OPEB obligation | \$ | 386,289 |
| | | |
| Net OPEB Obligation - Beginning of Year | | <u>2,468,697</u> |
| | | |
| Net OPEB Obligation - End of Year | \$ | <u><u>2,854,986</u></u> |

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008, 2009, 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, 2008 | \$ 883,516 | \$ 271,558 | 30.74% | \$ 611,958 |
| December 31, 2009 | 1,041,894 | 300,067 | 28.80 | 1,353,785 |
| December 31, 2010 | 1,030,123 | 387,160 | 37.58 | 1,996,748 |
| December 31, 2011 | 706,564 | 234,615 | 33.21 | 2,468,697 |
| December 31, 2012 | 697,371 | 311,082 | 44.61 | 2,854,986 |

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the County currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of plan assets is zero.

| | | |
|---|----|-------------------------|
| Actuarial accrued liability (AAL) | \$ | 5,753,918 |
| Actuarial value of plan assets | | <u>-</u> |
| | | |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ | <u><u>5,753,918</u></u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

E. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

| | |
|---|---------------|
| Funded ratio (actuarial value of plan assets/AAL) | 0.0% |
| Covered payroll (active plan members) | \$ 46,584,529 |
| UAAL as a percentage of covered payroll | 12.4% |

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return and an annual health care cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 6 years. The actuarial value of plan assets was set equal to the market value of assets. The UAAL is being amortized over 30 years on a closed group basis. The remaining amortization period at December 31, 2012, was 25 years.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

F. Contract Commitments

The Road and Bridge Special Revenue Fund entered into several contract commitments for road projects which have not been completed as of December 31, 2012, totaling \$4,690,815.

4. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. 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. The County is self-insured for its health benefits plan. The County purchases commercial insurance for other risks of loss. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three 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 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

On February 1, 2002, the County contracted with Health Partners and Resource Training & Solutions to administer health benefits plans for its employees as provided by plans accepted from Health Partners and Blue Cross/Blue Shield, respectively. The

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

County sets annual premiums for the plans based on the recommendation of the plan administrators and accumulates premiums collected from all participating funds in the General Fund. Claims processing is handled differently between the two plans.

Claims against the Health Partners account are processed through Health Partners, which bills the County for the actual medical costs incurred. Claims against the Blue Cross/Blue Shield account are processed through Resource Training & Solutions. At the beginning of each month, the County remits to Resource Training & Solutions the anticipated costs for that month as established by the plan in the current plan year. All costs incurred by the County for a plan year in regard to the Blue Cross/Blue Shield plan are then paid from funds collected by Resource Training & Solutions during the plan year. Changes in the balances of claims liabilities for the past two years are:

| | 2012 | 2011 |
|-----------------------------|--------------|--------------|
| Unpaid claims - January 1 | \$ 1,188,000 | \$ 1,136,000 |
| Current year claims | 6,092,989 | 7,181,616 |
| Claim payments | (6,240,989) | (7,129,616) |
| Unpaid claims - December 31 | \$ 1,040,000 | \$ 1,188,000 |

B. Contingent Liabilities

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 government.

C. Joint Ventures

Stearns-Benton Employment and Training Council

The Stearns-Benton Employment and Training Council was created for the purpose of undertaking, implementing, and maintaining the programs established under the Job Training Partnership Act of 1982 and other federal and state laws and regulations governing the establishment and implementation of programs within areas governed by

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Stearns-Benton Employment and Training Council (Continued)

Stearns and Benton Counties. The Council is an organized joint venture having the duties, powers, and privileges granted joint powers by Minn. Stat. § 471.59. The Council is governed by a Joint Powers Board and a Workforce Development Council. The Joint Powers Board is composed of two Commissioners each from Stearns and Benton Counties and one Workforce Development Council member. As of June 30, 2012, the Workforce Development Council was composed of 27 members from local business, industry, agriculture, labor organizations, public or private education, and community service groups. Included in the Joint Powers Board's duties and powers is the authority to approve the Council's budget and enter into any necessary contracts or leases.

Complete financial statements of the Stearns-Benton Employment and Training Council can be obtained by writing to the administrative offices at the Minnesota Workforce Center at 1540 Northway Drive, St. Cloud, Minnesota 56303.

Northstar Corridor Development Authority

In May 1997, Stearns County entered into a joint powers agreement to create the Northstar Corridor Development Authority (NCDA) to develop the Northstar commuter rail project from St. Cloud, Minnesota to Minneapolis, Minnesota. Currently, there are 24 counties, regional rail authorities, cities, and townships that make up this agreement. State and federal grant monies, member county contributions, and the regional railroad authorities' agreement to allocate the initial contributions of capital has provided funding for the NCDA.

The NCDA Joint Powers Board, which consists of one elected official from each of the member governmental units, has the authority to make all administrative decisions regarding the Northstar commuter rail. The NCDA does not have the authority to levy taxes or issue bonds, but it can enter into contracts, and acquire, hold and dispose of real and personal property. Upon termination of the joint powers agreement, the NCDA has the authority to dispose of any property. The joint powers agreement does not authorize the NCDA to operate or finance the operations of the Northstar commuter rail.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Northstar Corridor Development Authority (Continued)

Members pay annual dues to the NCDA. In 2012, Stearns County paid dues of \$165,303 to the NCDA; this amount is recorded as an expenditure in the Regional Rail Authority Special Revenue Fund.

Anoka and Sherburne Counties, in agency capacities, report the cash transactions of the NCDA as part of the Counties' agency funds on their respective financial statements. Complete financial statements for the NCDA can be obtained by writing to its administrative offices at 2100 Third Avenue, Anoka, Minnesota 55303.

Central Minnesota Emergency Medical Services Region

The Central Minnesota Emergency Medical Services Region (CMEMSR) was established in 2001 pursuant to Minn. Stat. § 471.59, and is currently operating under a memorandum of understanding between the counties of Benton, Cass, Chisago, Crow Wing, Isanti, Kanabec, Mille Lacs, Morrison, Pine, Sherburne, Stearns, Todd, Wadena, and Wright.

The purpose of the CMEMSR is to improve the planning, coordination, and implementation of emergency medical services within the member counties.

The CMEMSR has established a board which has general supervision over its activities. The Board consists of 14 County Commissioners, one from each of the member counties. Stearns County is the fiscal agent for the CMEMSR and reports the CMEMSR's activities in an agency fund in its financial statements.

Complete financial information can be obtained from Marion Larson, Regional EMS Coordinator, Central Minnesota Emergency Medical Services Region, Stearns County Administration Center, 705 Courthouse Square, St. Cloud, Minnesota 56303.

Central Minnesota Regional Radio Board

The Central Minnesota Regional Radio Board was established by a joint powers agreement among the City of St. Cloud and the counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns,

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Regional Radio Board (Continued)

Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright. The Joint Powers Board is comprised of one city council member from the City of St. Cloud, and one County Commissioner from each member county. The parties entered into the joint powers agreement pursuant to Minn. Stat. §§ 403.39 and 471.59, for the purpose of preparing and administering a plan which provides for the installation, operation, and maintenance of local and regional enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

The City of St. Cloud is the fiscal agent for the Central Minnesota Regional Radio Board. Financial information for the Radio Board can be obtained from St. Cloud City Hall, Finance Department, 400 Second Street South, St. Cloud, Minnesota 56301.

Central Minnesota Violent Offender Task Force

The counties of Benton, Morrison, Todd, Sherburne and Stearns, and the cities of Sartell, Sauk Rapids, Waite Park, St. Joseph, St. Cloud, and Little Falls, have entered into a joint powers agreement to investigate, identify, and disrupt illegal drug and gain activity through multi-jurisdictional investigations in Central Minnesota. The Stearns County Sheriff's Office is the fiscal agent for the Central Minnesota Violent Offender Task Force.

Members provide officers to the Task Force in lieu of appropriations; Stearns County provided no cash funding to this organization during 2012.

Separate financial information for the Task Force can be obtained from the St. Cloud Police Department, 101 - 11th Avenue North, P.O. Box 1616, St. Cloud, Minnesota 56303.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

D. Jointly-Governed Organization

Tri-County Solid Waste Management Commission

The Tri-County Solid Waste Management Commission was established in July 1983 by a joint powers agreement among Stearns, Benton, and Sherburne Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the duties, powers, and privileges granted joint powers by Minn. Stat. § 471.59. A Board of Directors governs the Commission. Each member county is entitled to no less than two, and no more than four, of its own County Commissioners on the Board. Population of the member counties determines how many of their County Commissioners sit on the Board. The Board of Directors is currently composed of eight members: four County Commissioners from Stearns County and two each from Benton and Sherburne Counties.

Each county's proportionate share of the net operating costs is based on the usage of the household hazardous waste facility and the solid waste picked up in each county.

The Commission will remain in existence as long as two or more counties remain as parties to the agreement. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the member counties in the ratio that the total contributions made by each of them bears to the sum total of contributions made by all.

Complete financial statements for the Tri-County Solid Waste Management Commission can be obtained by writing to its administrative offices at 3601 – 5th Street South, Waite Park, Minnesota 56387.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Stearns 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).

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 the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans (Continued)

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.

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 | \$ 3,077,017 | \$ 3,054,431 | \$ 2,922,577 |
| Public Employees Police and Fire Fund | 620,841 | 605,509 | 614,295 |
| Public Employees Correctional Fund | 410,872 | 410,019 | 400,420 |

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans (Continued)

B. Defined Contribution Plan

Four employees of Stearns 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 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 | \$ 7,120 | \$ 7,120 |
| Percentage of covered payroll | 5% | 5% |

Required contribution rates were 5.00 percent.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

A. Summary of Significant Accounting Policies

Reporting Entity

The Housing and Redevelopment Authority (HRA) of Stearns County is a component unit of Stearns County and is reported in a separate column in the County's financial statements to emphasize that the HRA is a legally separate entity from Stearns County. The HRA operates as a public agency created by Stearns County under the Minnesota Housing and Redevelopment Authority Act of 1947. The primary purpose is to provide housing and redevelopment services to the County. The governing body consists of a five-member Board of Commissioners appointed by the Stearns County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended June 30, 2012.

Deposits and Investments

The HRA's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

Minnesota statutes authorize the HRA to invest, with certain restrictions, in obligations of the U.S. Treasury, general obligations of the State of Minnesota or any of its municipalities, banker's acceptances, commercial paper, repurchase or reverse repurchase agreements, shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are obligations guaranteed by the United States or its agencies, and guaranteed investment contracts.

Investments are stated at fair value. It is the policy of the HRA to invest funds in HUD-approved securities; there are no further restrictions than those set forth by HUD.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

A. Summary of Significant Accounting Policies (Continued)

Property Taxes

The HRA annually adopts a levy and certifies it to the County for collection. The County is responsible for collecting all property taxes for the HRA. Real property taxes are paid by taxpayers of the County in two equal installments on May 15 and October 15. The County provides tax settlements to the HRA four times per year--in January, June, July, and December.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets are defined by the HRA as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets used in operations are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings and structures | 40 |
| Improvements other than buildings | 10 |
| Furniture and equipment | 10 - 30 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

A. Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the HRA's policy to permit certain employees to accumulate paid time off (PTO). After an employee has successfully completed probation, an employee who leaves the employment of the HRA in good standing shall be compensated for previously credited unused PTO at the current rate of pay up to a limited amount, based on years of service. A liability of \$60,741 represents accrued PTO time unused at year-end and is recognized as expense in the year it is earned.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

B. Detailed Notes

Deposits and Investments

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the HRA's deposits and investments may not be returned or the HRA will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes, and as authorized by the HRA, the HRA maintains deposits at depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a 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. The selection should be approved by the governing body.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

B. Detailed Notes

Deposits and Investments (Continued)

At year-end, the HRA's carrying amount of deposits was \$772,167, and the bank balance was \$830,733. Of the bank balance, \$655,329 was covered by federal depository insurance and national credit union share insurance, and the remaining amount was covered by pledged collateral held by the HRA's agent in the HRA's name.

Custodial Credit Risk - Investments

In accordance with the HRA's investment policy, the investment officer shall structure all investments, deposits, and repurchase agreements so that the custodial risk is categorized as either insured or registered, or securities held by the HRA or its agent in the HRA's name, or uninsured and unregistered, with securities held by the counterparty's trust department or agent in the HRA's name. All investments are placed in safekeeping at financial institutions.

Concentration of Credit Risk

The HRA's investment policy does not address concentration of credit risk; however, the HRA diversifies its investment portfolio to eliminate the risk of loss resulting from overconcentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The maturities selected shall provide for stability of income and reasonable liquidity.

Interest Rate Risk

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and indicate associated credit risk. Minnesota statutes and HRA investment policy limit the HRA's investments to those authorized by Minnesota statute.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

B. Detailed Notes (Continued)

Loans Receivable

The following is a summary of loans receivable at June 30, 2012:

| | |
|--------------------------------------|--------------------|
| Down payment assistance loans | \$ 25,243 |
| DEED | 4,153,784 |
| Minnesota Department of Health | 50,000 |
| Minnesota Department of Health 2 | 36,000 |
| Minnesota Department of Health 3 | 10,860 |
| Less: allowance for forgivable loans | <u>(4,250,644)</u> |
| Total Loans Receivable | <u>\$ 25,243</u> |

Loans have been issued by the HRA to provide mortgage or down payment assistance to County property owners. These loans are secured by property mortgages. In addition, loans are receivable from property owners who have been provided rehabilitation assistance. These loans are forgivable based on the number of years the owner lives in the rehabilitated property.

Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---------------------------------------|----------------------|--------------------|-------------|-------------------|
| Governmental activities | | | | |
| Capital assets not depreciated | | | | |
| Land | \$ 24,379 | \$ - | \$ - | \$ 24,379 |
| Capital assets depreciated | | | | |
| Buildings | \$ 491,599 | \$ - | \$ - | \$ 491,599 |
| Machinery and automotive | 50,480 | - | - | 50,480 |
| Total capital assets depreciated | <u>\$ 542,079</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 542,079</u> |
| Less: accumulated depreciation for | | | | |
| Buildings | \$ 73,740 | \$ 12,290 | \$ - | \$ 86,030 |
| Machinery and automotive | 48,278 | 1,655 | - | 49,933 |
| Total accumulated depreciation | <u>\$ 122,018</u> | <u>\$ 13,945</u> | <u>\$ -</u> | <u>\$ 135,963</u> |
| Total capital assets depreciated, net | <u>\$ 420,061</u> | <u>\$ (13,945)</u> | <u>\$ -</u> | <u>\$ 406,116</u> |
| Governmental Activities | | | | |
| Capital Assets, Net | <u>\$ 444,440</u> | <u>\$ (13,945)</u> | <u>\$ -</u> | <u>\$ 430,495</u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

B. Detailed Notes

Capital Assets (Continued)

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---------------------------------------|----------------------|-------------------|-------------------|---------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Business-type activities | | | | |
| Capital assets not depreciated | | | | |
| Land | \$ 459,815 | \$ 44,600 | \$ - | \$ 504,415 |
| Capital assets depreciated | | | | |
| Land improvements | \$ 127,155 | \$ - | \$ - | \$ 127,155 |
| Buildings | 3,960,838 | 445,234 | - | 4,406,072 |
| Machinery and automotive | 201,227 | 25,524 | - | 226,751 |
| Total capital assets depreciated | <u>\$ 4,289,220</u> | <u>\$ 470,758</u> | <u>\$ -</u> | <u>\$ 4,759,978</u> |
| Less: accumulated depreciation for | | | | |
| Land improvements | \$ 64,888 | \$ 3,748 | \$ - | \$ 68,636 |
| Buildings | 1,059,471 | 110,906 | - | 1,170,377 |
| Machinery and automotive | 122,215 | 11,342 | - | 133,557 |
| Total accumulated depreciation | <u>\$ 1,246,574</u> | <u>\$ 125,996</u> | <u>\$ -</u> | <u>\$ 1,372,570</u> |
| Total capital assets depreciated, net | <u>\$ 3,042,646</u> | <u>\$ 344,762</u> | <u>\$ -</u> | <u>\$ 3,387,408</u> |
| Business-Type Activities | | | | |
| Capital Assets, Net | <u>\$ 3,502,461</u> | <u>\$ 389,362</u> | <u>\$ -</u> | <u>\$ 3,891,823</u> |

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

| | | |
|--|-----------|----------------|
| Governmental Activities | | |
| General government | | |
| Housing and economic development | \$ | 13,945 |
| Business-Type Activities | | |
| Public housing | \$ | 48,603 |
| Rental properties | | 58,405 |
| Section 8 Housing | | 17,607 |
| The Bell | | <u>17,607</u> |
| Total Depreciation Expense - Business-Type Activities | <u>\$</u> | <u>125,996</u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

B. Detailed Notes (Continued)

Long-Term Debt

1. Housing Development Bonds

The following bonds were issued to finance the construction of rental buildings and will be repaid from rental income.

| | <u>Authorized and Issued</u> | <u>Interest Rate (%)</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Balance at Year-End</u> |
|--|----------------------------------|------------------------------|-----------------------|--------------------------|--------------------------------|
| Housing Development Crossover Refunding Bonds, Series 2006 | \$ 990,000 | 4.00 - 4.25 | 12/19/2006 | 02/01/2031 | <u>\$ 875,000</u> |

2. Loans and Notes

The following loans and notes are through the State's Economic Development and Housing Challenge Program used in the production of housing.

| <u>Description</u> | <u>Authorized and Issued</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Balance at Year End</u> |
|-------------------------------|----------------------------------|--------------------------|-----------------------|--------------------------|--------------------------------|
| MHFA Loans | \$ 555,500 | - % | 3/15/2002 | 5/01/2032 | \$ 555,500 |
| Bell Apartment Loan | 400,000 | 4.38 | 4/28/2005 | 5/15/2020 | 243,823 |
| Bell MHFA Note | 91,369 | - | 2/10/2009 | 2/10/2014 | 91,369 |
| Kimball 12 Apartment Loan | 300,000 | 3.85 | 3/31/2010 | 3/15/2030 | 276,273 |
| Kimball DEED Loan | 95,173 | - | 6/30/2011 | 6/30/2016 | 95,173 |
| Sauk Centre Apartment Loan | 380,000 | 3.7 | 9/1/2011 | 9/15/2021 | <u>373,580</u> |
| Total Loans and Notes Payable | | | | | <u>\$ 1,635,718</u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

B. Detailed Notes (Continued)

3. Debt Service Requirements

Debt service requirements at June 30, 2012, were as follows:

| Year Ending 30-Jun | MHFA Loans | | Housing Development Bonds | |
|-----------------------|---------------------|-------------------|---------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2013 | \$ 47,225 | \$ 34,349 | \$ 30,000 | \$ 36,088 |
| 2014 | 140,465 | 32,477 | 35,000 | 34,888 |
| 2015 | 51,151 | 30,422 | 35,000 | 33,488 |
| 2016 | 148,388 | 28,358 | 35,000 | 32,088 |
| 2017 | 55,521 | 26,053 | 35,000 | 30,688 |
| 2018 - 2022 | 493,217 | 89,457 | 210,000 | 130,238 |
| 2023 - 2027 | 88,012 | 20,003 | 255,000 | 84,173 |
| 2028 - 2032 | 611,739 | 3,171 | 240,000 | 26,134 |
| Total | <u>\$ 1,635,718</u> | <u>\$ 264,290</u> | <u>\$ 875,000</u> | <u>\$ 407,785</u> |

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|-------------------|---------------------|------------------------|
| Business-type activities | | | | | |
| Bonds payable | | | | | |
| Housing Development Crossover Refunding Bonds, Series 2006 | <u>\$ 905,000</u> | <u>\$ -</u> | <u>\$ 30,000</u> | <u>\$ 875,000</u> | <u>\$ 30,000</u> |
| Loans | | | | | |
| MHFA | \$ 555,500 | \$ - | \$ - | \$ 555,500 | \$ - |
| Bell Apartment | 269,019 | - | 25,196 | 243,823 | 26,602 |
| Bell MHFA Note | 91,369 | - | - | 91,369 | - |
| Kimball 12 Apartment | 286,837 | - | 10,564 | 276,273 | 11,014 |
| Kimball 12 DEED Loan | 95,173 | - | - | 95,173 | - |
| Sauk Centre Apartment Loan | - | 380,000 | 6,420 | 373,580 | 9,609 |
| Total Loans | <u>\$ 1,297,898</u> | <u>\$ 380,000</u> | <u>\$ 42,180</u> | <u>\$ 1,635,718</u> | <u>\$ 47,225</u> |
| Compensated absences | <u>\$ 29,046</u> | <u>\$ 31,891</u> | <u>\$ 29,710</u> | <u>\$ 31,227</u> | <u>\$ 31,227</u> |
| Business-Type Activities Long-Term Liabilities | <u>\$ 2,231,944</u> | <u>\$ 411,891</u> | <u>\$ 101,890</u> | <u>\$ 2,541,945</u> | <u>\$ 108,452</u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County (Continued)

C. Defined Contribution Pension Plans

On October 1, 1998, the HRA adopted a defined contribution pension plan for all employees working at least 20 hours per week for at least five months out of the year. The employer contributes 7.25 percent annually of the employee's base rate of pay to the plan. Participating employees shall vest in employer contributions at the rate of 50 percent for each full year of continuous employment. For the fiscal years ended June 30, 2012, 2011, and 2010, employer contributions totaled \$36,640, \$35,467, and \$33,180, respectively.

D. Other Information

Risk Management

The HRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the HRA carries insurance through the Minnesota Counties Intergovernmental Trust. The HRA retains risk for the deductible portions of the insurance. The amount of these deductibles is considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The HRA's management is not aware of any incurred but not reported claims.

Joint Powers Agreement

A Joint Powers Agreement has been entered into between the Housing and Redevelopment Authorities of Carver County, Northwest Minnesota Multi-County, Olmsted County, the City of St. Cloud, Scott County, Southeastern Minnesota Multi-County, and Stearns County (the Members) pursuant to Minn. Stat. § 471.59 and chapter 462C. The purpose of this agreement is to preserve the quality of life in these jurisdictions through the maintenance provision and preservation of adequate housing stock, to encourage new housing construction, and to provide affordable housing to persons of low and moderate income.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

D. Other Information

Joint Powers Agreement (Continued)

The Members have obtained allocations of tax-exempt bonding authority to be used for issuance of qualified mortgage bonds and have previously issued certain single-family mortgage revenue refunding bonds, which they have determined to refund. The bonds shall be special limited obligations of the Members, payable solely from proceeds, revenues, and other amounts pledged thereto, and more fully described in, the indenture. The bonds and interest thereon shall neither constitute nor give rise to indebtedness; pecuniary liability; general or moral obligation; or a pledge of the faith or loan of credit of the Members, the State, or any other political subdivision thereof.

Conduit Debt Obligations

The HRA has issued Industrial Development Notes and Public Project Revenue Bonds to finance construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and shall not constitute debt for which the full faith and credit or taxing powers of the HRA will be pledged. Neither the HRA nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2012, there were bonds outstanding with an aggregate principal payable of \$1,112,494.

E. Commitment

On June 18, 2007, the HRA entered into a development agreement with the City of Belgrade, Minnesota, for a construction project. The HRA has an obligation to the City for a portion of the bond payments, for bonds issued to finance the project. If tax increment revenue received by the City is insufficient to cover the principal and interest amounts for the applicable period, the HRA is required to pay the City a portion of the net deficiency. As of June 30, 2012, the HRA has a possible remaining principal obligation of \$125,000 plus interest at a rate of 4.050 to 4.175 percent. The final payment on the bonds is March 1, 2026.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County (Continued)

F. Capital Grant Program

The HRA receives capital grant funds from the U.S. Department of Housing and Urban Development. The following schedule reconciles the grants with the current activity:

| | Grant Year | | |
|--------------------------|------------|-----------|-----------|
| | 2011 | 2012 | Total |
| Funds approved | \$ 28,692 | \$ 26,560 | \$ 55,252 |
| Funds expended | 28,692 | 26,560 | 55,252 |
| Excess of Funds Approved | \$ - | \$ - | \$ - |
| Funds advanced | \$ 28,692 | \$ 26,560 | \$ 55,252 |
| Revenue | \$ 28,692 | \$ 26,560 | \$ 55,252 |

G. Subsequent Event

On July 17, 2012, the HRA purchased a rental property in St. Martin, Minnesota. The purchase price was \$150,122, and included the assumption of a USDA mortgage balance in the amount of \$135,122. The mortgage, which bears an interest rate of one percent, is a 50-year note and originated on October 28, 1981.

REQUIRED SUPPLEMENTARY INFORMATION

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**STEARNS COUNTY
ST. CLOUD, 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 | \$ 33,363,563 | \$ 33,363,563 | \$ 33,572,585 | \$ 209,022 |
| Licenses and permits | 528,650 | 528,650 | 482,953 | (45,697) |
| Intergovernmental | 7,622,719 | 9,199,932 | 9,771,968 | 572,036 |
| Charges for services | 3,958,100 | 4,071,375 | 4,569,103 | 497,728 |
| Fines and forfeits | 1,500 | 153,604 | 114,022 | (39,582) |
| Gifts and contributions | - | - | 3,090 | 3,090 |
| Investment income | 775,000 | 775,000 | 980,884 | 205,884 |
| Miscellaneous | 2,234,342 | 2,332,742 | 3,089,677 | 756,935 |
| Total Revenues | \$ 48,483,874 | \$ 50,424,866 | \$ 52,584,282 | \$ 2,159,416 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 440,000 | \$ 449,418 | \$ 286,672 | \$ 162,746 |
| Courts | 210,000 | 210,000 | 188,873 | 21,127 |
| County administration | 923,331 | 947,934 | 925,777 | 22,157 |
| Auditor-Treasurer | 4,972,794 | 5,078,472 | 4,838,991 | 239,481 |
| Assessor | 1,550,509 | 1,529,879 | 1,485,136 | 44,743 |
| Purchasing | 289,810 | 285,946 | 279,211 | 6,735 |
| Information services | 1,973,657 | - | 4,489 | (4,489) |
| Graphical information systems | 240,329 | 180,114 | 178,056 | 2,058 |
| Human resources | 840,502 | 875,261 | 868,134 | 7,127 |
| Attorney | 5,881,547 | 6,033,516 | 5,834,205 | 199,311 |
| Recorder | 1,285,402 | 1,286,841 | 1,127,988 | 158,853 |
| Maintenance | 2,488,006 | 2,369,015 | 2,316,813 | 52,202 |
| Veterans service officer | 285,447 | 292,808 | 299,095 | (6,287) |
| Sexual assault victims | 25,000 | 25,000 | 24,850 | 150 |
| Other general government | (1,309,000) | 1,534,700 | 1,392,793 | 141,907 |
| Total general government | \$ 20,097,334 | \$ 21,098,904 | \$ 20,051,083 | \$ 1,047,821 |
| Public safety | | | | |
| Sheriff | \$ 9,723,832 | \$ 10,207,708 | \$ 10,102,837 | \$ 104,871 |
| Boat and water safety | 65,214 | 65,214 | 41,783 | 23,431 |
| Coroner | 226,358 | 226,358 | 251,701 | (25,343) |
| E-911 system | 250,000 | 260,403 | 271,516 | (11,113) |
| County jail | 10,627,976 | 10,478,047 | 9,934,475 | 543,572 |
| Civil defense | 290,306 | 287,382 | 290,424 | (3,042) |
| Total public safety | \$ 21,183,686 | \$ 21,525,112 | \$ 20,892,736 | \$ 632,376 |

**STEARNS COUNTY
ST. CLOUD, 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) | | | | |
| Culture and recreation | | | | |
| Historical society | \$ 566,000 | \$ 566,000 | \$ 566,000 | \$ - |
| County library | 2,093,432 | 2,093,432 | 2,093,432 | - |
| Total culture and recreation | \$ 2,659,432 | \$ 2,659,432 | \$ 2,659,432 | \$ - |
| Conservation of natural resources | | | | |
| County extension | \$ 388,492 | \$ 384,209 | \$ 378,790 | \$ 5,419 |
| Soil and water conservation | 960,000 | 960,000 | 960,000 | - |
| Agricultural society | 20,000 | 20,000 | 20,000 | - |
| Environmental services | 3,117,568 | 3,112,014 | 3,420,961 | (308,947) |
| Total conservation of natural resources | \$ 4,486,060 | \$ 4,476,223 | \$ 4,779,751 | \$ (303,528) |
| Economic development | | | | |
| Community development | \$ 65,362 | \$ 65,362 | \$ 65,362 | \$ - |
| Intergovernmental | | | | |
| Community development | \$ - | \$ - | \$ 316,023 | \$ (316,023) |
| Total Expenditures | \$ 48,491,874 | \$ 49,825,033 | \$ 48,764,387 | \$ 1,060,646 |
| Excess of Revenues Over (Under) Expenditures | \$ (8,000) | \$ 599,833 | \$ 3,819,895 | \$ 3,220,062 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ - | \$ 2,329,944 | \$ 2,329,944 | \$ - |
| Transfers out | - | (3,871,852) | (3,871,852) | - |
| Proceeds from sale of capital assets | 8,000 | 8,000 | 21,501 | 13,501 |
| Total Other Financing Sources (Uses) | \$ 8,000 | \$ (1,533,908) | \$ (1,520,407) | \$ 13,501 |
| Net Change in Fund Balance | \$ - | \$ (934,075) | \$ 2,299,488 | \$ 3,233,563 |
| Fund Balance - January 1 | 27,633,800 | 27,633,800 | 27,633,800 | - |
| Fund Balance - December 31 | \$ 27,633,800 | \$ 26,699,725 | \$ 29,933,288 | \$ 3,233,563 |

**STEARNS COUNTY
ST. CLOUD, 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 | \$ 7,089,724 | \$ 7,089,724 | \$ 7,055,054 | \$ (34,670) |
| Licenses and permits | 43,000 | 43,000 | 70,446 | 27,446 |
| Intergovernmental | 13,449,949 | 13,449,949 | 15,284,796 | 1,834,847 |
| Charges for services | 1,800 | 1,800 | 2,753 | 953 |
| Miscellaneous | 13,000 | 13,000 | 22,091 | 9,091 |
| Total Revenues | \$ 20,597,473 | \$ 20,597,473 | \$ 22,435,140 | \$ 1,837,667 |
| Expenditures | | | | |
| Current | | | | |
| Highways and streets | | | | |
| Administration | \$ 780,652 | \$ 881,369 | \$ 813,831 | \$ 67,538 |
| Maintenance | 5,287,776 | 5,006,498 | 4,747,785 | 258,713 |
| Construction | 12,404,767 | 12,400,667 | 19,306,190 | (6,905,523) |
| Equipment maintenance and shop | 2,058,191 | 2,058,573 | 2,502,366 | (443,793) |
| Other highway and streets | - | - | 3,898 | (3,898) |
| Total highways and streets | \$ 20,531,386 | \$ 20,347,107 | \$ 27,374,070 | \$ (7,026,963) |
| Conservation of natural resources | | | | |
| Agricultural inspector | \$ 87,087 | \$ 50,499 | \$ 55,703 | \$ (5,204) |
| Intergovernmental | | | | |
| Highways and streets | \$ - | \$ - | \$ 695,467 | \$ (695,467) |
| Total Expenditures | \$ 20,618,473 | \$ 20,397,606 | \$ 28,125,240 | \$ (7,727,634) |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (21,000) | \$ 199,867 | \$ (5,690,100) | \$ (5,889,967) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ - | \$ 195,390 | \$ 195,390 | \$ - |
| Transfers out | - | (415,957) | (415,957) | - |
| Proceeds from sale of capital assets | 21,000 | 21,000 | 27,734 | 6,734 |
| Total Other Financing Sources (Uses) | \$ 21,000 | \$ (199,567) | \$ (192,833) | \$ 6,734 |
| Net Change in Fund Balance | \$ - | \$ 300 | \$ (5,882,933) | \$ (5,883,233) |
| Fund Balance - January 1 | 10,721,861 | 10,721,861 | 10,721,861 | - |
| Increase (decrease) in inventories | - | - | 811,826 | 811,826 |
| Fund Balance - December 31 | \$ 10,721,861 | \$ 10,722,161 | \$ 5,650,754 | \$ (5,071,407) |

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

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES 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 | \$ 22,780,747 | \$ 22,780,747 | \$ 22,572,527 | \$ (208,220) |
| Intergovernmental | 18,637,075 | 18,988,798 | 18,695,679 | (293,119) |
| Charges for services | 1,893,510 | 1,893,510 | 1,753,621 | (139,889) |
| Gifts and contributions | - | - | 11,045 | 11,045 |
| Miscellaneous | 1,349,150 | 1,349,150 | 1,187,944 | (161,206) |
| Total Revenues | \$ 44,660,482 | \$ 45,012,205 | \$ 44,220,816 | \$ (791,389) |
| Expenditures | | | | |
| Current | | | | |
| Public safety | | | | |
| Community corrections | \$ 7,344,279 | \$ 7,354,368 | \$ 7,705,649 | \$ (351,281) |
| Human services | | | | |
| Administrative services | \$ 3,771,868 | \$ 3,685,958 | \$ 3,957,484 | \$ (271,526) |
| Gateway services | 7,809,546 | 7,560,530 | 7,772,070 | (211,540) |
| Community support | 9,847,926 | 9,651,802 | 9,074,727 | 577,075 |
| Family and children services | 7,078,016 | 6,716,259 | 6,532,220 | 184,039 |
| Finance and technology | 5,934,176 | 6,677,428 | 6,360,243 | 317,185 |
| Total human services | \$ 34,441,532 | \$ 34,291,977 | \$ 33,696,744 | \$ 595,233 |
| Health | | | | |
| Nursing service | \$ 2,946,818 | \$ 2,763,258 | \$ 2,813,928 | \$ (50,670) |
| Total Expenditures | \$ 44,732,629 | \$ 44,409,603 | \$ 44,216,321 | \$ 193,282 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | \$ (72,147) | \$ 602,602 | \$ 4,495 | \$ (598,107) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 72,147 | \$ 1,103,061 | \$ 1,103,061 | \$ - |
| Transfers out | - | (1,457,539) | (1,457,539) | - |
| Total Other Financing Sources (Uses) | \$ 72,147 | \$ (354,478) | \$ (354,478) | \$ - |
| Net Change in Fund Balance | \$ - | \$ 248,124 | \$ (349,983) | \$ (598,107) |
| Fund Balance - January 1 | 15,269,788 | 15,269,788 | 15,269,788 | - |
| Fund Balance - December 31 | \$ 15,269,788 | \$ 15,517,912 | \$ 14,919,805 | \$ (598,107) |

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

**STEARNS COUNTY
ST. CLOUD, 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 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 | \$ - | \$ 6,649,905 | \$ 6,649,905 | 0.0% | \$ 35,087,133 | 18.95% |
| January 1, 2009 | - | 7,975,763 | 7,975,763 | 0.0 | 46,357,707 | 17.20 |
| January 1, 2010 | - | 5,753,918 | 5,753,918 | 0.0 | 46,584,529 | 12.35 |

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

1. Budgetary Information

Budget Policies

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, certain special revenue funds, and the Debt Service Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action. Expenditures may not exceed budgeted appropriations at the function level within each individual fund.

Budgets can be amended or modified during the year only by the County Board, County Auditor-Treasurer, or Financial Manager. All transfers of budgeted amounts within departments (except capital outlay) can be made by the County Auditor-Treasurer or the Financial Manager. Any other transfers, appropriations, or capital outlay changes or additions require County Board approval. Additional appropriations would be allowed only to the extent that resources are currently available or attainable to cover expenditures.

Encumbrances

Encumbrance accounting, under which commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the governmental funds. Encumbrances lapse at year-end and are rebudgeted the following year.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

2. Excess of Expenditures Over Budget

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2012.

| | <u>Expenditures</u> | <u>Final Budget</u> | <u>Excess</u> |
|-----------------------------------|---------------------|---------------------|---------------|
| General Fund | | | |
| Current | | | |
| Conservation of natural resources | \$ 4,779,751 | \$ 4,476,223 | \$ 303,528 |
| Intergovernmental | | | |
| Community development | 316,023 | - | 316,023 |
| Special Revenue Funds | | | |
| Road and Bridge | | | |
| Current | | | |
| Highways and streets | 27,374,070 | 20,231,665 | 7,142,405 |
| Conservation of natural resources | 55,703 | 50,499 | 5,204 |
| Intergovernmental | | | |
| Highways and streets | 695,467 | - | 695,467 |
| Human Services | | | |
| Current | | | |
| Public safety | 7,705,649 | 7,354,368 | 351,281 |
| Health | 2,813,928 | 2,763,258 | 50,670 |

3. Other Postemployment Benefits Funded Status

Stearns County implemented the requirements of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2008. 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 3.E. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
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 | \$ 4,873,928 | \$ 4,873,928 | \$ 4,828,360 | \$ (45,568) |
| Special assessments | - | - | 122,298 | 122,298 |
| Intergovernmental | 35,086 | 35,086 | 38,409 | 3,323 |
| Total Revenues | \$ 4,909,014 | \$ 4,909,014 | \$ 4,989,067 | \$ 80,053 |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Other general government | \$ 18,000 | \$ 18,000 | \$ 17,908 | \$ 92 |
| Debt service | | | | |
| Principal | 3,785,000 | 3,785,000 | 3,985,000 | (200,000) |
| Interest | 1,106,014 | 1,106,014 | 729,040 | 376,974 |
| Total Expenditures | \$ 4,909,014 | \$ 4,909,014 | \$ 4,731,948 | \$ 177,066 |
| Net Change in Fund Balance | \$ - | \$ - | \$ 257,119 | \$ 257,119 |
| Fund Balance - January 1 | 4,227,167 | 4,227,167 | 4,227,167 | - |
| Fund Balance - December 31 | \$ 4,227,167 | \$ 4,227,167 | \$ 4,484,286 | \$ 257,119 |

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes.

County Building - to account for funds being accumulated for future building construction and capital acquisition. Financing is provided primarily by an annual property tax levy.

County Park - to account for the operations of the County's park system. Financing is provided primarily by an annual property tax levy and state grants.

Law Library - to account for funds used to maintain the law library. Financing is provided by the assessment of fees according to state statute.

Solid Waste - to account for revenues and expenditures related to County-wide solid waste management. Financing is provided by a County-wide solid waste management fee.

Economic Development - to account for the revenues and expenditures associated with economic development loans issued to the business community to spur growth. Financing is provided by repayments of loans originally financed by intergovernmental revenues.

Ditch - to account for the costs for maintaining County ditches. Financing is provided by special assessments against the benefited property owners.

Regional Rail Authority - to account for the revenues and expenditures related to the preservation of rail right-of-ways for alternative modes of transportation. The Regional Rail Authority is governed by a five-member board and has independent taxing authority.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

| | <u>County Building</u> | <u>County Park</u> | <u>Law Library</u> |
|---|----------------------------|--------------------------|--------------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 56,739 | \$ 643,687 | \$ 103,630 |
| Petty cash and change funds | - | 825 | - |
| Taxes receivable delinquent | 4,548 | 27,393 | - |
| Special assessments receivable | | | |
| Delinquent | - | - | - |
| Deferred | - | - | - |
| Accounts receivable | - | - | - |
| Loans receivable | - | - | - |
| Due from other governments | - | 29,889 | 12,331 |
| Advance to other funds | - | - | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$ 61,287</u> | <u>\$ 701,794</u> | <u>\$ 115,961</u> |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ - | \$ 4,710 | \$ 549 |
| Salaries payable | - | 18,666 | 2,537 |
| Due to other funds | 24,992 | 621 | - |
| Due to other governments | - | 162 | - |
| Deferred revenue - unavailable | 4,051 | 24,289 | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>\$ 29,043</u> | <u>\$ 48,448</u> | <u>\$ 3,086</u> |
| Fund Balances | | | |
| Nonspendable | \$ - | \$ - | \$ - |
| Restricted | - | - | 112,875 |
| Committed | 32,244 | 653,346 | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Fund Balances | <u>\$ 32,244</u> | <u>\$ 653,346</u> | <u>\$ 112,875</u> |
| Total Liabilities and Fund Balances | <u>\$ 61,287</u> | <u>\$ 701,794</u> | <u>\$ 115,961</u> |

EXHIBIT C-1

| Special Revenue Funds | | | | |
|------------------------------|-----------------------------|-------------------|--------------------------------|---------------------|
| Solid Waste | Economic Development | Ditch | Regional Rail Authority | Total |
| \$ 2,514,834 | \$ 564,526 | \$ 119,385 | \$ 578,742 | \$ 4,581,543 |
| - | - | - | - | 825 |
| - | 356 | - | 11,711 | 44,008 |
| 118,849 | - | 220 | - | 119,069 |
| 32,957 | - | 245 | - | 33,202 |
| 60,991 | - | - | - | 60,991 |
| - | 229,697 | - | - | 229,697 |
| 2,896 | - | - | - | 45,116 |
| 64,500 | 283,570 | - | - | 348,070 |
| \$ 2,795,027 | \$ 1,078,149 | \$ 119,850 | \$ 590,453 | \$ 5,462,521 |
| \$ 35 | \$ - | \$ - | \$ - | \$ 5,294 |
| 7,238 | - | - | - | 28,441 |
| - | - | - | - | 25,613 |
| - | 25,000 | - | - | 25,162 |
| 151,806 | 229,965 | 465 | 10,444 | 421,020 |
| \$ 159,079 | \$ 254,965 | \$ 465 | \$ 10,444 | \$ 505,530 |
| \$ 64,500 | \$ 283,570 | \$ - | \$ - | \$ 348,070 |
| 2,571,448 | 539,614 | 119,385 | 580,009 | 3,923,331 |
| - | - | - | - | 685,590 |
| \$ 2,635,948 | \$ 823,184 | \$ 119,385 | \$ 580,009 | \$ 4,956,991 |
| \$ 2,795,027 | \$ 1,078,149 | \$ 119,850 | \$ 590,453 | \$ 5,462,521 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

| | <u>County Building</u> | <u>County Park</u> | <u>Law Library</u> |
|---|----------------------------|------------------------|------------------------|
| Revenues | | | |
| Taxes | \$ 137,848 | \$ 861,671 | \$ - |
| Special assessments | - | - | - |
| Licenses and permits | - | 84,271 | - |
| Intergovernmental | 1,086 | 310,142 | - |
| Charges for services | - | - | - |
| Fines and forfeits | - | - | 205,506 |
| Gifts and contributions | - | 184 | - |
| Investment income | - | 127 | - |
| Miscellaneous | - | 35,944 | 440 |
| Total Revenues | \$ 138,934 | \$ 1,292,339 | \$ 205,946 |
| Expenditures | | | |
| Current | | | |
| General government | \$ 176,332 | \$ - | \$ 179,871 |
| Public safety | 10,698 | - | - |
| Sanitation | - | - | - |
| Culture and recreation | - | 1,188,538 | - |
| Conservation of natural resources | - | - | - |
| Economic development | - | - | - |
| Capital outlay | | | |
| Sanitation | - | - | - |
| Total Expenditures | \$ 187,030 | \$ 1,188,538 | \$ 179,871 |
| Excess of Revenues Over (Under) Expenditures | \$ (48,096) | \$ 103,801 | \$ 26,075 |
| Other Financing Sources (Uses) | | | |
| Transfers in | \$ - | \$ 19,501 | \$ - |
| Proceeds from sale of capital assets | - | 442 | - |
| Total Other Financing Sources (Uses) | \$ - | \$ 19,943 | \$ - |
| Net Change in Fund Balance | \$ (48,096) | \$ 123,744 | \$ 26,075 |
| Fund Balance - January 1 | 80,340 | 529,602 | 86,800 |
| Fund Balance - December 31 | \$ 32,244 | \$ 653,346 | \$ 112,875 |

Special Revenue Funds

| <u>Solid Waste</u> | <u>Economic Development</u> | <u>Ditch</u> | <u>Regional Rail Authority</u> | <u>Total</u> |
|---------------------|-----------------------------|-------------------|--------------------------------|---------------------|
| \$ - | \$ 24,497 | \$ - | \$ 355,245 | \$ 1,379,261 |
| 648,886 | - | 8,229 | - | 657,115 |
| - | - | - | - | 84,271 |
| - | 217 | - | 2,590 | 314,035 |
| 564,374 | - | - | - | 564,374 |
| - | - | - | - | 205,506 |
| - | - | - | - | 184 |
| 5,690 | 5,636 | - | - | 11,453 |
| 97,140 | 39,984 | 5,000 | - | 178,508 |
| \$ 1,316,090 | \$ 70,334 | \$ 13,229 | \$ 357,835 | \$ 3,394,707 |
| \$ - | \$ - | \$ - | \$ - | \$ 356,203 |
| - | - | - | - | 10,698 |
| 573,896 | - | - | - | 573,896 |
| - | - | - | - | 1,188,538 |
| - | - | 14,553 | - | 14,553 |
| - | 25,000 | - | 179,327 | 204,327 |
| 18,960 | - | - | - | 18,960 |
| \$ 592,856 | \$ 25,000 | \$ 14,553 | \$ 179,327 | \$ 2,367,175 |
| \$ 723,234 | \$ 45,334 | \$ (1,324) | \$ 178,508 | \$ 1,027,532 |
| \$ - | \$ - | \$ - | \$ - | \$ 19,501 |
| - | - | - | - | 442 |
| \$ - | \$ - | \$ - | \$ - | \$ 19,943 |
| \$ 723,234 | \$ 45,334 | \$ (1,324) | \$ 178,508 | \$ 1,047,475 |
| 1,912,714 | 777,850 | 120,709 | 401,501 | 3,909,516 |
| \$ 2,635,948 | \$ 823,184 | \$ 119,385 | \$ 580,009 | \$ 4,956,991 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT C-3

**BUDGETARY COMPARISON SCHEDULE
COUNTY BUILDING 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 | \$ 139,008 | \$ 139,008 | \$ 137,848 | \$ (1,160) |
| Intergovernmental | 992 | 992 | 1,086 | 94 |
| Total Revenues | \$ 140,000 | \$ 140,000 | \$ 138,934 | \$ (1,066) |
| Expenditures | | | | |
| Current | | | | |
| General government | \$ 140,000 | \$ 140,000 | \$ 176,332 | \$ (36,332) |
| Public safety | - | - | 10,698 | (10,698) |
| Total Expenditures | \$ 140,000 | \$ 140,000 | \$ 187,030 | \$ (47,030) |
| Net Change in Fund Balance | \$ - | \$ - | \$ (48,096) | \$ (48,096) |
| Fund Balance - January 1 | 80,340 | 80,340 | 80,340 | - |
| Fund Balance - December 31 | \$ 80,340 | \$ 80,340 | \$ 32,244 | \$ (48,096) |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT C-4

**BUDGETARY COMPARISON SCHEDULE
COUNTY PARK 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 | \$ 868,233 | \$ 868,233 | \$ 861,671 | \$ (6,562) |
| Licenses and permits | 70,000 | 70,000 | 84,271 | 14,271 |
| Intergovernmental | 6,294 | 278,374 | 310,142 | 31,768 |
| Charges for services | 7,000 | 7,000 | - | (7,000) |
| Fines and forfeits | 200 | 200 | - | (200) |
| Gifts and contributions | - | - | 184 | 184 |
| Investment income | - | - | 127 | 127 |
| Miscellaneous | 9,000 | 9,000 | 35,944 | 26,944 |
| Total Revenues | \$ 960,727 | \$ 1,232,807 | \$ 1,292,339 | \$ 59,532 |
| Expenditures | | | | |
| Current | | | | |
| Culture and recreation | <u>960,727</u> | <u>1,277,307</u> | <u>1,188,538</u> | <u>88,769</u> |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ (44,500) | \$ 103,801 | \$ 148,301 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ - | \$ 19,501 | \$ 19,501 | \$ - |
| Proceeds from sale of capital assets | - | - | 442 | 442 |
| Total Other Financing Sources (Uses) | \$ - | \$ 19,501 | \$ 19,943 | \$ 442 |
| Net Change in Fund Balance | \$ - | \$ (24,999) | \$ 123,744 | \$ 148,743 |
| Fund Balance - January 1 | 529,602 | 529,602 | 529,602 | - |
| Fund Balance - December 31 | \$ 529,602 | \$ 504,603 | \$ 653,346 | \$ 148,743 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT C-5

**BUDGETARY COMPARISON SCHEDULE
LAW LIBRARY 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 | | | | |
| Fines and forfeits | \$ 208,539 | \$ 208,539 | \$ 205,506 | \$ (3,033) |
| Miscellaneous | - | - | 440 | 440 |
| Total Revenues | \$ 208,539 | \$ 208,539 | \$ 205,946 | \$ (2,593) |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Law library | <u>208,539</u> | <u>208,539</u> | <u>179,871</u> | <u>28,668</u> |
| Net Change in Fund Balance | \$ - | \$ - | \$ 26,075 | \$ 26,075 |
| Fund Balance - January 1 | <u>86,800</u> | <u>86,800</u> | <u>86,800</u> | <u>-</u> |
| Fund Balance - December 31 | <u><u>\$ 86,800</u></u> | <u><u>\$ 86,800</u></u> | <u><u>\$ 112,875</u></u> | <u><u>\$ 26,075</u></u> |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT C-6

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE 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 | | | | |
| Special assessments | \$ 644,000 | \$ 644,000 | \$ 648,886 | \$ 4,886 |
| Charges for services | 575,000 | 575,000 | 564,374 | (10,626) |
| Investment income | - | - | 5,690 | 5,690 |
| Miscellaneous | 10,000 | 10,000 | 97,140 | 87,140 |
| Total Revenues | \$ 1,229,000 | \$ 1,229,000 | \$ 1,316,090 | \$ 87,090 |
| Expenditures | | | | |
| Current | | | | |
| Sanitation | | | | |
| Solid waste | \$ 1,229,000 | \$ 1,229,000 | \$ 573,896 | \$ 655,104 |
| Capital Outlay | | | | |
| Sanitation | - | - | 18,960 | (18,960) |
| Total Expenditures | \$ 1,229,000 | \$ 1,229,000 | \$ 592,856 | \$ 636,144 |
| Net Change in Fund Balance | \$ - | \$ - | \$ 723,234 | \$ 723,234 |
| Fund Balance - January 1 | 1,912,714 | 1,912,714 | 1,912,714 | - |
| Fund Balance - December 31 | \$ 1,912,714 | \$ 1,912,714 | \$ 2,635,948 | \$ 723,234 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT C-7

**BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT 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 | \$ 24,802 | \$ 24,802 | \$ 24,497 | \$ (305) |
| Intergovernmental | 198 | 198 | 217 | 19 |
| Investment income | 10,000 | 10,000 | 5,636 | (4,364) |
| Miscellaneous | 50,000 | 50,000 | 39,984 | (10,016) |
| Total Revenues | \$ 85,000 | \$ 85,000 | \$ 70,334 | \$ (14,666) |
| Expenditures | | | | |
| Current | | | | |
| Economic development | | | | |
| Community development | <u>85,000</u> | <u>85,000</u> | <u>25,000</u> | <u>60,000</u> |
| Net Change in Fund Balance | \$ - | \$ - | \$ 45,334 | \$ 45,334 |
| Fund Balance - January 1 | <u>777,850</u> | <u>777,850</u> | <u>777,850</u> | <u>-</u> |
| Fund Balance - December 31 | <u><u>\$ 777,850</u></u> | <u><u>\$ 777,850</u></u> | <u><u>\$ 823,184</u></u> | <u><u>\$ 45,334</u></u> |

FIDUCIARY FUND

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

INTERNAL SERVICE FUNDS

The Information Services Improvements - to account for information service projects.

The Self Insurance - to account for health insurance premiums and payments.

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT D-1

**COMBINING STATEMENT OF FUND NET POSITION
INTERNAL SERVICE FUNDS
DECEMBER 31, 2012**

| | Governmental Activities | | |
|-----------------------------|--|-----------------------|--------------|
| | Information Services Improvements | Self-Insurance | Total |
| <u>Assets</u> | | | |
| Current assets | | | |
| Cash and pooled investments | \$ 401,746 | \$ 472,165 | \$ 873,911 |
| <u>Liabilities</u> | | | |
| Current liabilities | | | |
| Accounts payable | 5,895 | 158,491 | 164,386 |
| <u>Net Position</u> | | | |
| Unrestricted | \$ 395,851 | \$ 313,674 | \$ 709,525 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT D-2

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Governmental Activities | | |
|---|--|-----------------------|---------------------|
| | Information Services Improvements | Self-Insurance | Total |
| Operating Revenues | | | |
| Charges for services | \$ 271,448 | \$ 1,252,814 | \$ 1,524,262 |
| Miscellaneous | - | 12,771 | 12,771 |
| Total Operating Revenues | \$ 271,448 | \$ 1,265,585 | \$ 1,537,033 |
| Operating Expenses | | | |
| Cost of services | 736,469 | 1,008,396 | 1,744,865 |
| Operating Income (Loss) | \$ (465,021) | \$ 257,189 | \$ (207,832) |
| Nonoperating Revenues (Expenses) | | | |
| Intergovernmental | 8,068 | - | 8,068 |
| Income (Loss) Before Transfers | \$ (456,953) | \$ 257,189 | \$ (199,764) |
| Transfers | | | |
| Transfers in | 70,450 | - | 70,450 |
| Transfers out | (456,448) | - | (456,448) |
| Change in Net Position | \$ (842,951) | \$ 257,189 | \$ (585,762) |
| Net Position - January 1 | 1,238,802 | 56,485 | 1,295,287 |
| Net Position - December 31 | \$ 395,851 | \$ 313,674 | \$ 709,525 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT D-3

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

| | Governmental Activities | | |
|--|--|--------------------------|----------------------------|
| | Information Services Improvements | Self-Insurance | Total |
| Cash Flows from Operating Activities | | | |
| Receipts from internal services provided | \$ 271,448 | \$ 1,265,585 | \$ 1,537,033 |
| Payments to suppliers | <u>(738,618)</u> | <u>(1,000,205)</u> | <u>(1,738,823)</u> |
| Net cash provided by (used in) operating activities | <u>\$ (467,170)</u> | <u>\$ 265,380</u> | <u>\$ (201,790)</u> |
| Cash Flows from Noncapital Financing Activities | | | |
| Intergovernmental | \$ 8,068 | \$ - | \$ 8,068 |
| Transfers in | 70,450 | - | 70,450 |
| Transfers out | <u>(456,448)</u> | <u>-</u> | <u>(456,448)</u> |
| Net cash provided by (used in) noncapital financing activities | <u>\$ (377,930)</u> | <u>\$ -</u> | <u>\$ (377,930)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>\$ (845,100)</u> | <u>\$ 265,380</u> | <u>\$ (579,720)</u> |
| Cash and Cash Equivalents at January 1 | <u>1,246,846</u> | <u>206,785</u> | <u>1,453,631</u> |
| Cash and Cash Equivalents at December 31 | <u>\$ 401,746</u> | <u>\$ 472,165</u> | <u>\$ 873,911</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | | | |
| Net operating income (loss) | \$ (465,021) | \$ 257,189 | \$ (207,832) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | |
| Increase (decrease) in accounts payable | <u>(2,149)</u> | <u>8,191</u> | <u>6,042</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>\$ (467,170)</u> | <u>\$ 265,380</u> | <u>\$ (201,790)</u> |

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

AGENCY FUND

Agency Fund - to account for assets held by the County as an agent for other governmental units, individuals, private organizations, or other funds.

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT E-1

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

| | Balance January 1 | Additions | Deductions | Balance December 31 |
|-------------------------------|------------------------------|-----------------------|-----------------------|--------------------------------|
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ 4,692,889 | \$ 271,895,855 | \$ 272,963,204 | \$ 3,625,540 |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 66,235 | \$ 7,096,627 | \$ 7,081,888 | \$ 80,974 |
| Due to other governments | 4,626,654 | 264,799,228 | 265,881,316 | 3,544,566 |
| Total Liabilities | \$ 4,692,889 | \$ 271,895,855 | \$ 272,963,204 | \$ 3,625,540 |

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OTHER SCHEDULES

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**BALANCE SHEET - BY DITCH
(ACCRUAL BASIS)
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2012**

| | Assets | | | |
|---|-----------------------------------|-----------------------|--------------------------------|----------------------|
| | Cash and Pooled Investments | Intrafund Advances | Special Assessments Receivable | |
| | | | Delinquent | Deferred |
| Judicial Ditches | | | | |
| 1 Grove Lake | \$ 196 | \$ - | \$ - | \$ - |
| 3 | 110 | - | - | - |
| County Ditches | | | | |
| 4 | 1,039 | - | - | - |
| 8 | 38,180 | - | - | - |
| 9 | 2,100 | - | - | - |
| 10 | 725 | - | 1 | - |
| 12 | 264 | - | 56 | - |
| 17 | 1,872 | - | - | - |
| 25 | 252 | - | 18 | - |
| 28 | 1,888 | - | 89 | - |
| 29 | 8,803 | - | - | - |
| 31 | 360 | - | 51 | - |
| 32 | 55,049 | 13,000 | 5 | - |
| 37 | 4,006 | - | - | - |
| 50 | 50 | - | - | - |
| 51 | 4,491 | - | - | 245 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | \$ 119,385 | \$ 13,000 | \$ 220 | \$ 245 |
| Reconciliation | | | | |
| Add (Deduct) | - | (13,000) | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Modified Accrual Per Exhibit C-1 | <u>\$ 119,385</u> | <u>\$ -</u> | <u>\$ 220</u> | <u>\$ 245</u> |

EXHIBIT F-1

| <u>Total</u> | <u>Liabilities</u> | | | <u>Restricted Fund Balance</u> | <u>Total Liabilities and Fund Balance</u> |
|-------------------|-----------------------------|-------------------------------|------------------|------------------------------------|---|
| | <u>Deferred Revenue</u> | <u>Intrafund Advances</u> | <u>Total</u> | | |
| \$ 196 | \$ - | \$ - | \$ - | \$ 196 | \$ 196 |
| 110 | - | 13,000 | 13,000 | (12,890) | 110 |
| 1,039 | - | - | - | 1,039 | 1,039 |
| 38,180 | - | - | - | 38,180 | 38,180 |
| 2,100 | - | - | - | 2,100 | 2,100 |
| 726 | 1 | - | 1 | 725 | 726 |
| 320 | 56 | - | 56 | 264 | 320 |
| 1,872 | - | - | - | 1,872 | 1,872 |
| 270 | 18 | - | 18 | 252 | 270 |
| 1,977 | 89 | - | 89 | 1,888 | 1,977 |
| 8,803 | - | - | - | 8,803 | 8,803 |
| 411 | 51 | - | 51 | 360 | 411 |
| 68,054 | 5 | - | 5 | 68,049 | 68,054 |
| 4,006 | - | - | - | 4,006 | 4,006 |
| 50 | - | - | - | 50 | 50 |
| 4,736 | 245 | - | 245 | 4,491 | 4,736 |
| \$ 132,850 | \$ 465 | \$ 13,000 | \$ 13,465 | \$ 119,385 | \$ 132,850 |
| (13,000) | - | (13,000) | (13,000) | - | (13,000) |
| \$ 119,850 | \$ 465 | \$ - | \$ 465 | \$ 119,385 | \$ 119,850 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT F-2

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

Shared Revenue

State

| | |
|-------------------------|----------------|
| Highway users tax | \$ 11,729,633 |
| County program aid | 6,359,846 |
| Market value credit | 501,298 |
| PERA rate reimbursement | 145,954 |
| Disparity reduction aid | 46,929 |
| Police aid | 380,261 |
| Enhanced 911 | 283,468 |
| | <u>283,468</u> |

Total shared revenue **\$ 19,447,389**

Reimbursement for Services

| | |
|--|------------------|
| Minnesota Department of Human Services | \$ 2,371,700 |
| | <u>2,371,700</u> |

Payments

Local

| | |
|-----------------------------|---------------|
| Payments in lieu of taxes | \$ 199,114 |
| Local share of construction | 1,404,921 |
| Local grants | 33,924 |
| | <u>33,924</u> |

Total payments **\$ 1,637,959**

Grants

State

| | |
|--|---------------|
| Minnesota Department/Board of | |
| Agriculture | \$ 1,367 |
| Corrections | 2,473,117 |
| Public Safety | 99,873 |
| Transportation | 964,225 |
| Health | 468,761 |
| Natural Resources | 1,875,109 |
| Human Services | 4,108,549 |
| Labor | 63 |
| Water and Soil Resources | 676,713 |
| Pollution Control Agency | 305,607 |
| Peace Officer Standards and Training Board | 20,921 |
| | <u>20,921</u> |

Total state **\$ 10,994,305**

STEARNS COUNTY
ST. CLOUD, MINNESOTA

EXHIBIT F-2
(Continued)

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

Grants (Continued)

Federal

| | |
|-------------------------------|--------------|
| Department of | |
| Agriculture | \$ 1,401,015 |
| Commerce | 2,389 |
| Housing and Urban Development | 316,023 |
| Justice | 363,277 |
| Transportation | 1,275,046 |
| Energy | 2,385 |
| Health and Human Services | 8,026,683 |
| Homeland Security | 213,078 |

Total federal \$ 11,599,896

Total state and federal grants \$ 22,594,201

Total Intergovernmental Revenue \$ 46,051,249

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT F-3

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

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|----------------------------|
| U.S. Department of Agriculture | | |
| Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | \$ 587,215 |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | <u>813,800</u> |
| Total U.S. Department of Agriculture | | <u>\$ 1,401,015</u> |
| U.S. Department of Commerce | | |
| Passed Through City of St. Cloud Public Safety Interoperable Communications Grant Program | 11.555 | <u>\$ 2,389</u> |
| U.S. Department of Housing and Urban Development | | |
| Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii | 14.228 | <u>\$ 316,023</u> |
| U.S. Department of Justice | | |
| Direct | | |
| State Criminal Alien Assistance Program | 16.606 | \$ 21,022 |
| Public Safety Partnership and Community Policing Grants | 16.710 | 200,000 |
| Edward Byrne Memorial Justice Assistance Grant Program (Total Edward Byrne Memorial Justice Assistance Grant Program 16.738 \$115,961) | 16.738 | 24,015 |
| Passed Through Minnesota Department of Public Safety Juvenile Accountability Block Grants | 16.523 | 12,891 |
| Juvenile Justice and Delinquency Prevention Allocation to States | 16.540 | 6,871 |
| Edward Byrne Memorial Justice Assistance Grant Program (Total Edward Byrne Memorial Justice Assistance Grant Program 16.738 \$115,961) | 16.738 | <u>91,946</u> |
| Total U.S. Department of Justice | | <u>\$ 356,745</u> |
| U.S. Department of Transportation | | |
| Highway Planning and Construction Cluster Passed Through Minnesota Department of Transportation Highway Planning and Construction | 20.205 | \$ 1,129,737 |
| Passed Through Minnesota Department of Natural Resources Recreational Trails Program | 20.219 | 141,000 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**EXHIBIT F-3
(Continued)**

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

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|---|------------------------------------|---------------------|
| U.S. Department of Transportation (Continued) | | |
| Highway Safety Cluster | | |
| Passed Through City of St. Cloud | | |
| Occupant Protection Incentive Grants | 20.602 | 11,414 |
| Safety Belt Performance Grants | 20.609 | 10,893 |
| Passed Through Minnesota Department of Public Safety | | |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | 13,246 |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | 3,994 |
| | | <hr/> |
| Total U.S. Department of Transportation | | \$ 1,310,284 |
| U.S. Department of Energy | | |
| Direct | | |
| Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA | 81.128 | \$ 2,385 |
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Health | | |
| Public Health Emergency Preparedness | 93.069 | \$ 113,306 |
| Immunization Cooperative Agreements | 93.268 | 29,553 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | 39,725 |
| Temporary Assistance for Needy Families (TANF) Cluster | | |
| Temporary Assistance for Needy Families | 93.558 | 1,248,146 |
| (Total Temporary Assistance for Needy Families 93.558 \$1,403,769) | | |
| Refugee and Entrant Assistance Discretionary Grants | 93.576 | 3,455 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 132,389 |
| Passed Through Minnesota Department of Human Services | | |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 56,757 |
| Promoting Safe and Stable Families | 93.556 | 38,080 |
| Temporary Assistance for Needy Families (TANF) Cluster | | |
| Temporary Assistance for Needy Families | 93.558 | 155,623 |
| (Total Temporary Assistance for Needy Families 93.558 \$1,403,769) | | |
| Emergency Contingency Fund for TANF State Program - ARRA | 93.714 | 161,662 |
| Child Support Enforcement | 93.563 | 2,194,165 |
| Refugee and Entrant Assistance - State-Administered Programs | 93.566 | 6,115 |
| Child Care and Development Block Grant | 93.575 | 81,884 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | 18,638 |
| Foster Care - Title IV-E | 93.658 | 383,738 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**EXHIBIT F-3
(Continued)**

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

| Federal Grantor Pass-Through Agency Grant Program Title | Federal CFDA Number | Expenditures |
|---|------------------------------------|----------------------|
| U.S. Department of Health and Human Services | | |
| Passed Through Minnesota Department of Human Services (Continued) | | |
| Social Services Block Grant | 93.667 | 617,580 |
| Chafee Foster Care Independence Program | 93.674 | 7,453 |
| Medical Assistance Program | 93.778 | <u>2,724,670</u> |
| Total U.S. Department of Health and Human Services | | \$ 8,012,939 |
| U.S. Department of Homeland Security | | |
| Passed Through Minnesota Department of Natural Resources | | |
| Boating Safety Financial Assistance | 97.012 | \$ 31,520 |
| Passed Through Minnesota Department of Public Safety | | |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 47,061 |
| Emergency Management Performance Grants | 97.042 | 62,277 |
| Pre-Disaster Mitigation | 97.047 | 17,583 |
| Homeland Security Grant Program | 97.067 | 15,534 |
| (Total Homeland Security Grant Program 97.067 \$54,637) | | |
| Passed Through West Central Emergency Management System | | |
| Homeland Security Grant Program | 97.067 | 39,023 |
| (Total Homeland Security Grant Program 97.067 \$54,637) | | |
| Passed Through Central MN Regional Radio Board | | |
| Homeland Security Grant Program | 97.067 | 80 |
| (Total Homeland Security Grant Program 97.067 \$54,637) | | |
| Total U.S. Department of Homeland Security | | \$ 213,078 |
| Total Federal Awards | | \$ 11,614,858 |

**STEARNS COUNTY
ST. CLOUD, 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 Stearns County. The County's reporting entity is defined in Note 1 to the financial statements. Stearns County's financial statements include the operations of the Stearns County Housing and Redevelopment Authority (HRA) component unit, which expended \$1,204,002 in federal awards during the year ended June 30, 2012. Those expenditures are not included in the County's Schedule of Expenditures of Federal Awards because it had a separate single audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Stearns 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 Stearns County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Stearns 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 grant numbers were not assigned by the pass-through agencies.

4. Clusters

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

| | | |
|---|----|-----------|
| Highway Planning and Construction Cluster | \$ | 1,270,737 |
| Highway Safety Cluster | | 22,307 |
| Temporary Assistance for Needy Families Cluster | | 1,565,431 |

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, Stearns County provided federal awards to subrecipients as follows:

| <u>CFDA Number</u> | <u>Program Name</u> | <u>Amount Provided to Subrecipients</u> |
|--------------------|--|---|
| 14.228 | Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii | \$ 316,023 |

6. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|--|----------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 11,599,896 |
| Grants received more than 60 days after year-end, deferred in 2012 | |
| Highway Planning and Construction | 39,909 |
| Medical Assistance Program | 17,310 |
| Child Care and Development Block Grant | 5,760 |
| Deferred in 2011, recognized as revenue in 2012 | |
| Highway Planning and Construction | (4,671) |
| Medical Assistance Program | (36,113) |
| Refugee and Entrant Assistance - State-Administered Programs | (701) |
| Juvenile Accountability Block Grants | (6,532) |
| | <u>\$ 11,614,858</u> |
| Expenditures Per Schedule of Expenditures of Federal Awards | <u>\$ 11,614,858</u> |

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.

**Other Information
Section**

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT G-1

TAX CAPACITY, TAX CAPACITY RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS

| | 2011 | | 2012 | | 2013 | |
|---|------------------------------|---------------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|
| | Amount | Net Tax Capacity Rate (%) | Amount | Net Tax Capacity Rate (%) | Amount | Net Tax Capacity Rate (%) |
| Tax Capacity | | | | | | |
| Real property | \$ 138,202,316 | | \$ 127,204,202 | | \$ 123,579,829 | |
| Personal property | 2,233,188 | | 2,426,059 | | 3,027,458 | |
| Net Tax Capacity | <u>\$ 140,435,504</u> | | <u>\$ 129,630,261</u> | | <u>\$ 126,607,287</u> | |
| Taxes Levied for County Purposes | | | | | | |
| General | \$ 36,655,911 | 23.450 | \$ 35,977,945 | 24.834 | \$ 35,266,947 | 24.694 |
| Road and Bridge | 7,001,839 | 5.187 | 7,020,172 | 5.628 | 7,034,532 | 5.739 |
| Human Services | 22,830,225 | 16.912 | 22,945,623 | 18.395 | 23,022,758 | 18.784 |
| County Building | 140,000 | 0.104 | 140,000 | 0.112 | 100,000 | 0.082 |
| County Park | 855,151 | 0.633 | 874,527 | 0.701 | 875,657 | 0.714 |
| Regional Library | 2,177,898 | 1.613 | 2,093,432 | 1.678 | 2,073,558 | 1.692 |
| Debt Service | 5,021,735 | 3.701 | 4,909,014 | 3.916 | 4,900,904 | 3.980 |
| Regional Rail Authority | 575,000 | 0.426 | 355,000 | 0.285 | 305,000 | 0.249 |
| Economic Development Authority | - | 0.000 | 25,000 | 0.200 | 21,500 | 0.018 |
| Total Levy for County Purposes | <u>\$ 75,257,759</u> | <u>52.026</u> | <u>\$ 74,340,713</u> | <u>55.749</u> | <u>\$ 73,600,856</u> | <u>55.952</u> |
| Less Credits Payable by State | <u>5,000,000</u> | | <u>5,000,000</u> | | <u>5,000,000</u> | |
| Net Levy Certified to State | \$ 70,257,759 | | \$ 69,340,713 | | \$ 68,600,856 | |
| Less Market Value Credits Payable by State | <u>4,567,960</u> | | <u>495,572</u> | | <u>500,159</u> | |
| Net Levy for County Purposes | <u>\$ 65,689,799</u> | | <u>\$ 68,845,141</u> | | <u>\$ 68,100,697</u> | |
| Percentage of Tax Collections for All Purposes | 98.22% | | 98.58% | | N/A | |

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**STEARNS COUNTY
ST. CLOUD, 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:

| | |
|--|--------------|
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | CFDA #10.561 |
| Temporary Assistance for Needy Families (TANF) Cluster | |
| Temporary Assistance for Needy Families | CFDA #93.558 |
| Emergency Contingency Fund for TANF State Program - ARRA | CFDA #93.714 |
| Foster Care - Title I | CFDA #93.658 |
| Social Services Block Grant | CFDA #93.667 |

The threshold for distinguishing between Types A and B programs was \$348,446.

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. Offices that do not have sufficient segregation of duties include the Sheriff, Jail, Environmental Services, License Centers, and Parks. These departments generally have one staff person who is responsible for billing, collecting, recording and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Stearns County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client Response:

We are aware of the problems with segregation of duties in certain areas. In many of these areas, we feel it would be cost-prohibitive to implement total segregation (cost vs. benefit). Thereby, other accounting techniques and methods are used to verify the reasonableness of these areas of concern.

PREVIOUSLY REPORTED ITEM RESOLVED

Accounting Policies and Procedures Manual (07-1)

The County did not have a current and comprehensive accounting policies and procedures manual, including risk assessment and monitoring procedures.

Resolution

The County Auditor-Treasurer's Office has drafted a comprehensive accounting policies and procedures manual that will be approved by the County Board.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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REBECCA OTTO
STATE AUDITOR

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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
Stearns 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 business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated [need date], 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Housing and Redevelopment Authority (HRA) of Stearns County, the discretely presented component unit, for the year ended June 30, 2012, as described in our report on Stearns County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stearns 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 or significant deficiencies 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 96-6, that we consider to be a significant deficiency.

Compliance and Other Matters

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

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 study included all of the listed categories, except that we did not test for compliance in tax increment financing as the cities administer the tax increment financing in Stearns County.

In connection with our audit, nothing came to our attention that caused us to believe that Stearns County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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

Stearns County's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The County's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 25, 2013

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REBECCA OTTO
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
Stearns County

Report on Compliance for Each Major Federal Program

We have audited Stearns 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. Stearns County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Stearns County's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Stearns County component unit, which expended \$1,204,002 in federal awards during the year ended June 30, 2012, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA of Stearns County because it was audited by other auditors.

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 Stearns 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 Stearns 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, Stearns 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 Stearns 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

September 25, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR