

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

GRANT COUNTY
ELBOW LAKE, 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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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

Year Ended December 31, 2012



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

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2012**

Office	Name	Term Expires
Commissioners		
1st District	Todd Schneeberger	January 2013
2nd District	Ronald Woltjer	January 2015
3rd District	Keith Swanson	January 2013
4th District	Tom Amundson	January 2015
5th District	Philip Groneberg*	January 2013
Officers		
Elected		
Attorney	Justin R. Anderson	January 2015
Auditor	Chad Van Santen	January 2015
County Recorder	Diann Giese	January 2015
Sheriff	Dwight Walvatne	January 2015
Treasurer	Patricia Soberg	January 2015
Appointed		
Assessor	Susan Lohse	January 2013
Highway Engineer	Tracey Von Bargaen	May 2016
Veterans Service Officer	Joe Hjelmstad	Indefinite
Coroner	Larry Rapp, D.O.	January 2013
Social Services Board		
Member	Todd Schneeberger	January 2013
Member	Tom Amundson	January 2015
Member	Keith Swanson	January 2013
Vice Chair	Ronald Woltjer	January 2015
Member	Philip Groneberg*	January 2013
Director	Stacy Hennen	January 2013

*Chair

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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
Grant County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant County, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, 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 Housing and Redevelopment Authority (HRA) of Grant 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 Grant 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 States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 4.C. to the financial statements, in 2012 the County adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 GASB, 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, on our consideration of Grant County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grant County's internal control over financial reporting and compliance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 10, 2013

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Grant County
<u>Assets</u>		
Cash and pooled investments	\$ 7,655,615	\$ 698,799
Taxes receivable - delinquent	161,874	-
Special assessments receivable		
Prior - net	11,569	-
Accounts receivable - net	45,746	-
Rent receivable	-	1,727
Accrued interest receivable	64,078	-
Due from other governments	3,152,127	-
Inventories	459,608	-
Prepaid items	6,719	12,407
Deferred debt issuance costs	57,741	25,633
Restricted assets		
Cash and pooled investments	-	27,547
Capital assets		
Non-depreciable	1,751,098	163,546
Depreciable - net of accumulated depreciation	26,768,301	2,304,795
Total Assets	\$ 40,134,476	\$ 3,234,454
<u>Liabilities</u>		
Accounts payable	\$ 339,877	\$ 50,323
Salaries payable	137,525	-
Contracts payable	156,338	-
Due to other governments	295,977	5,692
Accrued interest payable	67,459	3,107
Other accrued liabilities	-	32,545
Unearned revenue	-	716
Accounts payable from restricted assets	-	19,000
Long-term liabilities		
Due within one year	303,437	46,302
Due in more than one year	4,614,786	981,205
Total Liabilities	\$ 5,915,399	\$ 1,138,890

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

***EXHIBIT 1
(Continued)***

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

	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Grant County
<u>Net Position</u>		
Net investment in capital assets	\$ 24,134,456	\$ 1,553,341
Restricted for		
Debt service	430,553	-
General government	244,229	-
Public safety	315,382	-
Highways and streets	3,225,042	-
Conservation of natural resources	300,558	-
Held in trust for other purposes	2,970	-
Other purposes	-	8,547
Unrestricted	5,565,887	533,676
Total Net Position	\$ 34,219,077	\$ 2,095,564

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 1,461,897	\$ 301,947
Public safety	1,510,519	140,259
Highways and streets	3,166,655	97,224
Sanitation	557,807	512,734
Human services	1,904,201	319,869
Health	96,505	-
Culture and recreation	80,543	-
Conservation of natural resources	364,975	158,136
Economic development	35,083	-
Interest	165,306	-
Total Primary Government	<u>\$ 9,343,491</u>	<u>\$ 1,530,169</u>
Component unit		
Grant County Housing and Redevelopment Authority	<u>\$ 755,591</u>	<u>\$ 375,615</u>

General Revenues

Property taxes, levied for general purposes
Tax increments
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Miscellaneous

Total general revenues

Change in net position

Net Position - Beginning, as restated in (Note 1.E.4.)

Net Position - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Grant County
\$ 58,522	\$ -	\$ (1,101,428)	
144,692	988	(1,224,580)	
2,930,642	401,833	263,044	
-	-	(45,073)	
1,008,867	-	(575,465)	
-	-	(96,505)	
51,350	-	(29,193)	
102,963	-	(103,876)	
-	-	(35,083)	
-	-	(165,306)	
\$ 4,297,036	\$ 402,821	\$ (3,113,465)	
\$ 246,447	\$ 185,948		\$ 52,419
		\$ 5,447,773	\$ 35,000
		-	8,412
		38,326	-
		303,730	-
		14,501	4,019
		133,565	42,039
		\$ 5,937,895	\$ 89,470
		\$ 2,824,430	\$ 141,889
		31,394,647	1,953,675
		\$ 34,219,077	\$ 2,095,564

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 2,352,337	\$ 2,191,792
Petty cash and change funds	2,325	100
Undistributed cash in agency funds	149,285	32,004
Taxes receivable - delinquent	96,052	37,572
Special assessments		
Prior	-	-
Accounts receivable	16,388	5,981
Accrued interest receivable	63,877	-
Due from other funds	7,621	-
Due from other governments	51,047	2,721,395
Prepaid expense	-	-
Inventories	-	459,608
	\$ 2,738,932	\$ 5,448,452
Total Assets	\$ 2,738,932	\$ 5,448,452

EXHIBIT 3

<u>Human Services</u>	<u>Courthouse Improvement</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 2,132,941	\$ 88,629	\$ 666,212	\$ 7,431,911
25	-	200	2,650
22,846	-	16,919	221,054
28,250	-	-	161,874
-	-	11,569	11,569
18,809	5	4,563	45,746
-	-	201	64,078
-	-	-	7,621
370,255	-	9,430	3,152,127
6,719	-	-	6,719
-	-	-	459,608
<u>\$ 2,579,845</u>	<u>\$ 88,634</u>	<u>\$ 709,094</u>	<u>\$ 11,564,957</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 74,015	\$ 139,204
Salaries payable	52,201	50,400
Contracts payable	-	141,038
Due to other funds	-	-
Due to other governments	171,973	8,180
Deferred revenue - unavailable	67,542	2,228,638
Total Liabilities	\$ 365,731	\$ 2,567,460
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 459,608
Restricted		
Endowments	13,863	-
Law library	19,973	-
Debt service	430,553	-
Recorder's technology equipment	77,098	-
Election equipment	45,512	-
E-911	272,198	-
Recorder's compliance	35,648	-
DARE	2,892	-
Capital project	-	-
Forfeitures	40,292	-
County state-aid highway system	-	1,429,872
Ditch maintenance and construction	-	-
Real estate tax shortfall	52,135	-
Missing heirs	2,970	-
Committed		
Sheriff's contingencies	5,000	-
Assigned		
Sanitation	-	-
Highways and streets	-	991,512
Human services	-	-
Traffic diversion program	38,915	-
Unassigned	1,336,152	-
Total Fund Balances	\$ 2,373,201	\$ 2,880,992
Total Liabilities and Fund Balances	\$ 2,738,932	\$ 5,448,452

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Courthouse Improvement</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 60,655	\$ 36,440	\$ 29,563	\$ 339,877
34,206	-	718	137,525
-	15,300	-	156,338
5,189	-	2,432	7,621
106,145	-	9,679	295,977
153,185	-	11,097	2,460,462
<u>\$ 359,380</u>	<u>\$ 51,740</u>	<u>\$ 53,489</u>	<u>\$ 3,397,800</u>
\$ -	\$ -	\$ -	\$ 459,608
-	-	-	13,863
-	-	-	19,973
-	-	-	430,553
-	-	-	77,098
-	-	-	45,512
-	-	-	272,198
-	-	-	35,648
-	-	-	2,892
-	36,894	-	36,894
-	-	-	40,292
-	-	-	1,429,872
-	-	300,558	300,558
-	-	-	52,135
-	-	-	2,970
-	-	-	5,000
-	-	355,047	355,047
-	-	-	991,512
2,220,465	-	-	2,220,465
-	-	-	38,915
-	-	-	1,336,152
<u>\$ 2,220,465</u>	<u>\$ 36,894</u>	<u>\$ 655,605</u>	<u>\$ 8,167,157</u>
<u>\$ 2,579,845</u>	<u>\$ 88,634</u>	<u>\$ 709,094</u>	<u>\$ 11,564,957</u>

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$	8,167,157
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.		28,519,399
Revenue in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		2,460,462
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (4,480,000)	
Other postemployment benefits	(99,195)	
Bond discount	37,316	
Deferred debt issuance charges	57,741	
Accrued interest payable	(67,459)	
Compensated absences	(376,344)	
	(4,927,941)	(4,927,941)
Net Position of Governmental Activities (Exhibit 1)	\$	<u>34,219,077</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 3,460,179	\$ 1,147,425
Special assessments	-	-
Licenses and permits	4,245	-
Intergovernmental	547,141	5,661,622
Charges for services	359,717	37,071
Fines and forfeits	6,145	-
Gifts and contributions	25	-
Investment earnings	12,570	-
Miscellaneous	259,741	61,442
	\$ 4,649,763	\$ 6,907,560
Expenditures		
Current		
General government	\$ 2,520,940	\$ -
Public safety	1,482,605	-
Highways and streets	-	5,097,391
Sanitation	-	-
Human services	-	-
Health	96,505	-
Culture and recreation	80,543	-
Conservation of natural resources	284,557	-
Economic development	35,083	-
Intergovernmental		
Highways and streets	-	205,019
Capital outlay	-	-
Debt service		
Interest	161,902	-
	\$ 4,662,135	\$ 5,302,410
Excess of Revenues Over (Under) Expenditures	\$ (12,372)	\$ 1,605,150
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	-	-
	\$ -	\$ -
Net Change in Fund Balance	\$ (12,372)	\$ 1,605,150
Fund Balance - January 1	2,385,573	1,041,318
Increase (decrease) in inventories	-	234,524
	\$ 2,373,201	\$ 2,880,992
Fund Balance - December 31	\$ 2,373,201	\$ 2,880,992

EXHIBIT 5

<u>Human Services</u>	<u>Courthouse Improvement</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 825,356	\$ -	\$ -	\$ 5,432,960
-	-	212,793	212,793
-	-	-	4,245
1,045,847	9,372	60,700	7,324,682
235,927	-	389,197	1,021,912
-	-	-	6,145
352	-	-	377
-	338	1,248	14,156
20,826	3,811	1,076	346,896
<u>\$ 2,128,308</u>	<u>\$ 13,521</u>	<u>\$ 665,014</u>	<u>\$ 14,364,166</u>
\$ -	\$ -	\$ -	\$ 2,520,940
-	-	-	1,482,605
-	-	-	5,097,391
-	-	532,096	532,096
1,856,407	-	21,100	1,877,507
-	-	-	96,505
-	-	-	80,543
-	-	77,737	362,294
-	-	-	35,083
-	-	-	205,019
-	1,550,512	-	1,550,512
-	-	-	161,902
<u>\$ 1,856,407</u>	<u>\$ 1,550,512</u>	<u>\$ 630,933</u>	<u>\$ 14,002,397</u>
<u>\$ 271,901</u>	<u>\$ (1,536,991)</u>	<u>\$ 34,081</u>	<u>\$ 361,769</u>
\$ -	\$ -	\$ 10,200	\$ 10,200
(10,200)	-	-	(10,200)
<u>\$ (10,200)</u>	<u>\$ -</u>	<u>\$ 10,200</u>	<u>\$ -</u>
\$ 261,701	\$ (1,536,991)	\$ 44,281	\$ 361,769
1,958,764	1,573,885	611,324	7,570,864
-	-	-	234,524
<u>\$ 2,220,465</u>	<u>\$ 36,894</u>	<u>\$ 655,605</u>	<u>\$ 8,167,157</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 361,769

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

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

Deferred revenue - December 31	\$ 2,460,462	
Deferred revenue - January 1	<u>(4,660,434)</u>	(2,199,972)

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

Expenditures for general capital assets and infrastructure	\$ 5,732,885	
Current year depreciation	<u>(1,183,289)</u>	4,549,596

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.

Amortization of discounts and deferred issuance charges	\$ (9,291)	
Change in compensated absences	(13,001)	
Change in other postemployment benefits	(99,195)	
Change in inventories	<u>234,524</u>	<u>113,037</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,824,430

FIDUCIARY FUND

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT 7

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

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ 412,550
Due from other governments	<u>133,200</u>
Total Assets	<u>\$ 545,750</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 545,750</u>

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Grant County was established March 6, 1868, 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 Grant County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

The Housing and Redevelopment Authority (HRA) of Grant County is a component unit of Grant 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 Grant County. The HRA operates as a local governmental unit for the purpose of providing housing and redevelopment services to Grant County. The governing body consists of a five-member Board of Commissioners appointed by the Grant County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended December 31, 2012.

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The HRA of Grant County provides services pursuant to Minn. Stat. §§ 469.001-.047	The County appoints members, and the HRA is a financial burden.	Grant County Coordinator’s Office 10 Second Street N.E. Elbow Lake, Minnesota 56531

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

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.

In the government-wide statement of net position, the governmental activities 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the 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 Courthouse Improvement Capital Projects Fund is used to account for the General Obligation Bonds, Series 2011A, and the Taxable General Obligation Capital Improvement Plan Bonds, Series 2011B, used for the Courthouse improvements project.

Additionally, the County reports the following fund type:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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 Treasurer for the purpose of increasing earnings through investment activities. Cash and pooled 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 \$14,156.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments (Continued)

Grant 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

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

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

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories

All inventories are valued at cost using the first in/first out method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost 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, as well as its component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	30 - 40
Office furniture and equipment	3 - 15
Machinery and automotive	3 - 20
Infrastructure	25 - 75

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the 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 an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Classification of Net Position

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

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

Restricted - the portion 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 - the portion 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 in the governmental funds. The classifications are as follows:

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

Restricted - amounts in which constraints that 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 are imposed by law through constitutional provisions or enabling legislation.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Fund Balances (Continued)

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

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

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

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, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Minimum Fund Balance

The County has adopted a minimum fund balance policy for the General Fund in order to provide protection against the need to reduce services due to a lack of resources resulting from temporary revenue shortfalls or unpredicted expenditures. Therefore, the County Board has determined it needs to maintain a minimum level of unrestricted fund balance (committed, assigned, and unassigned) of \$800,000. The Fund Balance Policy was adopted by the County Board on December 20, 2011. At December 31, 2012, unrestricted fund balance for the General Fund was above the minimum fund balance level.

11. Use of Estimates

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

E. Prior Period Adjustments

1. Restatement of Buildings Capital Assets

The January 1, 2012, balance for buildings, as reported in the County's capital assets, was restated due to the County disposing the Grant County Hospital remodeling projects from the capital assets system in the prior year, yet the County retained the building.

Balance - January 1, 2012, as previously reported	\$ 3,312,497
Prior period adjustment to add remodeling projects back in	<u>684,803</u>
Balance - January 1, 2012, as restated	<u>\$ 3,997,300</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Prior Period Adjustments (Continued)

2. Restatement of Construction in Progress Capital Assets

The January 1, 2012, balance for construction in progress, as reported in the County's capital assets, was restated due to the addition of the Courthouse Improvement project.

Balance - January 1, 2012, as previously reported	\$ 2,651,269
Prior period adjustment to add courthouse costs	<u>736,216</u>
Balance - January 1, 2012, as restated	<u>\$ 3,387,485</u>

3. Restatement of Accumulated Depreciation Related to Capital Assets

The January 1, 2012, balance for accumulated depreciation, as reported in the County's capital assets, was restated for the Grant County Hospital capital assets.

Balance - January 1, 2012, as previously reported	\$ 2,142,995
Prior period adjustment for accumulated depreciation	<u>208,168</u>
Balance - January 1, 2012, as restated	<u>\$ 2,351,163</u>

4. Restatement of Net Position Balance in the Statement of Activities

The adjustment made to the January 1, 2012, balances for buildings, construction in progress and accumulated depreciation resulted in corresponding adjustments to the January 1, 2012, net position balance of the governmental activities in the Statement of Activities as follows:

Net position of governmental activities - January 1, 2012, as previously Reported	\$ 30,181,796
Prior period adjustment for restatement of buildings	684,803
Prior period adjustment for restatement of construction in progress	736,216
Prior period adjustment for accumulated depreciation	<u>(208,168)</u>
Net position of governmental activities - January 1, 2012, as restated	<u>\$ 31,394,647</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

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

	Expenditures	Final Budget	Excess
General Fund	\$ 4,662,135	\$ 4,021,602	\$ 640,533
Human Services Special Revenue Fund	1,856,407	1,745,083	111,324

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 position	
Governmental activities	
Cash and pooled investments	\$ 7,655,615
Statement of fiduciary net position	
Cash and pooled investments	412,550
Total Cash and Investments	\$ 8,068,165

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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. The County’s deposits in banks at December 31, 2012, were entirely covered by federal depository insurance and collateral in accordance with Minnesota statutes.

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;

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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 only in securities that meet the ratings requirements set by state statute. None of the County's investments at December 31, 2012, were rated.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 does not have a policy on custodial credit risk.

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 does not have a policy on concentration of credit risk.

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

<u>Investment Type</u>	<u>Concentration of Credit Risk Over 5 Percent of Portfolio</u>	<u>Interest Rate Risk Maturity Date</u>	<u>Carrying (Fair) Value</u>
Negotiable certificates of deposit			
Bank India NY US	9.8%	05/01/2013	\$ 199,968
Bank of China LTD NY US	11.8%	05/15/2013	239,993
Bank of the West Institutional CTF	N/A	12/27/2016	21,372
HSBC Bank Virginia	N/A	11/29/2016	24,913
HSBC Bank Virginia	N/A	12/30/2016	18,861
Total negotiable certificates of deposit			\$ 505,107
Investment pools			
MAGIC Fund	75.3%		1,536,925
Total investments			\$ 2,042,032
Deposits			5,611,238
Money market accounts with broker			412,245
Petty cash			2,650
Total Cash and Investments			\$ 8,068,165

N/A - Not Applicable

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 161,874	\$ -
Special assessments	11,569	-
Accounts	45,746	-
Accrued interest	64,078	-
Due from other governments	3,152,127	-
Total Governmental Activities	\$ 3,435,394	\$ -

3. Capital Assets

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

	Beginning Balance, as Restated	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 223,383	\$ -	\$ -	\$ 223,383
Right-of-way	474,910	-	-	474,910
Construction in progress	3,387,485	5,600,550	7,935,230	1,052,805
Total capital assets not depreciated	\$ 4,085,778	\$ 5,600,550	\$ 7,935,230	\$ 1,751,098

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance, as Restated	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 3,997,300	\$ 5,438,640	\$ -	\$ 9,435,940
Office furniture and equipment	424,675	455,972	30,345	850,302
Machinery and automotive	3,091,267	125,508	-	3,216,775
Infrastructure	29,220,418	2,024,354	-	31,244,772
Total capital assets depreciated	\$ 36,733,660	\$ 8,044,474	\$ 30,345	\$ 44,747,789
Less: accumulated depreciation for				
Buildings	\$ 2,351,163	\$ 113,661	\$ -	\$ 2,464,824
Office furniture and equipment	344,901	45,320	-	390,221
Machinery and automotive	2,427,021	167,563	53,436	2,541,148
Infrastructure	11,726,550	856,745	-	12,583,295
Total accumulated depreciation	\$ 16,849,635	\$ 1,183,289	\$ 53,436	\$ 17,979,488
Total capital assets depreciated, net	\$ 19,884,025	\$ 6,861,185	\$ (23,091)	\$ 26,768,301
Governmental Activities Capital Assets, Net	\$ 23,969,803	\$ 12,461,735	\$ 7,912,139	\$ 28,519,399

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

Governmental Activities	
General government	\$ 128,671
Public safety	50,111
Highways and streets, including depreciation of infrastructure	993,910
Human services	1,150
Sanitation	9,447
Total Depreciation Expense	\$ 1,183,289

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Description</u>
General Fund	Human Services Special Revenue Fund	\$ 5,189	Charges for services
	Ditch Special Revenue Fund	<u>2,432</u>	Charges for services
Total Due To/From Other Funds		<u>\$ 7,621</u>	

Interfund Transfers

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

Transfer to Transportation Special Revenue Fund from Human Services Special Revenue Fund	<u>\$ 10,200</u>	To close out the Transportation Special Revenue Fund in 2012.
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C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	<u>Governmental Activities</u>
Accounts	\$ 339,877
Salaries	137,525
Contracts payable	156,338
Due to other governments	295,977
Interest	<u>67,459</u>
Total Payables	<u>\$ 997,176</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state and federal grants not collected soon enough after year-end to pay liabilities of the current period, and money from state-aid highway allotments received but not yet earned. Deferred revenue at December 31, 2012, is summarized by fund:

	<u>Taxes and Special Assessments</u>	<u>Grants</u>	<u>State-Aid Highway Allotments</u>	<u>Other</u>	<u>Total</u>
Major governmental funds					
General	\$ 67,065	\$ -	\$ -	\$ 477	\$ 67,542
Road and Bridge	27,202	78,777	2,111,651	11,008	2,228,638
Human Services	20,833	54,164	-	78,188	153,185
Nonmajor governmental funds					
Ditch	12	-	-	181	193
Solid Waste	10,329	-	-	575	10,904
Total	<u>\$ 125,441</u>	<u>\$ 132,941</u>	<u>\$ 2,111,651</u>	<u>\$ 90,429</u>	<u>\$ 2,460,462</u>

3. Other Postemployment Benefits - Retirees

The County pays health insurance for employees who retire with at least 12 years of experience, who have reached the age of 55, but who are under the age of 65 and not eligible for Medicare. The County pays 50 percent of the cost of single coverage. The County's contributions for the year ended December 31, 2012, were \$6,978. During 2012, two employees qualified for retired employee health insurance coverage.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds 2011A Bonds	2022	\$110,000 - \$300,000	1.00 - 3.20	\$ 2,480,000	<u>\$ 2,480,000</u>
Taxable general obligation capital improvement plan bonds 2011B Bonds	2026	\$2,000,000	5.50	\$ 2,000,000	<u>\$ 2,000,000</u>

5. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Taxable General Obligation Capital Improvement Plan Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 270,000	\$ 50,553	\$ -	\$ 110,000
2014	270,000	47,515	-	110,000
2015	275,000	43,696	-	110,000
2016	275,000	39,021	-	110,000
2017	280,000	33,468	-	110,000
2018 - 2022	1,110,000	65,067	-	550,000
2023 - 2026	-	-	2,000,000	385,000
Total	<u>\$ 2,480,000</u>	<u>\$ 279,320</u>	<u>\$ 2,000,000</u>	<u>\$ 1,485,000</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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
Long-Term Liabilities					
Bonds payable					
General obligation bonds	\$ 2,480,000	\$ -	\$ -	\$ 2,480,000	\$ 270,000
Taxable general obligation capital improvement bonds	2,000,000	-	-	2,000,000	-
Less: unamortized discount	(40,720)	-	(3,404)	(37,316)	-
Total G.O. bonds	\$ 4,439,280	\$ -	\$ (3,404)	\$ 4,442,684	\$ 270,000
Other postemployment benefits	-	99,195	-	99,195	-
Compensated absences	363,343	244,588	231,587	376,344	33,437
Total Long-Term Liabilities	\$ 4,802,623	\$ 343,783	\$ 228,183	\$ 4,918,223	\$ 303,437

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Grant 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 and the Public Employees Police and Fire 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).

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. 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.

Two methods are used to compute benefits for the 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. Using 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 the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For General Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire 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 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 and the Public Employees Police and Fire Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent.

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

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 189,560	\$ 205,970	\$ 190,126
Public Employees Police and Fire Fund	63,132	36,442	55,439

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

B. Defined Contribution Plan

Four County Commissioners of Grant 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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	\$ 3,720	\$ 3,720
Percentage of covered payroll	5.0%	5.0%

Required contribution rates were 5.0 percent.

C. Other Postemployment Benefits (OPEB)

Beginning in 2012, Grant County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement required the County to calculate and record a net OPEB obligation. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since January 1, 2012.

Plan Description

Grant County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Grant County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2012, there were 74 participants in the plan, including 3 retirees.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) 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 unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation to the plan.

ARC	\$ 156,064
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost (expense)	\$ 156,064
Contributions made	(56,869)
	<hr/>
Increase in net OPEB obligation	\$ 99,195
Net OPEB Obligation - Beginning of Year	-
	<hr/>
Net OPEB Obligation - End of Year	<u>\$ 99,195</u>

The County's annual OPEB cost for December 31, 2012, was \$156,064. The percentage of OPEB cost contributed to the plan was 36.4 percent, and the net OPEB obligation for 2012 was \$99,195. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2012.

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$1,223,986, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,223,986. The covered payroll (annual payroll of active employees covered by the plan) was \$3,032,227, and the ratio of the UAAL to the covered payroll was 40.4 percent.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the 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 as it becomes available about 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 the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Grant County's implicit rate of return on the General Fund. The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 29 years.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$460,000 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. 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.

The Service Cooperative is a joint powers entity which sponsors a plan to provide group employee health benefits to its participating members. All members pool premiums and losses; however, a particular member may receive increases or decreases depending on a good or bad year of claims experience. Premiums are determined annually by the Service Cooperative and are based partially on the experience of the County and partially on the experience of the group. The Service Cooperative solicits proposals from carriers and negotiates the contracts.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

B. Joint Ventures

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1992, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. In 2005, the Area Agency on Aging became part of a larger planning and service area, covering 21 counties. This is a partnership between the Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. The combined area on aging, known as the Land of the Dancing Sky Area on Aging, was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of the 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards continue to meet monthly to make decisions affecting their local counties.

Control is vested in the West Central Board on Aging. The Board consists of one Commissioner from each of the counties. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

West Central Area Agency on Aging (Continued)

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair will forward a copy to each of the member counties. Withdrawal does not act to discharge any liability incurred or chargeable to any county before the effective date of withdrawal.

Complete financial information can be obtained from:

West Central Area Agency on Aging
313 South Mill Street
Fergus Falls, Minnesota 56537-2577

Stevens Traverse Grant Public Health Nursing Service

Grant County entered into a joint powers agreement with Stevens and Traverse Counties creating and operating the Stevens Traverse Grant Public Health Nursing Service, pursuant to Minn. Stat. § 471.59. The Nursing Service is headquartered in Morris, Minnesota, and has other offices in Wheaton and Elbow Lake, Minnesota.

The management of the Nursing Service is vested in the Joint Public Health Nursing Board, which consists of nine members, three Commissioners each from Stevens County, Traverse County, and Grant County.

Financing is provided by state grants; appropriations from Stevens, Traverse, and Grant Counties; and charges for services. Grant County's contribution for 2012 was \$82,836.

Complete financial statements for the Stevens Traverse Grant Public Health Nursing Service can be obtained from:

Stevens Traverse Grant Public Health Nursing Service
621 Pacific Avenue
Morris, Minnesota 56267

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Horizon Community Health Board

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services pursuant to Minn. Stat. § 471.59 (following a budget approved by the four-county Board). Mid-State Community Health Services' was renamed to Horizon Community Health Services when Douglas County was added as a member on January 1, 2011. The budget is now approved by the five-county Board. During 2012, Grant County did not contribute to the Board.

Complete financial information can be obtained from:

Horizon Community Health Board
211 East Minnesota Avenue, Suite 100
Glenwood, Minnesota 56334

Minnesota River Board

The Minnesota River Board (formerly the Minnesota River Basin Joint Powers Board) was established July 12, 1995, by an agreement between Grant County and 37 other counties. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportional share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Board shall be distributed by resolution of the policy committee to best accomplish the continuing purposes of the project.

Control is vested in an executive board of five officers elected from the membership of the Board, consisting of one representative and alternate from each County Board of Commissioners included in this agreement. During 2012, Grant County did not contribute to the Board.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Minnesota River Board (Continued)

Complete financial information can be obtained from:

Minnesota River Board
135 Trafton Science Center South
Minnesota State University, Mankato
Mankato, Minnesota 56001

West Central Minnesota Drug Task Force

The West Central Minnesota Drug Task Force was established in 1996 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Clay, Douglas, Grant, Otter Tail, and Todd Counties, and the Cities of Alexandria, Breckenridge, Detroit Lakes, Fargo, Fergus Falls, Moorhead, Pelican Rapids, Perham, and Wahpeton. The Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the six-county area.

Control of the West Central Minnesota Drug Task Force is vested in a Board of Directors, which consists of department heads or a designee from each participating full-time member agency. In the event of dissolution of the Task Force, the equipment will be divided and returned to the appropriate agencies. However, if only one agency terminates its agreement and the unit continues, all equipment will remain with the Task Force. Financing and equipment will be provided by the full-time and associate member agencies. Grant County provided \$3,500 to this organization in 2012.

Douglas County, in an agent capacity, reports the cash transactions of the West Central Minnesota Drug Task Force as an agency fund on its financial statements. Separate financial information is not available.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, by a joint powers agreement between Grant County and five other counties and their respective soil and water conservation districts. The agreement was made to develop and implement plans to protect property from damage of flooding; control erosion of land; protect streams and lakes from sedimentation and pollution; and maintain or improve the quality of water in the streams, lakes, and ground water lying within the boundaries of the watershed of the Pomme de Terre River.

Administrative costs are apportioned equally to the soil and water conservation districts included in the Association based on actual costs.

Control is vested in a Joint Powers Board, comprised of one representative of each of the County Boards of Commissioners and one representative from each soil and water conservation district board of supervisors included within the agreement. During 2012, Grant County did not contribute any funds to the Association.

Complete financial information for the Pomme de Terre River Association Joint Powers Board can be obtained from:

Pomme de Terre River Association
900 Roberts Street, Suite 104
Alexandria, Minnesota 56308

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established December 1998 by a joint powers agreement among Grant County and nine other counties under the authority of Minn. Stat. § 471.59. An additional three counties joined in 2008. The purpose of this agreement is to plan and administer a multi-county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

Control of the Purchasing Initiative is vested in a Joint Powers Board, composed of one Commissioner from each member county. Each member of the Joint Powers Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold, and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing eligible population.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services. Grant County did not contribute any funds to the Prime West Central County-Based Purchasing Initiative during 2012.

Complete financial information can be obtained from:

Prime West Health
2209 Jefferson Street, Suite 101
Alexandria, Minnesota 56308

Supporting Hands Nurse Family Partnership Board

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 471.59 and 145A.17 and a joint powers agreement effective June 5, 2007. The Board consists of 12 members, including an appointed Commissioner from each participating county. The primary purpose of the joint venture is to improve the health and life-course of low-income, first-time mothers, and their children. The joint venture is financed primarily by contributions from participating counties.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Supporting Hands Nurse Family Partnership Board (Continued)

McLeod County acts as the fiscal agent for Supporting Hands Nurse Family Partnership. A complete financial report of the Supporting Hands Nurse Family Partnership can be obtained from:

McLeod County Auditor's Office
2385 Hennepin Avenue North
Glencoe, Minnesota 55336

Central Minnesota Emergency Services Board

The Central Minnesota Emergency Services Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

The purpose of the Central Minnesota Emergency Services Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER), owned and operated by the State of Minnesota.

Control of the Central Minnesota Emergency Services Board is vested in the Central Minnesota Emergency Services Board, which is composed of one Commissioner of each county appointed by their respective County Board and one City Council member from each city appointed by their respective City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

In the event of dissolution of the Central Minnesota Emergency Services Board, all property, assets, and funds of the Board are to be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board will share in the distribution of property, assets, and funds of the Board only to the extent it shared in the original expense.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Central Minnesota Emergency Services Board (Continued)

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by appropriations from member parties and by state and federal grants. Complete financial information can be obtained from:

Central Minnesota Emergency Services Board
City of St. Cloud
Office of the Mayor
City Hall
400 Second Street South
St. Cloud, Minnesota 56303

Region 4 South Adult Mental Health Consortium

Douglas, Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating Region 4 South Adult Mental Health Consortium, pursuant to Minn. Stat. § 471.59, to provide a system of care that will serve the needs of adults with serious and persistent mental illness for the mutual benefit of each of the joint participants.

Control of the Consortium is vested in a governing board, which consists of each participating county's Director of Social Services, Family Services, or Human Services, as the case may be. The governing board operates under the ultimate authority of the Executive Commissioner Board. The Executive Commissioner Board is composed of one Commissioner of each county appointed by their respective County Board.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the date of the proposed withdrawal. Withdrawal does not act to discharge any liability incurred or chargeable to any county before the effective date of the withdrawal.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Region 4 South Adult Mental Health Consortium (Continued)

Dissolution of the Consortium will occur by unanimous vote of the counties, or when the membership in the Consortium is reduced to less than two counties. Upon dissolution of the Consortium, the member counties will share in the current liabilities and current financial assets, including real property, of the Consortium equally if no county has contributed during the term of the Consortium or based upon their percentage of contribution to the Consortium's budget during the period applicable to such liabilities and assets.

Financing is predominantly provided by state grants. Grant County, in a fiscal host capacity, reports the cash transactions of the Consortium as an agency fund on its financial statements. Complete financial information can be obtained from:

Grant County Human Services Director
28 Central Avenue S.
Elbow Lake, Minnesota 56531

C. Jointly-Governed Organizations

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

Western Area City/County Co-Op

Grant County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of WACCO is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burdens on each of its members through the cooperative sharing of existing resources. The management and control of WACCO is vested in a Board of Directors composed of a representative appointed by each member city and county.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

District IV Transportation Planning

Grant County and 13 other cities and counties entered into a joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

Grant County Child and Youth Council Collaborative

The Grant County Child and Youth Council Collaborative was established in 1998 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Ashby Public School, Herman-Norcross Public School, West Central Area Schools, Grant County Public Health, Grant County Social Services, and West Central Minnesota Community Action, Inc. The Collaborative was formed as a family services collaborative for the purpose of providing coordinated child and family services and to create an integrated system of services for children and families with multiple and special needs.

Control of the Collaborative is vested in a collaborative governing board and an Executive Committee. The Board is composed of one member and alternate from each agency involved. The Board exercises revenue authority and approves the annual budget.

The Executive Committee comprises the directors of Grant County Public Health, Grant County Social Services, and West Central Community Action, Inc.; the superintendents of Ashby, Herman-Norcross, and West Central Area Schools; a representative of the Grant County Department of Court Services; and a parent nominated from the area. The Executive Committee has policy oversight authority for integrated services design as well as authority over expenditures.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations

Grant County Child and Youth Council Collaborative (Continued)

Any party may exercise a right to withdraw from the Grant County Child and Youth Council Collaborative by passage of a resolution by its governing body declaring its intent to withdraw and giving at least a 180-day notice. When a party exercises its option to withdraw, the party shall remain liable for fiscal obligation incurred prior to the effective date of the withdrawal. If the Collaborative is terminated, the Board shall continue to exist for the limited purpose of discharging the Collaborative's debts and liabilities, settling its affairs, and disposing of integrated fund assets, if any.

Financing is provided by state and federal grants and contributions from the member parties. During 2012, Grant County did not contribute to the Collaborative.

D. Related Organization

Lakeland Mental Health Center

Lakeland Mental Health Center was formed pursuant to Minn. Stat. ch. 317A as a 501(c)3 nonprofit corporation on February 10, 1961, and includes Becker, Clay, Grant, Otter Tail, and Pope Counties. The purpose of Lakeland Mental Health Center is to promote healthy individuals, families, and communities by providing high quality accessible mental health services.

The management of Lakeland Mental Health Center is vested in a Board of Directors consisting of one Commissioner and one community-at-large representative from each member county, plus one human service director, or equivalent position, rotated between the member counties.

Services are provided to the member counties through purchase of services agreements. A member county may lose its membership, by action of the Board of Directors, if it fails to have a signed contract with Lakeland Mental Health Center. Grant County paid \$152,936 in 2012 for services purchased through Lakeland Mental Health Center.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies

1. Reporting Entity

The Housing and Redevelopment Authority (HRA) of Grant County is a component unit of Grant 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 Grant County. The HRA operates as a public agency created by Grant 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 Grant County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended December 31, 2012.

2. Basis of Accounting

The HRA is reported as an enterprise fund and is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

3. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

4. Cash

For purposes of the statement of cash flows, all cash deposits and temporary investments with original terms of three months or less are considered to be cash.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

5. Rent Receivable

Rent is due at the first of the month for the current month. Rent which remains uncollected is accrued as a receivable. Management represents all rent receivables are collectible either through normal collection procedures or through revenue recapture through the State of Minnesota. Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

6. Capital Assets

Property and equipment are stated at historical cost or estimated historical cost and are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives are as follows:

Buildings	30 - 40 years
Improvements	10 - 15 years
Equipment	3 - 7 years

7. Capitalized Interest

In determining the cost of capital projects, the HRA capitalizes that portion of the interest cost which could have been avoided if the capital project had not been undertaken. No interest was capitalized for the year ended December 31, 2012.

8. Estimates

The preparation of financial statements in conformity with the 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.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures (Continued)

B. Detailed Notes on All Funds

1. Deposits

Reconciliation of the HRA's total cash, as reported in the basic financial statements to deposits, cash on hand and investments follows:

Cash and pooled investments	
Deposits	\$ 260,278
Certificates of deposit	<u>438,521</u>
Total cash and pooled investments	\$ 698,799
Restricted cash	
Tenant security deposits	<u>27,547</u>
Total Cash and Investments	<u><u>\$ 726,346</u></u>

In accordance with Minnesota statutes, the HRA maintains deposits at those depository banks authorized by the Board of Directors. All such depositories 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.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard 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.

At December 31, 2012, the Authority's deposits had a carrying amount of \$726,346 and a bank balance of \$735,268. Of the bank balance, \$250,100 was covered by federal depository insurance. Collateral of \$528,173 was required for the remaining funds of which \$381,648 was covered by qualified collateral held in safekeeping, and \$146,526 remained uncovered and at risk.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

2. Investments

Minnesota statutes generally authorize the same types of investments for the HRA as for the County. See Note 3.A.1.b.

During the year ended December 31, 2012, the HRA had no investments that required disclosure regarding interest rate risk, credit risk, custodial credit risk or concentration of credit risk.

3. Capital Assets

The HRA's capital asset activity for the year ended December 31, 2012, follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not depreciated				
Land	\$ 530,210	\$ -	\$ 366,664	\$ 163,546
Capital assets depreciated				
Buildings	\$ 4,508,075	\$ 538,637	\$ -	\$ 5,046,712
Equipment, furniture, and fixtures	219,848	42,345	-	262,193
Total capital assets depreciated	\$ 4,727,923	\$ 580,982	\$ -	\$ 5,308,905
Less: accumulated depreciation	2,848,274	155,836	-	3,004,110
Total capital assets depreciated, net	\$ 1,879,649	\$ 425,146	\$ -	\$ 2,304,795
Total	\$ 2,409,859	\$ 425,146	\$ 366,664	\$ 2,468,341

4. Long-Term Debt

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

Type of Indebtedness	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2002 GMHF loan	\$ 101,500	\$ -	\$ -	\$ 101,500	\$ -
2009 Housing Development bonds	950,000	-	35,000	915,000	40,000
Compensated absences	10,751	256	-	11,007	6,302
Total Long-Term Debt	\$ 1,062,251	\$ 256	\$ 35,000	\$ 1,027,507	\$ 46,302

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes on All Funds

4. Long-Term Debt (Continued)

Bonds and loans payable at December 31, 2012, consisted of the following issues:

	Original Issue Amount	Final Maturity	Interest Rate (%)	Outstanding Balance December 31, 2012
2002 GMHF Loan	\$ 101,500	2027	-	\$ 101,500
2009 Housing Development Bonds	1,055,000	2029	1.25 - 4.50	915,000
Total Long-Term Debt	<u>\$ 1,156,500</u>			<u>\$ 1,016,500</u>

The 2002 GMHF Loan matures on April 2, 2027. The loan is noninterest-bearing, unsecured, and requires no periodic payments.

The 2009 Housing Development Bonds mature on December 1, 2029. The bonds bear an interest rate of 1.25 percent to 4.50 percent in semi-annual interest payments and annual principal payments. The bond is secured by all real and personal property as well as by all revenues of the housing project.

The annual minimum payment requirements for bonds and loans outstanding as of December 31, 2012, are as follows:

Year Ending December 31	Principal	Interest	Total
2013	\$ 40,000	\$ 37,283	\$ 77,283
2014	40,000	36,183	76,183
2015	45,000	34,883	79,883
2016	45,000	33,420	78,420
2017	45,000	31,620	76,620
2018 - 2022	250,000	129,700	379,700
2023 - 2027	305,000	73,340	378,340
2028 - 2029	246,500	9,900	256,400
Totals	<u>\$ 1,016,500</u>	<u>\$ 386,329</u>	<u>\$ 1,402,829</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures (Continued)

C. Defined Benefit Pension Plan

Plan Description

The Principal Mutual Life Insurance Company Retirement Plan (Plan) is a defined contribution retirement plan covering essentially all employees of the various participating employers. Since the participating employers are all government units, the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, except for the contribution limitations of Section 415. The payroll for employees covered by the Plan for the year ended December 31, 2012, was \$125,098; the HRA's total payroll was \$138,612.

The Plan and Trust are qualified under Section 401(a) of the Internal Revenue Code, and their income is exempt from taxation under Section 501(a) of the Code.

The Plan is funded by employer contributions only. The rates of contributions are determined by the various adoption agreements of the participating employers.

Terminating or retiring participants are entitled to certain benefits including the full amount of their contributions to the Plan as well as earnings on their contributions. In addition to the amount of their contribution, each participant is entitled to the portion of the employer's contributions in which he or she has a vested interest. Vesting provisions are determined in accordance with the participating employers' adoption agreement. If a participating employee should die prior to retirement, then the employee or their designated beneficiary shall be entitled to the full value of the participant's account. Benefits are payable in the form of lump sum cash settlements or purchased annuities, depending upon the election of the participant and the nature of their termination or retirement.

If the Plan is terminated or contributions under the Plan are discontinued, the participating employees are entitled to benefits accrued to the date of such termination or discontinuance to the extent funded and/or to the amounts credited to the employees' accounts.

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

7. Component Unit Disclosures

C. Defined Benefit Pension Plan (Continued)

Contributions Required and Contributions Made

Covered employees contribute fixed percentages of their gross earnings to the Plan. The HRA makes monthly contributions to the pension plan. Current contribution rates are as follows:

Employee	-
Employer	14.00%

Total contributions made during the fiscal years ending December 31, 2012, 2011, and 2010, were \$17,497, \$17,134, and \$16,974, respectively.

D. Risk Management

The HRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; job-related illnesses or injuries to employees; and natural disasters for which the HRA carries commercial insurance. The various insurance policies are subject to deductible amounts and maximum coverages. If the deductibles and maximum coverages are exceeded, this could cause the HRA to suffer losses if a loss is incurred from such incidents. The ultimate outcome of uninsured losses cannot presently be determined, and no provision for any liability that may result, if any, has been made in the financial statements. Settled claims to date have not exceeded coverage levels, and insurance coverage, by major categories of risk, consistent with coverage in the prior year.

E. Contingencies

The HRA receives grant funds, principally from U.S. Housing and Urban Development (HUD) for the Vouchers Choice program, the Public Housing Operating Subsidy, and Capital Fund. Monies from HUD are received directly from the federal agency. Certain expenditures are subject to audit by HUD, and the HRA is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the HRA, no material refunds will be required as a result of expenditures disallowed by HUD.

REQUIRED SUPPLEMENTARY INFORMATION

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**GRANT COUNTY
ELBOW LAKE, 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	\$ 3,302,350	\$ 3,302,350	\$ 3,460,179	\$ 157,829
Licenses and permits	75	75	4,245	4,170
Intergovernmental	373,342	373,342	547,141	173,799
Charges for services	225,535	225,535	359,717	134,182
Fines and forfeits	-	-	6,145	6,145
Gifts and contributions	-	-	25	25
Investment earnings	18,000	18,000	12,570	(5,430)
Miscellaneous	102,300	102,300	259,741	157,441
Total Revenues	\$ 4,021,602	\$ 4,021,602	\$ 4,649,763	\$ 628,161
Expenditures				
Current				
General government				
Commissioners	\$ 185,324	\$ 185,324	\$ 195,247	\$ (9,923)
County coordinator	128,325	128,325	130,052	(1,727)
County auditor	241,318	241,318	227,778	13,540
License bureau	89,294	89,294	103,886	(14,592)
County treasurer	155,482	155,482	153,411	2,071
County assessor	224,259	224,259	241,650	(17,391)
Elections	38,000	38,000	35,501	2,499
Accounting and auditing	50,000	50,000	81,324	(31,324)
Data processing	-	-	180,873	(180,873)
Attorney	144,454	144,454	149,886	(5,432)
Law library	-	-	12,406	(12,406)
Recorder	183,860	183,860	199,153	(15,293)
Land management	126,306	126,306	108,274	18,032
Buildings and plant	142,808	142,808	334,223	(191,415)
Veterans service officer	40,000	40,000	49,171	(9,171)
Other general government	77,474	77,474	318,105	(240,631)
Total general government	\$ 1,826,904	\$ 1,826,904	\$ 2,520,940	\$ (694,036)
Public safety				
Sheriff	\$ 1,048,842	\$ 1,048,842	\$ 1,131,307	\$ (82,465)
Boat and water safety	-	-	5,377	(5,377)
Emergency management	53,280	53,280	51,941	1,339
E-911 system	75,000	75,000	155,315	(80,315)
Coroner	6,000	6,000	4,940	1,060
Community corrections	108,500	108,500	133,725	(25,225)
Total public safety	\$ 1,291,622	\$ 1,291,622	\$ 1,482,605	\$ (190,983)

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

**GRANT COUNTY
ELBOW LAKE, 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)				
Health				
Nursing service	\$ 95,337	\$ 95,337	\$ 96,505	\$ (1,168)
Culture and recreation				
Historical society	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
County/regional library	60,543	60,543	60,543	-
Total culture and recreation	\$ 80,543	\$ 80,543	\$ 80,543	\$ -
Conservation of natural resources				
County extension	\$ 139,855	\$ 139,855	\$ 131,519	\$ 8,336
Soil and water conservation	79,938	79,938	79,938	-
Agricultural society/County fair	16,540	16,540	16,540	-
Water planning	2,365	2,365	56,560	(54,195)
Total conservation of natural resources	\$ 238,698	\$ 238,698	\$ 284,557	\$ (45,859)
Economic development				
Economic development	\$ 35,000	\$ 35,000	\$ 35,083	\$ (83)
Debt service				
Interest	\$ 453,498	\$ 453,498	\$ 161,902	\$ 291,596
Total Expenditures	\$ 4,021,602	\$ 4,021,602	\$ 4,662,135	\$ (640,533)
Net Change in Fund Balance	\$ -	\$ -	\$ (12,372)	\$ (12,372)
Fund Balance - January 1	2,385,573	2,385,573	2,385,573	-
Fund Balance - December 31	\$ 2,385,573	\$ 2,385,573	\$ 2,373,201	\$ (12,372)

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,153,391	\$ 1,153,391	\$ 1,147,425	\$ (5,966)
Intergovernmental	4,857,609	4,857,609	5,661,622	804,013
Charges for services	-	-	37,071	37,071
Miscellaneous	-	-	61,442	61,442
Total Revenues	\$ 6,011,000	\$ 6,011,000	\$ 6,907,560	\$ 896,560
Expenditures				
Current				
Highways and streets				
Administration	\$ 213,349	\$ 213,349	\$ 225,637	\$ (12,288)
Maintenance	1,202,488	1,202,488	1,130,046	72,442
Construction	3,817,430	3,817,430	3,092,496	724,934
Equipment maintenance and shop	691,733	691,733	607,157	84,576
Materials and services for resale	86,000	86,000	42,055	43,945
Total highways and streets	\$ 6,011,000	\$ 6,011,000	\$ 5,097,391	\$ 913,609
Intergovernmental				
Highways and streets	-	-	205,019	(205,019)
Total Expenditures	\$ 6,011,000	\$ 6,011,000	\$ 5,302,410	\$ 708,590
Net Change in Fund Balance	\$ -	\$ -	\$ 1,605,150	\$ 1,605,150
Fund Balance - January 1	1,041,318	1,041,318	1,041,318	-
Increase (decrease) in inventories	-	-	234,524	234,524
Fund Balance - December 31	\$ 1,041,318	\$ 1,041,318	\$ 2,880,992	\$ 1,839,674

**GRANT COUNTY
ELBOW LAKE, 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	\$ 818,958	\$ 818,958	\$ 825,356	\$ 6,398
Intergovernmental	752,849	752,849	1,045,847	292,998
Charges for services	171,476	171,476	235,927	64,451
Gifts and contributions	-	-	352	352
Miscellaneous	1,800	1,800	20,826	19,026
Total Revenues	\$ 1,745,083	\$ 1,745,083	\$ 2,128,308	\$ 383,225
Expenditures				
Current				
Human services				
Income maintenance	\$ 616,174	\$ 616,174	\$ 667,222	\$ (51,048)
Social services	1,128,909	1,128,909	1,189,185	(60,276)
Total Expenditures	\$ 1,745,083	\$ 1,745,083	\$ 1,856,407	\$ (111,324)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 271,901	\$ 271,901
Other Financing Sources (Uses)				
Transfers out	-	-	(10,200)	(10,200)
Net Change in Fund Balance	\$ -	\$ -	\$ 261,701	\$ 261,701
Fund Balance - January 1	1,958,764	1,958,764	1,958,764	-
Fund Balance - December 31	\$ 1,958,764	\$ 1,958,764	\$ 2,220,465	\$ 261,701

**GRANT COUNTY
ELBOW LAKE, 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, 2012	\$ -	\$ 1,223,986	\$ 1,223,986	0.0%	\$3,032,227	40.4%

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch and Transportation Special Revenue Funds and the Courthouse Improvement Capital Projects Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action.

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

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no supplemental budgetary appropriations

2. Excess of Expenditures Over Appropriations

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

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 4,662,135	\$ 4,021,602	\$ 640,533
Human Services Special Revenue Fund	1,856,407	1,745,083	111,324

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

3. Other Postemployment Benefits Funding Status

The County implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2012. See Note 4.C. to the financial statements for more information.

GASB Statement 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported.

Currently, only one actuarial valuation is available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Ditch Fund accounts for the financing and related costs of all County ditches.

The Solid Waste Fund accounts for the financing and costs related to the collection and disposal of solid waste and the County recycling activities.

The Transportation Fund is used to account for the financing and related costs of providing transportation services to residents of the County. Financing is provided by grants, County contributions, and user service charges.

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT B-1

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

	Special Revenue Funds		Total
	Ditch	Solid Waste	
<u>Assets</u>			
Cash and pooled investments	\$ 316,844	\$ 349,368	\$ 666,212
Petty cash and change funds	-	200	200
Undistributed cash in agency funds	14,878	2,041	16,919
Special assessments receivable			
Prior	551	11,018	11,569
Accounts receivable	-	4,563	4,563
Accrued interest receivable	201	-	201
Due from other governments	-	9,430	9,430
	\$ 332,474	\$ 376,620	\$ 709,094
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 29,291	\$ 272	\$ 29,563
Salaries payable	-	718	718
Due to other funds	2,432	-	2,432
Due to other governments	-	9,679	9,679
Deferred revenue - unavailable	193	10,904	11,097
	\$ 31,916	\$ 21,573	\$ 53,489
 Fund Balances			
Restricted			
Ditch maintenance	\$ 300,558	\$ -	\$ 300,558
Assigned			
Sanitation	-	355,047	355,047
	\$ 300,558	\$ 355,047	\$ 655,605
Total Fund Balances	\$ 300,558	\$ 355,047	\$ 655,605
 Total Liabilities and Fund Balances	\$ 332,474	\$ 376,620	\$ 709,094

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT B-2

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

	Special Revenue Funds			Total
	Ditch	Solid Waste	Transportation	
Revenues				
Special assessments	\$ 100,677	\$ 112,116	\$ -	\$ 212,793
Intergovernmental	-	55,950	4,750	60,700
Charges for services	-	389,197	-	389,197
Investment earnings	1,248	-	-	1,248
Miscellaneous	-	76	1,000	1,076
Total Revenues	\$ 101,925	\$ 557,339	\$ 5,750	\$ 665,014
Expenditures				
Current				
Sanitation	\$ -	\$ 532,096	\$ -	\$ 532,096
Human services	-	-	21,100	21,100
Conservation of natural resources	77,737	-	-	77,737
Total Expenditures	\$ 77,737	\$ 532,096	\$ 21,100	\$ 630,933
Excess of Revenues Over (Under) Expenditures	\$ 24,188	\$ 25,243	\$ (15,350)	\$ 34,081
Other Financing Sources (Uses)				
Transfers in	-	-	10,200	10,200
Net Change in Fund Balance	\$ 24,188	\$ 25,243	\$ (5,150)	\$ 44,281
Fund Balance - January 1	276,370	329,804	5,150	611,324
Fund Balance - December 31	\$ 300,558	\$ 355,047	\$ -	\$ 655,605

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT B-3

**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	\$ 112,069	\$ 112,069	\$ 112,116	\$ 47
Intergovernmental	55,950	55,950	55,950	-
Charges for services	396,733	396,733	389,197	(7,536)
Miscellaneous	-	-	76	76
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 564,752	\$ 564,752	\$ 557,339	\$ (7,413)
Expenditures				
Current				
Sanitation				
Solid waste	\$ 320,400	\$ 320,400	\$ 303,453	\$ 16,947
Recycling	224,100	224,100	219,295	4,805
Hazardous waste	14,000	14,000	9,348	4,652
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 558,500	\$ 558,500	\$ 532,096	\$ 26,404
Net Change in Fund Balance	\$ 6,252	\$ 6,252	\$ 25,243	\$ 18,991
Fund Balance - January 1	329,804	329,804	329,804	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 336,056	\$ 336,056	\$ 355,047	\$ 18,991
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

AGENCY FUNDS

The School Fund accumulates the schools' share of light and power taxes and penalties, which are apportioned according to the average resident pupil attendance.

The State Revenue Fund accounts for the collection and payment of money due to the State of Minnesota.

The Taxes and Penalties Fund is used to account for collection of taxes and penalties and their payment to the various County funds and taxing districts.

The Towns and Cities Fund accounts for the collection and payment of funds due to towns and cities.

The Assertive Community Treatment Fund accounts for the collection and payment of money related to assertive community treatment services provided by the Region 4 South Adult Mental Health Consortium.

The Adult Mental Health Initiative Fund accounts for the collection and payment of money related to adult mental health initiative services provided by the Region 4 South Adult Mental Health Consortium.

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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>SCHOOL FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,313,143	\$ 2,313,143	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 2,313,143	\$ 2,313,143	\$ -
 <u>STATE REVENUE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 24,539	\$ 24,349	\$ 190
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 24,539	\$ 24,349	\$ 190
 <u>TAXES AND PENALTIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 270,484	\$ 11,559,483	\$ 11,604,105	\$ 225,862
<u>Liabilities</u>				
Due to other governments	\$ 270,484	\$ 11,559,483	\$ 11,604,105	\$ 225,862

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,738,149	\$ 2,738,124	\$ 25
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 2,738,149	\$ 2,738,124	\$ 25
 <u>ASSERTIVE COMMUNITY TREATMENT FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (146,184)	\$ 632,705	\$ 619,721	\$ (133,200)
Due from other governments	146,184	133,200	146,184	133,200
Total Assets	\$ -	\$ 765,905	\$ 765,905	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 765,905	\$ 765,905	\$ -
 <u>ADULT MENTAL HEALTH INITIATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 273,452	\$ 1,132,814	\$ 1,086,593	\$ 319,673
<u>Liabilities</u>				
Due to other governments	\$ 273,452	\$ 1,132,814	\$ 1,086,593	\$ 319,673

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 397,752	\$ 18,400,833	\$ 18,386,035	\$ 412,550
Due from other governments	146,184	133,200	146,184	133,200
Total Assets	\$ 543,936	\$ 18,534,033	\$ 18,532,219	\$ 545,750
<u>Liabilities</u>				
Due to other governments	\$ 543,936	\$ 18,534,033	\$ 18,532,219	\$ 545,750

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OTHER SCHEDULES

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2012**

	Assets				Total
	Cash	Undistributed Cash	Special Assessments Delinquent	Accrued Interest Receivable	
County Ditches					
#1	\$ 9,868	\$ -	\$ -	\$ 8	\$ 9,876
#3	28,534	40	8	23	28,605
#5	1,967	-	-	-	1,967
#6	3,035	-	-	-	3,035
#8	32,214	522	4	26	32,766
#9	23,439	441	64	21	23,965
#11	1,699	-	-	-	1,699
#13	2,126	-	-	-	2,126
#15	3,943	46	-	-	3,989
#21	51,835	-	5	46	51,886
#22	2,622	-	-	-	2,622
#23	7,614	707	467	-	8,788
#29	63,433	2,595	-	50	66,078
#30	2,007	-	-	-	2,007
#31	3,255	119	-	-	3,374
#32	8,328	204	-	7	8,539
#33	1,235	-	-	-	1,235
Consolidated					
#2	15,034	-	-	13	15,047
Judicial Ditches					
#1	757	-	-	-	757
#2	53,899	-	-	7	53,906
#12	-	10,204	3	-	10,207
Total	\$ 316,844	\$ 14,878	\$ 551	\$ 201	\$ 332,474

EXHIBIT D-1

Liabilities				Fund Balances - Restricted	Total Liabilities and Fund Balances
Accounts Payable	Due to Other Funds	Deferred Revenue	Total		
\$ -	\$ 149	\$ 7	\$ 156	\$ 9,720	\$ 9,876
8,767	210	22	8,999	19,606	28,605
-	-	-	-	1,967	1,967
-	-	-	-	3,035	3,035
2,243	321	28	2,592	30,174	32,766
450	336	19	805	23,160	23,965
-	-	-	-	1,699	1,699
-	-	-	-	2,126	2,126
-	-	-	-	3,989	3,989
-	669	48	717	51,169	51,886
-	-	-	-	2,622	2,622
-	1	-	1	8,787	8,788
14,931	447	47	15,425	50,653	66,078
-	-	-	-	2,007	2,007
-	-	-	-	3,374	3,374
-	101	7	108	8,431	8,539
-	-	-	-	1,235	1,235
2,900	198	12	3,110	11,937	15,047
-	-	-	-	757	757
-	-	-	-	53,906	53,906
-	-	3	3	10,204	10,207
<u>\$ 29,291</u>	<u>\$ 2,432</u>	<u>\$ 193</u>	<u>\$ 31,916</u>	<u>\$ 300,558</u>	<u>\$ 332,474</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT D-2

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

Shared Revenue

State

Highway users tax	\$ 4,731,322
County program aid	124,611
Market value credit	85,075
Local performance aid	843
PERA rate reimbursement	12,568
Disparity reduction aid	6,128
Police aid	38,835
	38,835

Total shared revenue **\$ 4,999,382**

Reimbursement for services

Minnesota Department of Human Services **\$ 161,326**

Payments

Local

Payments in lieu of taxes	\$ 38,326
Qualified energy conservation payments	74,480
	74,480

Total payments **\$ 112,806**

Grants

State

Minnesota Department/Board of Corrections	\$ 10,205
Public Safety	191,125
Transportation	380,851
Natural Resources	47,013
Human Services	267,952
Historical Society	13,950
Water and Soil Resources	51,350
Peace Officers Standards and Training Board	2,657
Office of Environmental Assistance	55,950
	55,950

Total state **\$ 1,021,053**

Federal

Department of Agriculture	\$ 53,846
Commerce	988
Housing and Urban Development	2,303
Transportation	25,732
Energy	9,372
Health and Human Services	569,130
Homeland Security	368,744
	368,744

Total federal **\$ 1,030,115**

Total state and federal grants **\$ 2,051,168**

Total Intergovernmental Revenue **\$ 7,324,682**

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

EXHIBIT D-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 Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>\$ 53,846</u>
U.S. Department of Commerce		
Passed Through Central Minnesota Emergency Services Board Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 988</u>
U.S. Department of Housing and Urban Development		
Direct Shelter Plus Care	14.238	<u>\$ 2,303</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	<u>\$ 21,833</u>
U.S. Department of Health and Human Services		
Passed Through West Central Area Agency on Aging Special Programs for the Aging, Title III Part B - Grants for Supportive Services and Senior Centers	93.044	\$ 29,693
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	1,638
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families	93.558	66,811
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	93.714	5,731
Child Support Enforcement	93.563	154,266
Refugee and Entrant Assistance - State-Administered Programs	93.566	121
Child Care and Development Block Grant	93.575	2,269
Community Based Child Abuse Prevention Grants	93.590	10,000
Stephanie Tubbs Jones Child Welfare Services Program	93.645	300
Foster Care Title IV-E	93.658	33,701
Social Services Block Grant	93.667	69,129
Chafee Foster Care Independence Program	93.674	925
Children's Health Insurance Program	93.767	20
Medical Assistance Program	93.778	<u>202,737</u>
Total U.S. Department of Health and Human Services		<u>\$ 577,341</u>

**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

***EXHIBIT D-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 Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 132,296
Emergency Management Performance Grants	97.042	14,113
Total U.S. Department of Homeland Security		\$ 146,409
Total Federal Awards		\$ 802,720

**GRANT COUNTY
ELBOW LAKE, 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 Grant County. The County's reporting entity is defined in Note 1 to the financial statements. The schedule does not include \$432,395 in federal awards expended by the Housing and Redevelopment Authority of Grant County component unit, which had a separate audit performed by other auditors.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Grant 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 Grant County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Grant 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:

Temporary Assistance for Needy Families Cluster	\$ 72,542
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**GRANT COUNTY
ELBOW LAKE, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,030,115
Grants received more than 60 days after year-end, deferred in 2012	
Child Care and Development Block Grant (CFDA #93.575)	176
Foster Care Title IV-E (CFDA #93.658)	8,100
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	54,607
Deferred in 2011, recognized as revenue in 2012	
Formula Grants for Other Than Urbanized Areas (CFDA #20.509)	(3,899)
Energy Efficiency and Conservation Block Grant Program - ARRA (CFDA #81.128)	(9,372)
Medical Assistance Program (CFDA #93.778)	(65)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	<u>(276,942)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 802,720</u>

6. Subrecipients

The County passed through \$2,303 of the Shelter Plus Care (CFDA No. 14.238) grant to subrecipients during the year ended December 31, 2012.

7. American Recovery and Reinvestment Act

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

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**GRANT COUNTY
ELBOW LAKE, 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? **Yes**
- 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? **Yes**

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? **Yes**

The major programs are:

Child Support Enforcement	CFDA #93.563
Medical Assistance Program	CFDA #93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

Grant County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-2 Departmental Internal Accounting Controls

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record-keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: The limited number of personnel within several Grant County offices results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. The smaller offices that collect fees generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Grant 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 internal control point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: Due to limited economic resources, the County has informed us that it is impractical for it to hire enough staff to achieve a desirable level of segregation of duties in every department.

Recommendation: We recommend Grant County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

06-3 Audit Adjustments

Criteria: 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 of the financial statements on a timely basis. Auditing standards 115 define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable probability that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the County's financial statements, which were reviewed and approved by the appropriate staff and are reflected in the financial statements.

Context: The inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. Some of the adjustments required additional time by the auditors to determine the correct balances.

Effect: Material audit adjustments were necessary to adjust the following:

- An adjustment was made in the General Fund to reduce revenues and expenditures by \$403,044 to reclassify transactions related to employee payroll withholdings. Also, fund balance was reclassified, reducing the unassigned fund balance by \$298,971, the committed fund balance by \$596, assigned fund balance by \$5,843, and increasing the restricted fund balance by \$305,410 to report fund balance in the proper classification.
- An adjustment was made in the Road and Bridge Special Revenue Fund to reclassify revenue of \$380,000 posted as highway user tax shared revenue to a Minnesota Department of Transportation state grant to properly reflect revenue for the Local Road Improvement Program on the Schedule of Intergovernmental Revenue. Also, an adjustment was made to reduce deferred revenue - unavailable by \$1,104,783, reduce charges for services by \$11,008, increase Minnesota Department of Transportation state grants by \$20,000, and increase highway user tax by \$1,095,791 to properly reflect revenue for 2012. Also, fund balance was reclassified, reducing the unassigned fund balance by \$2,421,384 and increasing restricted for county state-aid highway system by \$1,429,872 and assigned for road and bridge by \$991,512.
- An adjustment was made in the Courthouse Improvement Capital Projects Fund to reclassify unassigned fund balance to restricted for capital projects by \$511,907.

- An adjustment was made in the Solid Waste Nonmajor Special Revenue Fund to reclassify \$368,562 from miscellaneous revenue to charges for services.
- Several adjustments were made to capital assets, including a prior period adjustment of \$1,212,851, resulting in an increase to the December 31, 2012, net capital asset balance of \$14,703,073.

Cause: County employees did not detect the errors in the normal course of performing their assigned functions.

Recommendation: We recommend the County establish internal controls necessary to determine that all adjusting entries are made to ensure the County's annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

In the future, the Highway Department will contact the County Auditor's Office to make adjustments on their side after an adjustment is made by the Highway Department. Highway Department staff will be attending a meeting on December 16, 2013, with the Minnesota Department of Transportation, a requested agenda topic is the valuation of roads. The Highway Department will also be meeting with the County Auditor's Office to move forward with this in the near future.

07-2 Segregation of Duties - Payroll

Criteria: Management is responsible for establishing and maintaining internal control over various accounting cycles, including payroll. Adequate segregation of duties is a key internal control in an organization's accounting system. In the payroll system, changes to the payroll master file and payroll processing should be segregated. However, if that is not practical, changes to the payroll master file should be monitored by someone independent of payroll processing on a monthly basis.

Condition: During our review of the County's payroll function, we noted that the County Auditor's Office not only processes payroll but also makes changes to the payroll master file for occurrences such as new hires, terminations, promotions, and pay increases. Generally, the processing of payroll and the changes to the payroll master file are done by one employee and/or the County Auditor. The County Auditor reviews the changes made to the payroll master file by the employee and himself for each payroll period.

Context: The lack of proper segregation of duties increases the risk of errors or irregularities that may not be detected timely.

Effect: Fictitious employees could be added to the payroll, or employees may be paid at rates other than their approved rates.

Cause: Due to the size of Grant County, staffing in the Auditor's Office is limited to the County Auditor and two employees. In addition, the County Auditor's responsibilities include several duties typically performed within a human resources department in larger organizations, making complete segregation of the payroll duties difficult.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the County re-evaluate whether the County Auditor's Office should be making changes to the payroll master file. In addition, to strengthen internal controls, someone independent of the payroll processing function should review payroll edit reports to monitor that changes made to the payroll master file were properly authorized.

07-3 Bank Reconciliations

Criteria: Reconciliations are control activities which involve the comparison of records or balances from different sources. Effective reconciliations properly account for any differences between the records or balances. This includes investigating why the differences exist and resolving them in a timely manner. Documentation resolving any differences should be retained.

Condition: The County Treasurer maintains a Quicken electronic cashbook system, a manual cashbook for all accounts, and a separate cashbook for the County's main checking account at the Bank of the West. The Quicken cashbook has a balance \$2,148 larger than the balance shown in the County's Integrated Financial System (IFS) due to a change fund of \$1,500 included in Quicken but not in the IFS and a \$648 adjustment made to the IFS several years ago. According to the County Treasurer, the original manual cashbook balance for the main checking account at the Bank of the West contained some errors, so a second corrected cashbook for that account is being maintained. It is this second manual cashbook that the County reconciles to the bank. At the time of our audit, the cashbook and bank reconciliation for the main checking account at the Bank of the West were only completed through June 2012.

When an investment with UBS Financial Services Incorporated comes due, the principal and interest earned on the investment are rolled into a new investment. Since the principal and interest are not physically paid out to the County, the County Treasurer has not received the interest for several years.

Context: Bank reconciliations are a tool to help ensure cash records are complete and accurate.

Effect: Since reconciliations were not completed through year-end for the main checking account at the Bank of the West, we could not determine if the difference between the reconciled cashbook and the IFS has increased or decreased from the \$40,171 difference at December 31, 2011, noted in the previous audit. Interest earned on investments with UBS Financial Services Incorporated in the amount of \$62,537 accumulated over a period of several years has not been received by the County and, therefore, is not reflected in the County Treasurer's cashbook or the IFS at December 31, 2012. On April 25, 2013, the County received \$60,463 of the interest from UBS Financial Services for the interest earned up through December 31, 2011.

Cause: The differences have accumulated over a period of time and are likely due to adjustments made to one record that, for some reason, were not carried through to the other records to ensure they balance. Once differences have accumulated, it is more difficult to find and correct them.

Recommendation: We recommend the County reconcile the differences and make adjustments as necessary so that the cashbook balance agrees with the IFS. We further recommend that interest earned on investments that have matured be received in the County's records before reinvesting the interest in another investment, thus reducing the number of reconciliations necessary to properly record the cash and investment balance in the financial statements. Bank reconciliations for all accounts should be performed timely.

Client's Response:

The Treasurer is currently working on completing the bank reconciliations and plans to have them completed in early 2014.

09-1 Budget Documentation

Criteria: Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund should be available. Good budget accounting requires: (1) an annual budget adopted by every governmental unit; (2) an accounting system that provides the basis for appropriate budgetary control; and (3) a common technology and classification used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget, and it should be followed by the County. The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be approved and documented in the official minutes.

Condition: The County Board adopted formal budgets in a summary form for its General Fund and the Road and Bridge, Human Services, and Solid Waste Special Revenue Funds. Budgets were not adopted for the Transportation and Ditch Special Revenue Funds or the Courthouse Improvement Capital Projects Fund. During our review of budgets, we noted differences between the approved budgets and the budgets reflected in the County's general ledger. The approved levy, in the amount of \$3,346,325, for the General Fund was not reflected in the County's general ledger. The budget reflected in the County's general ledger for the Human Services Special Revenue Fund shows \$12,059 more revenues and expenditures than the budget approved by the Board. The original budget reflected in the Solid Waste Special Revenue Fund does not match the Board-approved budget; however, the final budget does. There were no approved amendments for this fund.

Context: The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot legally be exceeded unless subsequently amended by the County Board.

Effect: The lack of accurate detailed budgets within the IFS for certain funds makes it difficult to monitor expenditure authority in relation to budgeted appropriations approved by the Board.

Cause: Errors in posting detailed budgets to the general ledger.

Recommendation: We recommend that the County implement procedures to improve its budgetary accounting by verifying the detail budgets posted to the general ledger match the budgets approved by the Board. We also recommend that any changes to the original budget be approved and documented in the minutes by a formal County Board resolution.

ITEMS ARISING THIS YEAR

12-1 Documenting and Monitoring Internal Controls

Criteria: County management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Condition: Grant County maintains narratives to document the controls in place over its significant transaction cycles. However, there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Context: Local governments tend to establish controls but sometimes fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and the services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls, which may go unnoticed without a formal and timely risk assessment process in place.

Cause: The County has informed us that it lacks resources dedicated to establish a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring of those controls.

Recommendation: Grant County management should document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. A formal plan should be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

12-2 Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over its information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls that have been established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: Grant County uses the Integrated Financial System - Platform Independent (IFS-PI) application software for its general ledger. This application was written as a web-based application and may be run on a server or a mainframe system. Grant County contracts with a vendor for use of space on a mainframe IBM I Series system. For an employee of Grant County to access the IFS-PI application, the user must be signed on to the County's network and have a current sign-on for the IFS-PI application. The sign-on differs from the sign-on for the IBM I Series system, so the mainframe security settings do not apply to the application. Grant County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

Context: The IFS-PI application is the general ledger for Grant County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS-PI application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS-PI application is the key source of information used for the preparation of the County's annual financial statements. Grant County uses other web-based applications that should also be considered; however, those applications are not key applications for financial statement reporting.

Effect: Normal password controls in place in the IBM I Series system are not effective for the IFS-PI and other web-based applications, so a review of each web-based application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: Grant County was recently updated to the IFS-PI application software. County management was not aware of some of the password implications of this change.

Recommendation: We recommend Grant County management review password controls in place that limit access to any of the web-based applications used by the County to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

The County Auditor is meeting with County IT and Computer Professionals Unlimited to draft a network password policy, specifically for the County IFS system.

12-3 Unreconciled Difference in the Taxes and Penalties Agency Fund

Criteria: The year-end cash account in the Taxes and Penalties Fund should reconcile with the unapportioned and prepaid tax amounts.

Condition: The cash account for the Taxes and Penalties Fund has had an unaccounted for amount in the balance for a few years. When analyzing the cash account in the Taxes and Penalties Fund for 2012, we noted a significant increase in the amount of cash that does not reconcile to the year-end unapportioned and prepaid taxes. The County Auditor researched the difference and was able to verify \$52,135 of the cash was for U.S. Fish and Wildlife trust payments that the County retains, and the cash account reflects \$72,826 in property taxes paid to the State of Minnesota by an automatic electronic funds transfer that was not posted to the County's general ledger. The remaining amount at December 31, 2012, that is not accounted for amounts to \$73,867.

Context: Collections into the Taxes and Penalties Fund should be settled out to the County or other governments with each periodic settlement. At year-end, the cash account should reconcile with the unapportioned and prepaid tax amounts. For financial statement purposes, an adjustment was made to remove \$72,826 from cash to reflect the electronic funds transfer made to the State of Minnesota. The County Auditor will adjust the general ledger to reflect the payment and make a transfer to the General Fund for the \$52,135 U.S. Fish and Wildlife trust funds.

Effect: The Taxes and Penalties Fund cash account reflects an unaccounted for balance of \$73,867 that should be distributed out to other funds or other local governments.

Cause: The County is not reconciling the cash account in the Taxes and Penalties Fund to the prepaid amounts and unapportioned amounts.

Recommendation: We recommend the County continue to research the source of the \$73,867 excess cash to determine how it should be distributed. We further recommend the cash in the fund be reconciled periodically to ensure all collections are accounted for and properly distributed.

Client's Response:

The County Auditor will be reconciling the tax and penalties account as of December 13, 2013, and will continue to do so after each settlement in January, June, and November. Amounts received as Trust Payments will be transferred to the General Revenue Fund.

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Asset Records (00-1)

Grant County's capital asset policy did not address the responsibilities and procedures for ensuring acquisitions, transfers, and disposals are properly communicated and recorded, which assets should be identified with inventory tags, and the need for and responsibilities in conducting a periodic inventory, resulting in material audit adjustments.

Resolution

Grant County's policy provides guidance on the County's capitalization threshold, depreciation method, and the useful lives of capital assets, including infrastructure. In addition to the approved policy, the County provided a narrative that details the responsibilities and procedures for ensuring acquisitions, transfers, and disposals are communicated and recorded and responsibilities over asset tags. The County also completed an inventory of capital assets for 2012.

Other Postemployment Benefits (OPEB) (09-2)

Grant County had not reported its OPEB liability in the governmental activities and, accordingly, had not reported the change to the net OPEB obligation as required by the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Resolution

Grant County hired an actuary to complete an actuarial valuation as of January 1, 2012. The Post-Employment Benefit Valuation Report provides the disclosure information and the estimated liability required by GASB Statement 45.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-2 Supervisory Review Over Eligibility - Intake Function

Program: U.S. Department of Health and Human Services' Medical Assistance Program (MA) (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. These controls should include a review process for case files to ensure the intake function related to eligibility requirements is met.

Condition: The state maintains the MAXIS computer system, which is used by the County to support the eligibility determination process. During our testing of controls over the MA case files, we noted no documented review process of case files by a supervisor. We also noted that not all the documentation used to support participant eligibility was retained in the manual case files or matched the information entered into the MAXIS system. The following instances were noted in our sample of 40 cases tested:

- One case file could not be located to verify case file documentation matched the MAXIS system.
- One case did not have documentation of the Social Security numbers for all recipients in the case file or in MAXIS.

- Two cases did not have documentation of the Social Security numbers or birth certificates to verify citizenship in the case files. The MAXIS system indicated that the verification of citizenship was through birth certificates, and there was no indication the Social Security numbers were verified through the Beneficiary and Earnings Data Exchange.
- For three cases, we noted certain assets listed in the case files for asset verification that differed from the assets listed in MAXIS.

Questioned Costs: Not applicable. The County administers the program, but benefits to participants in this program are paid by the State of Minnesota.

Context: The State of Minnesota contracts with the County to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility). The state maintains the computer systems supporting the eligibility determination process and actually pays the benefits to participants.

Effect: Case file documentation is missing or does not match the documentation entered into the MAXIS system that supports the eligibility for the client to receive benefits.

Cause: The County does not have a procedure in place to ensure that case files are reviewed and approved.

Recommendation: We recommend Grant County establish a process for reviewing a sample of case files periodically by a program supervisor or other person with knowledge of the program to ensure that all the required information affecting eligibility is obtained, correctly entered into MAXIS, and is retained in the manual case file. We further recommend that those reviews be documented.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Kim Gullickson

Corrective Action Planned:

Grant County will be incorporating case reviews for medical assistance clients. Long-term care cases will be reviewed at the rate of one case per quarter. All other MA cases will be reviewed one case per worker per month. Cases will be picked randomly for each worker. The case review form to be used will be DHS 5312C. Cases will be reviewed by the Financial Assistant Supervisor. Once completed, the worker will see the review and a signature will be required.

Anticipated Completion Date:

January 1, 2014

PREVIOUSLY REPORTED ITEM RESOLVED

Income Maintenance DHS-2550 Reporting (11-1)

During our previous year's testing of the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.561) and the Medical Assistance Program (CFDA No. 93.778), we noted expenses for an employee and a portion of expenses for Board members reported as Income Maintenance Random Moments Time Study (IMRMS) employees under Section A of the DHS-2550 quarterly reports that should not have been reported under this section. These salary and benefits expenses were incorrectly reported under Section A for all four quarters of 2011.

Resolution

New accounts were established in the Human Services Special Revenue Fund to separately account for employees. For 2012, only employees participating in the IMRMS were reported under Section A of the DHS-2550 quarterly reports.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-5 Safe Driving Class

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

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999 and specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation prescribed by

the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state's General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the new statute.

Condition: Grant County has established a traffic safety course option in lieu of issuance or court filing of a state uniform traffic ticket. Sheriff's Deputies have the discretion to offer traffic violators the option of attending the traffic safety course in lieu of a citation. The course costs \$65 payable to the Grant County Sheriff, and the funds generated are dedicated for use by the County Sheriff's Department. In 2012, the County Sheriff's Department received \$10,495 in fees related to violators attending the traffic safety course in lieu of a citation.

Context: In a letter to State Representative Steve Smith on December 1, 2003, the Minnesota Attorney General specifically addressed the issue of a driver improvement course or clinic in lieu of a ticket or other penalty. After reviewing the state law, the Attorney General concluded: "All such programs, however, require that a *trial court* make the determination as to whether attendance at such a [driver's] clinic is appropriate. We are aware of no express authority for local officials to create a *pretrial* diversion program." (emphasis is that of the Attorney General).

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

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

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

Recommendation: We recommend the County comply with Minn. Stat. ch. 169, including Minn. Stat. § 169.999 (2009), or any subsequent legislation by not offering a traffic safety course in lieu of issuance or court filing of a state uniform traffic ticket.

ITEM ARISING THIS YEAR

12-4 Certification of Withholding

Criteria: Minn. Stat. § 270C.66 states that before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors, the County is required to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92.

Condition: Final payment was made on three completed contracts without receiving the IC-134 Affidavit of Withholding form or an on-line confirmation of certification prior to payment.

Context: Six of the contracts included in our sample for legal compliance testing were completed prior to year-end. Final payment was made on half of those contracts prior to obtaining confirmation that the contractor or subcontractor complied with the withholding requirements of Minn. Stat. § 290.92. There was no documentation of compliance on file for two highway contracts, and for one contract related to the Courthouse remodeling project, an IC-134 was obtained, but it was dated after the final payment.

Effect: The County is not in compliance with Minn. Stat. § 270C.66.

Cause: County staff was not aware of the requirement. The Engineer and Highway Accountant were new in 2011, so they were still catching up and learning their responsibilities in 2012.

Recommendation: We recommend the County obtain an IC-134 Affidavit of Withholding form or an on-line confirmation of certification for any contract requiring the employment of employees for wages by contractors or subcontractors.

Client's Response:

The Highway Department is now aware this form is required and will include it in future files.

PREVIOUSLY REPORTED ITEMS RESOLVED

Compliance with Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 (07-5)

The Grant County Treasurer could not provide documentation demonstrating that the County had a perfected security interest in pledged collateral for deposits with Eagle Bank.

Resolution

The County Treasurer provided documentation of a perfected security interest in collateral pledged for each bank that had deposits in excess of Federal Deposit Insurance Corporation coverage.

Conflicts of Interest (08-3)

During the year ended December 31, 2011, Grant County purchased various supplies from a local vendor in which a County Commissioner has an ownership interest. We found no evidence in the form of a resolution or an affidavit that documents the County met the requirements of Minn. Stat. § 471.89.

Resolution

During our testing for potential conflicts of interest, we noted no instances of purchases made through any vendor in which a County official has an ownership interest in violation of the requirements of Minn. Stat. § 471.89.

Publication of Board Minutes (10-4)

During our review of the publication of the County Board minutes for 2011, we found 11 of the 24 published summaries reviewed were not published within the 30-day requirement. County Board minutes are required by Minn. Stat. § 375.12 to be published within 30 days of the meeting.

Resolution

During our review of the publication of the County Board minutes for meetings after our previous report, we found the County now complies with Minn. Stat. § 375.12 by publishing a summary of the County Board minutes within 30 days of the meeting.



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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
Grant County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Grant 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 December 10, 2013. Other auditors audited the financial statements of the Housing and Redevelopment Authority of Grant County, the discretely presented component unit, as described in our report on Grant 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 Grant 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-3 to be a material weakness.

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 attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-2, 07-2, 07-3, 09-1, and 12-1 through 12-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant 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 audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Grant County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Grant County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as items 08-5 and 12-4. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 10, 2013

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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
Grant County

Report on Compliance for Each Major Federal Program

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

Grant County's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Grant County component unit, which expended \$432,395 in federal awards during the year ended December 31, 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 Grant 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 Grant 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 Grant 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, Grant 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 Grant 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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 11-2, that we consider to be a significant deficiency.

Grant County's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Grant County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

December 10, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR