

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

KANDIYOHI COUNTY
WILLMAR, 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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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Year Ended December 31, 2012



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

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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WILLMAR, MINNESOTA**

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

ORGANIZATION
2012

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Jim Butterfield	January 2011	January 2015
2nd District	Richard Larson*	January 2011	January 2013
3rd District	Dean Shuck	January 2011	January 2015
4th District	Dennis Peterson	January 2011	January 2013
5th District	Harlan Madsen**	January 2011	January 2013
Officers			
Elected			
Attorney	Jenna Fischer	January 2011	January 2015
Interim Auditor/Treasurer	Mark Thompson	January 2011	January 2015
Recorder	Julie Kalkbrenner	January 2011	January 2015
Registrar of Titles	Julie Kalkbrenner	January 2011	January 2015
Sheriff	Dan Hartog	January 2011	January 2015
Appointed			
Administrator	Larry Kleindl		Indefinite
Assessor	Tim Falkum	January 2009	December 2012
Examiner of Titles	Dean Anderson		Indefinite
Public Works Director	Gary Danielson	May 2011	May 2015
Veterans Service Officer	Trisha Appledorn	January 2011	January 2015
Human Services Director	Ann Stehn		Indefinite
Medical Examiner	Richard Kacher	January 2012	January 2016
Surveyor	Duane Bonnema		Indefinite
Community Corrections Director	Debra West		Indefinite

*Chair
**Vice 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
Kandiyohi 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 Kandiyohi County, as of and for the year ended December 31, 2012, including the Kandiyohi County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kandiyohi County HRA, the discretely presented component unit. Those financial 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 Kandiyohi County HRA component unit, 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 the 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 Kandiyohi County as of December 31, 2012, including the Kandiyohi County HRA as of June 30, 2012, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kandiyohi 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 September 26, 2013, on our consideration of Kandiyohi County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kandiyohi County’s internal control over financial reporting and compliance. It does not include the Kandiyohi County HRA, which was audited by other auditors.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

Kandiyohi County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements (beginning with Exhibit 1).

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$163,097,827 of which \$106,056,974 is net investment in capital assets, and \$20,131,323 is restricted to specific purposes.
- Kandiyohi County's net position increased by \$5,911,827 for the year ended December 31, 2012. The net position of the County's discretely presented component unit increased by \$19,233.
- The net cost of governmental activities was \$27,145,888 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$33,057,715.
- Governmental funds' fund balances decreased by \$1,316,611.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Kandiyohi County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

There are two government-wide financial statements. The Statement of Net Position and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by

providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

Our analysis of the County as a whole begins with Exhibit 1. The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net position and changes in them. You can think of the County's net position--the difference between assets and liabilities--as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net position is one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors need to be considered, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

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

- Governmental activities--The County's basic services are reported here, including general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Component units--The County includes one separate legal entity in its report. The Kandiyohi County Housing and Redevelopment Authority is presented in a separate column. Although legally separate, this component unit is important because the County is financially accountable for it.

Fund Financial Statements

Our analysis of the County's major funds begins with Exhibit 3. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and fiduciary--use different accounting methods.

- **Governmental funds**--The County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.
- **Fiduciary funds**--The County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in the Statement of Fiduciary Net Position on Exhibit 7. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Position

The County's net position was \$163,097,827 on December 31, 2012. (See Table A-1.)

**Table A-1
Net Position**

	Governmental Activities		Percent (%) Change
	2012	2011	
Current and other assets	\$ 83,177,938	\$ 84,094,211	(1.1)
Capital assets	158,255,716	157,764,314	0.3
Total Assets	\$ 241,433,654	\$ 241,858,525	(0.2)
Current liabilities	\$ 6,896,275	\$ 5,370,633	28.4
Long-term liabilities	71,439,552	79,301,892	(9.9)
Total Liabilities	\$ 78,335,827	\$ 84,672,525	(7.5)
Net Position			
Net investment in capital assets	\$ 106,056,974	\$ 102,180,641	3.8
Restricted	20,131,323	20,618,946	(2.4)
Unrestricted	36,909,530	34,386,413	7.3
Total Net Position	\$ 163,097,827	\$ 157,186,000	3.8

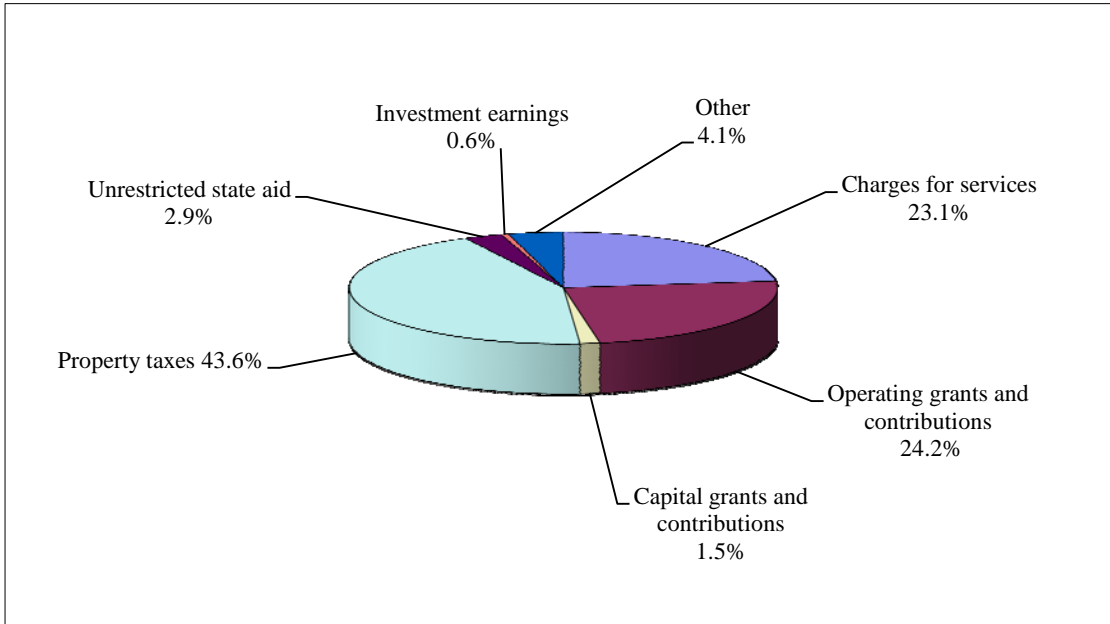
Changes in Net Position

The County-wide total revenues were \$64,528,008 for the year ended December 31, 2012. Property taxes and intergovernmental revenues accounted for 72.2 percent of total revenues for the year. (See Figures A-3 and A-4.)

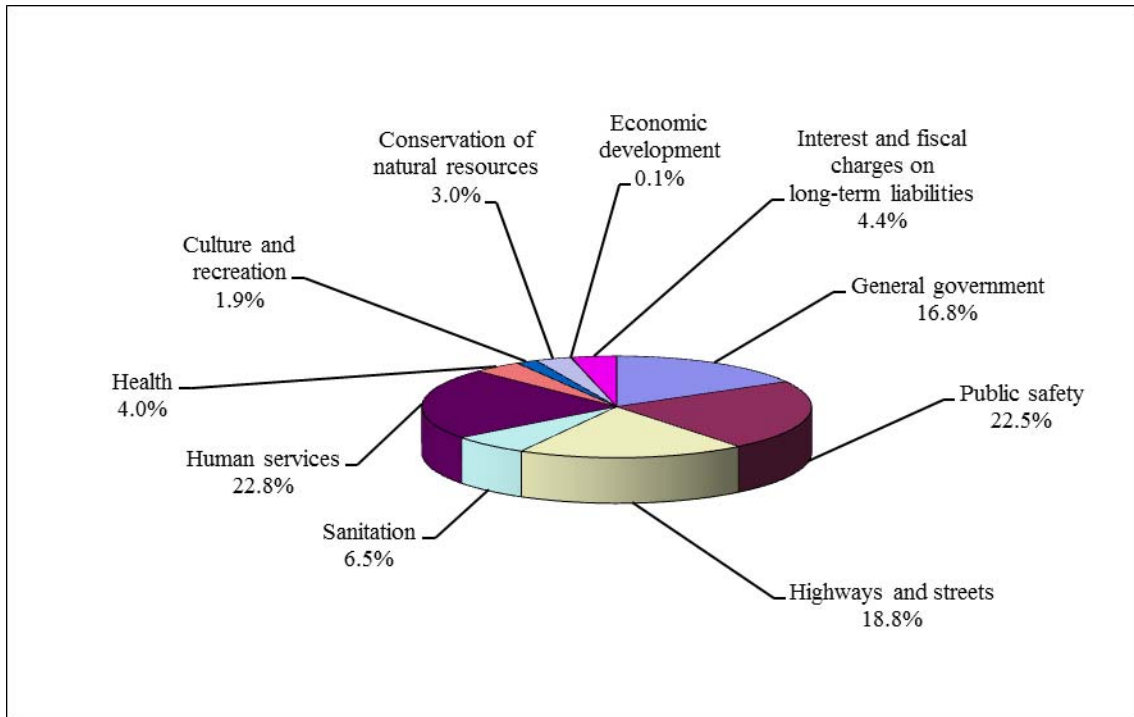
Table A-2
Changes in Net Position

	Governmental Activities for Fiscal Year Ended December 31		Total Percent (%) Change
	2012	2011	
Revenues			
Program revenues			
Fees, charges, fines, and other	\$ 14,883,890	\$ 18,463,272	(19.4)
Operating grants and contributions	15,620,566	15,245,940	2.5
Capital grants and contributions	965,837	748,652	29.0
General revenues			
Taxes	28,160,357	25,672,438	9.7
Unrestricted state aid	1,879,285	2,847,866	(34.0)
Investment earnings	359,602	891,281	(59.7)
Other	2,658,471	2,752,441	(3.4)
Total Revenues	<u>\$ 64,528,008</u>	<u>\$ 66,621,890</u>	(3.1)
Expenses			
General government	\$ 9,825,243	\$ 9,418,573	4.3
Public safety	13,197,204	13,091,436	0.8
Highways and streets	11,043,728	9,718,225	13.6
Sanitation	3,791,243	6,055,669	(37.4)
Human services	13,372,775	14,398,308	(7.1)
Health	2,363,752	2,431,139	(2.8)
Culture and recreation	1,047,088	1,152,873	(9.2)
Conservation of natural resources	1,745,639	1,245,789	40.1
Economic development	30,036	36,481	(17.7)
Interest	2,199,473	2,431,786	(9.6)
Total Expenses	<u>\$ 58,616,181</u>	<u>\$ 59,980,279</u>	(2.3)
Increase in Net Position	\$ 5,911,827	\$ 6,641,611	
Beginning Net Position	<u>157,186,000</u>	<u>150,544,389</u>	
Ending Net Position	<u>\$ 163,097,827</u>	<u>\$ 157,186,000</u>	

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



**Figure A-4
Sources of County Expenses for Fiscal Year 2012**



Total revenues surpassed expenses, increasing net position \$5,911,827 over last year.

The County-wide cost of all governmental activities this year was \$58,616,181.

- Some of the cost was paid by the users of the County’s programs (\$14,883,890).
- The federal and state governments subsidized certain programs with grants and contributions (\$16,586,403).
- Some of the County’s costs (\$27,145,888), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$28,072,024 in property taxes, \$4,985,691 of state aid, and investment earnings and other general revenues.

Table A-5 presents the cost of each of the County’s program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table A-5
Governmental Activities**

	Total Cost of Services		Percent (%) Change	Net Cost of Services		Percent (%) Change
	2012	2011		2012	2011	
General government	\$ 9,825,243	\$ 9,418,573	4.3	\$ 7,371,292	\$ 6,973,388	5.7
Public safety	13,197,204	13,091,436	0.8	10,098,634	10,293,808	(1.9)
Highways and streets	11,043,728	9,718,225	13.6	3,570,509	2,540,945	40.5
Sanitation	3,791,243	6,055,669	(37.4)	(3,396,181)	(4,911,378)	(30.9)
Human services	13,372,775	14,398,308	(7.1)	5,706,840	7,357,959	(22.4)
Health	2,363,752	2,431,139	(2.8)	577,937	384,751	50.2
Culture and recreation	1,047,088	1,152,873	(9.2)	589,972	644,685	(8.5)
Conservation of natural resources	1,745,639	1,245,789	40.1	397,376	(230,010)	(272.6)
Economic development	30,036	36,481	(17.7)	30,036	36,481	(17.7)
Interest and fiscal charges on long-term liabilities	2,199,473	2,431,786	(9.6)	2,199,473	2,431,786	(9.6)
Total	\$ 58,616,181	\$ 59,980,279	(2.3)	\$ 27,145,888	\$ 25,522,415	6.4

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$56,259,160.

Revenues for the County’s governmental funds were \$65,730,359, while total expenditures were \$65,855,707. During 2012, the County also issued loans which are included in other financing sources and uses.

GENERAL FUND

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

Table A-6 presents a summary of General Fund revenues.

**Table A-6
General Fund Revenues**

	Year Ended December 31		Change	
	2012	2011	Increase (Decrease)	Percent (%)
Taxes	\$ 14,524,451	\$ 13,561,724	\$ 962,727	7.1
Intergovernmental	4,029,843	4,812,242	(782,399)	(16.3)
Charges for services	3,569,042	3,119,172	449,870	14.4
Investment earnings	77,823	238,977	(161,154)	(67.4)
Miscellaneous and other	2,261,237	2,538,721	(277,484)	(10.9)
Total General Fund Revenues	\$ 24,462,396	\$ 24,270,836	\$ 191,560	0.8

Table A-7 presents a summary of General Fund expenditures.

**Table A-7
General Fund Expenditures**

	Year Ended December 31		Change	
	2012	2011	Increase (Decrease)	Percent (%)
General government	\$ 7,754,541	\$ 7,634,829	\$ 119,712	1.6
Public safety	12,393,839	12,562,585	(168,746)	(1.3)
Sanitation	278	-	278	-
Health	2,357,132	2,447,444	(90,312)	(3.7)
Culture and recreation	465,853	489,182	(23,329)	(4.8)
Conservation of natural resources	524,079	585,128	(61,049)	(10.4)
Economic development	30,036	36,481	(6,445)	(17.7)
Debt service	213,694	182,915	30,779	16.8
Total General Fund Expenditures	\$ 23,739,452	\$ 23,938,564	\$ (199,112)	(0.8)

General Fund Budgetary Highlights

- Actual revenues were \$1,614,196 more than budget.
- Actual expenditures were \$652,952 more than budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2012, the County had invested over \$206,466,487 in a broad range of capital assets, including land, landfill, buildings, computers, equipment, and infrastructure. (See Table A-8.) (More detailed information about capital assets can be found in Note 3.A.3. to the financial statements.) Total depreciation expense for the year was \$4,641,968.

**Table A-8
Capital Assets**

	2012	2011	Percent (%) Change
Land	\$ 5,918,246	\$ 5,541,127	6.8
Landfill	4,418,445	3,948,130	11.9
Infrastructure	124,673,247	121,935,574	2.2
Buildings	44,872,866	44,809,936	0.1
Machinery, vehicles, furniture, and equipment	15,304,548	15,123,717	1.2
Construction in progress	10,963,653	10,264,283	6.8
Software	315,482	276,749	14.0
Less: accumulated depreciation	<u>(48,210,771)</u>	<u>(44,135,202)</u>	9.2
Total Capital Assets	<u>\$ 158,255,716</u>	<u>\$ 157,764,314</u>	0.3

Debt

At year-end, the County had outstanding debt of \$60,992,789 versus \$67,659,952 last year, a decrease of 9.9 percent as shown in Table A-9.

**Table A-9
Outstanding Debt**

	2012	2011	Percent (%) Change
General obligation bonds	\$ 22,655,000	\$ 25,390,000	(10.8)
Special assessment bonds	19,210,000	21,380,000	(10.1)
Capital lease	2,423,288	2,767,080	(12.4)
Deferred (discount) premiums	(43,818)	(32,271)	35.8
Loans payable	<u>16,748,319</u>	<u>18,155,143</u>	(7.7)
Total Outstanding Debt	<u>\$ 60,992,789</u>	<u>\$ 67,659,952</u>	(9.9)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the County Administrator, Larry Kleindl, Health and Human Services Building, 2200 - 23rd Street N.E., Willmar, Minnesota 56201.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Component Unit Kandiyohi County Housing and Redevelopment Authority
<u>Assets</u>		
Current assets		
Cash and investments	\$ 56,633,406	\$ 896,137
Taxes receivable - net	495,187	62,136
Special assessments receivable - net	71,082	-
Accounts receivable - net	2,624,269	600
Accrued interest receivable	138,246	-
Property available for resale	-	169,240
Due from other governments	1,372,866	-
Current portion of loans receivable	390,000	-
Current portion of long-term receivable	18,667	-
Rent receivable	-	4,200
Inventories	295,335	-
Prepaid items	-	5,190
Noncurrent assets		
Special assessments receivable - net	17,133,390	-
Deferred charges	210,518	9,058
Loans receivable	3,397,207	-
Long-term receivable	163,331	412,301
Other postemployment benefits receivable	234,434	-
Restricted assets		
Cash and pooled investments	-	130,742
Capital assets		
Non-depreciable	16,881,899	82,358
Depreciable - net of accumulated depreciation	141,373,817	903,511
Total Assets	\$ 241,433,654	\$ 2,675,473

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government Governmental Activities	Component Unit Kandiyohi County Housing and Redevelopment Authority
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 1,617,152	\$ 8,588
Salaries payable	1,331,407	-
Accrued payroll and payroll taxes	-	41,454
Contracts payable	299,430	-
Due to other governments	505,485	-
Accrued interest payable	710,273	4,741
Other accrued liabilities	-	26,308
Unearned revenue	946,558	62,806
Advance from other governments	1,485,970	-
Restricted payable from restricted assets		
Security deposits	-	12,920
Long-term liabilities		
Due within one year	5,919,980	43,454
Due in more than one year	65,519,572	1,611,771
	\$ 78,335,827	\$ 1,812,042
<u>Net Position</u>		
Net investment in capital assets	\$ 106,056,974	\$ (201,880)
Restricted for		
General government	516,060	-
Public safety	1,208,400	-
Highways and streets	373,384	-
Sanitation	3,841,883	-
Conservation of natural resources	378,303	-
Economic development	75,000	-
Debt service	13,738,293	-
Other purpose	-	99,833
Unrestricted	36,909,530	965,478
	\$ 163,097,827	\$ 863,431

**KANDIYOHI COUNTY
WILLMAR, 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	\$ 9,825,243	\$ 2,304,669
Public safety	13,197,204	1,755,458
Highways and streets	11,043,728	476,329
Sanitation	3,791,243	7,078,562
Human services	13,372,775	1,137,865
Health	2,363,752	708,080
Culture and recreation	1,047,088	337,435
Conservation of natural resources	1,745,639	1,085,492
Economic development	30,036	-
Interest	2,199,473	-
	<u>58,616,181</u>	<u>14,883,890</u>
Total Primary Government	\$ <u>58,616,181</u>	\$ <u>14,883,890</u>
 Component unit		
Kandiyohi County Housing and Redevelopment Authority	\$ <u>1,718,077</u>	\$ <u>326,506</u>

General Revenues

Property taxes, levied for general purposes
Gravel taxes
Mortgage registry and deed tax
Property taxes, levied for HRA
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Miscellaneous
Gain on sale of capital assets

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
\$ 149,282	\$ -	\$ (7,371,292)	
1,343,112	-	(10,098,634)	
6,031,053	965,837	(3,570,509)	
108,862	-	3,396,181	
6,528,070	-	(5,706,840)	
1,077,735	-	(577,937)	
119,681	-	(589,972)	
262,771	-	(397,376)	
-	-	(30,036)	
-	-	(2,199,473)	
<u>\$ 15,620,566</u>	<u>\$ 965,837</u>	<u>\$ (27,145,888)</u>	
<u>\$ 1,284,965</u>	<u>\$ -</u>		<u>\$ (106,606)</u>
		\$ 28,072,024	\$ -
		50,582	-
		37,751	-
		-	121,232
		49,584	-
		1,879,285	-
		359,602	4,607
		2,523,670	-
		85,217	-
		<u>\$ 33,057,715</u>	<u>\$ 125,839</u>
		\$ 5,911,827	\$ 19,233
		<u>157,186,000</u>	<u>844,198</u>
		<u>\$ 163,097,827</u>	<u>\$ 863,431</u>

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Sanitary Landfill/ Recycling Center</u>
<u>Assets</u>				
Cash and investments	\$ 14,467,044	\$ 6,362,649	\$ 5,391,799	\$ 10,583,200
Taxes receivable				
Prior	250,552	69,359	101,733	-
Special assessments				
Prior	30,642	-	-	-
Noncurrent	1,447,825	-	-	-
Accounts receivable	209,107	19	172,547	1,343,591
Accrued interest receivable	37,915	6,334	-	29,400
Due from other funds	51,808	3,723	895	-
Due from other governments	209,395	376,104	504,845	4,173
Inventories	-	295,335	-	-
Loans receivable	-	-	-	-
Advance to other funds	-	-	-	-
Long-term receivable	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ 16,704,288	\$ 7,113,523	\$ 6,171,819	\$ 11,960,364
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Cash overdraft	\$ -	\$ -	\$ -	\$ -
Accounts payable	295,620	365,922	345,284	375,749
Salaries payable	809,784	126,505	314,174	27,789
Contracts payable	-	299,430	-	-
Due to other funds	895	26,807	45,354	4,753
Due to other governments	295,585	36,492	102,584	19,840
Deferred revenue - unavailable	1,703,984	434,513	80,567	1,254,696
Deferred revenue - unearned	946,558	-	-	-
Advance from other funds	-	-	-	-
Advance from other governments	-	1,485,970	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ 4,052,426	\$ 2,775,639	\$ 887,963	\$ 1,682,827

EXHIBIT 3

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,130,706	\$ 9,374,051	\$ 6,994	\$ 5,822,385	\$ 57,138,828
9,944	35,062	-	28,537	495,187
-	35,668	3,331	1,441	71,082
-	14,166,922	905,625	613,018	17,133,390
-	426,800	-	472,205	2,624,269
6,030	-	-	58,567	138,246
-	-	-	24,914	81,340
132	70,218	-	207,999	1,372,866
-	-	-	-	295,335
-	3,787,207	-	-	3,787,207
240,607	-	-	-	240,607
181,998	-	-	-	181,998
<u>\$ 5,569,417</u>	<u>\$ 27,895,928</u>	<u>\$ 915,950</u>	<u>\$ 7,229,066</u>	<u>\$ 83,560,355</u>
\$ -	\$ -	\$ -	\$ 505,422	\$ 505,422
44,561	3,757	2,197	184,062	1,617,152
-	-	-	53,155	1,331,407
-	-	-	-	299,430
-	-	-	3,531	81,340
-	-	-	50,984	505,485
14,137	14,628,310	908,544	1,263,073	20,287,824
-	-	-	-	946,558
-	-	-	240,607	240,607
-	-	-	-	1,485,970
<u>\$ 58,698</u>	<u>\$ 14,632,067</u>	<u>\$ 910,741</u>	<u>\$ 2,300,834</u>	<u>\$ 27,301,195</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	General	Road and Bridge	Human Services	Sanitary Landfill/ Recycling Center
<u>Liabilities and Fund Balances</u>				
(Continued)				
Fund Balances				
Nonspendable				
Inventories	\$ -	\$ 295,335	\$ -	\$ -
Restricted for				
Debt service	474,432	-	-	-
Recorder's equipment purchases	515,710	-	-	-
Sheriff's contingency	115,328	-	-	-
Forfeited property	225,541	-	-	-
Permit to carry	118,603	-	-	-
Public safety	102,504	-	-	-
Economic development	75,000	-	-	-
Sanitation	-	-	-	3,841,883
Donations - public safety	3,245	-	-	-
Enhanced 911	643,179	-	-	-
Election equipment grant	350	-	-	-
Gravel pit restoration	54,573	-	-	-
Closure/postclosure	-	-	-	6,435,654
Ditch maintenance and repairs	-	-	-	-
Committed to				
Repairs and maintenance of county buildings	-	-	-	-
Purchases of capital equipment	-	-	-	-
Eagle Lake Sewer	-	-	-	-
Green Lake Sewer	-	-	-	-
Library operations and building maintenance	-	-	-	-
DARE program	-	-	-	-
Health and Human Services Building operations and maintenance	-	-	-	-
Assigned to				
Highways and streets	-	4,042,549	-	-
Human services	-	-	5,283,856	-
Capital projects	-	-	-	-
Unassigned	10,323,397	-	-	-
Total Fund Balances	\$ 12,651,862	\$ 4,337,884	\$ 5,283,856	\$ 10,277,537
Total Liabilities and Fund Balances	\$ 16,704,288	\$ 7,113,523	\$ 6,171,819	\$ 11,960,364

EXHIBIT 3
(Continued)

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 295,335
-	13,263,861	-	-	13,738,293
-	-	-	-	515,710
-	-	-	-	115,328
-	-	-	-	225,541
-	-	-	-	118,603
-	-	-	-	102,504
-	-	-	-	75,000
-	-	-	-	3,841,883
-	-	-	-	3,245
-	-	-	-	643,179
-	-	-	-	350
-	-	-	-	54,573
-	-	-	-	6,435,654
-	-	-	323,730	323,730
5,510,719	-	-	-	5,510,719
-	-	-	3,421,749	3,421,749
-	-	-	273,734	273,734
-	-	-	1,440,908	1,440,908
-	-	-	219,397	219,397
-	-	-	21,154	21,154
-	-	-	372,890	372,890
-	-	-	-	4,042,549
-	-	-	-	5,283,856
-	-	5,209	-	5,209
-	-	-	(1,145,330)	9,178,067
<u>\$ 5,510,719</u>	<u>\$ 13,263,861</u>	<u>\$ 5,209</u>	<u>\$ 4,928,232</u>	<u>\$ 56,259,160</u>
<u>\$ 5,569,417</u>	<u>\$ 27,895,928</u>	<u>\$ 915,950</u>	<u>\$ 7,229,066</u>	<u>\$ 83,560,355</u>

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**KANDIYOHI COUNTY
WILLMAR, 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)		\$ 56,259,160
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.		158,255,716
Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds.		210,518
Revenue in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		20,287,824
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (22,655,000)	
Special assessment bonds	(19,210,000)	
Unamortized premium on bonds	(120,624)	
Unamortized discount on bonds	164,444	
Capital leases payable	(2,423,288)	
Loans payable	(16,748,322)	
Estimated liability for landfill closure/postclosure	(6,435,654)	
Compensated absences	(4,011,108)	
Net other postemployment benefits	<u>234,434</u>	(71,205,118)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.		<u>(710,273)</u>
Net Position of Governmental Activities (Exhibit 1)		<u><u>\$ 163,097,827</u></u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Sanitary Landfill/ Recycling Center</u>
Revenues				
Taxes	\$ 14,524,451	\$ 3,918,566	\$ 5,621,434	\$ -
Special assessments	275,986	-	-	-
Licenses and permits	407,152	-	-	780
Intergovernmental	4,029,843	7,294,160	6,878,467	108,862
Charges for services	3,569,042	455,163	858,578	3,155,062
Fines and forfeits	121,902	-	-	-
Gifts and contributions	30,798	-	-	-
Investment earnings	77,823	15,827	-	152,657
Miscellaneous	1,425,399	21,166	279,287	656,487
Total Revenues	\$ 24,462,396	\$ 11,704,882	\$ 13,637,766	\$ 4,073,848
Expenditures				
Current				
General government	\$ 7,754,541	\$ -	\$ -	\$ -
Public safety	12,393,839	-	-	-
Highways and streets	-	11,161,124	-	-
Sanitation	278	-	-	4,164,922
Human services	-	-	13,417,710	-
Health	2,357,132	-	-	-
Culture and recreation	465,853	-	-	-
Conservation of natural resources	524,079	-	-	-
Economic development	30,036	-	-	-
Intergovernmental				
Highways and streets	-	346,321	-	-
Culture and recreation	-	-	-	-
Capital outlay				
Sanitation	-	-	-	-
Debt service				
Principal	187,003	415,000	-	-
Interest	26,691	138,371	-	-
Bond issuance costs	-	-	-	-
Administrative (fiscal) charges	-	450	-	-
Total Expenditures	\$ 23,739,452	\$ 12,061,266	\$ 13,417,710	\$ 4,164,922
Excess of Revenues Over (Under) Expenditures	\$ 722,944	\$ (356,384)	\$ 220,056	\$ (91,074)

EXHIBIT 5

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 464,023	\$ 1,970,404	\$ -	\$ 1,666,070	\$ 28,164,948
-	1,755,164	76,606	955,366	3,063,122
-	-	-	-	407,932
38,000	2,330	-	188,630	18,540,292
-	1,300,221	-	1,129,851	10,467,917
-	-	-	11,377	133,279
-	-	-	-	30,798
30,591	10,738	-	34,155	321,791
69,186	238,025	308,333	1,602,397	4,600,280
\$ 601,800	\$ 5,276,882	\$ 384,939	\$ 5,587,846	\$ 65,730,359
\$ 466,457	\$ -	\$ -	\$ 901,244	\$ 9,122,242
58,762	-	-	123,438	12,576,039
-	-	-	310,814	11,471,938
-	-	-	1,325,038	5,490,238
-	-	-	-	13,417,710
-	-	-	-	2,357,132
72,988	-	-	177,515	716,356
44,631	-	-	988,211	1,556,921
-	-	-	-	30,036
-	-	-	-	346,321
-	-	-	345,800	345,800
-	-	705,351	-	705,351
-	4,144,000	-	636,193	5,382,196
-	1,991,512	-	136,956	2,293,530
-	35,803	-	-	35,803
-	7,644	-	-	8,094
\$ 642,838	\$ 6,178,959	\$ 705,351	\$ 4,945,209	\$ 65,855,707
\$ (41,038)	\$ (902,077)	\$ (320,412)	\$ 642,637	\$ (125,348)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Sanitary Landfill/ Recycling Center</u>
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	(109,241)	-	-	-
Loans issued	263,583	-	-	-
Loans refunded	-	-	-	-
Refunding bonds issued	-	-	-	-
Bonds refunded	-	-	-	-
Discount on bonds issued	-	-	-	-
Sale of capital assets	-	-	-	-
Total Other Financing Sources (Uses)	\$ 154,342	\$ -	\$ -	\$ -
Net Changes in Fund Balances	\$ 877,286	\$ (356,384)	\$ 220,056	\$ (91,074)
Fund Balance - January 1	11,774,576	4,762,106	5,063,800	10,368,611
Increase (decrease) in inventories	-	(67,838)	-	-
Fund Balance - December 31	\$ 12,651,862	\$ 4,337,884	\$ 5,283,856	\$ 10,277,537

EXHIBIT 5
(Continued)

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 313,405	\$ 634,712	\$ 140,275	\$ 67,239	\$ 1,155,631
-	(7,998)	(263,405)	(774,987)	(1,155,631)
-	1,735,000	-	-	1,998,583
-	(1,677,000)	-	-	(1,677,000)
-	3,085,000	-	-	3,085,000
-	(4,680,000)	-	-	(4,680,000)
-	(3,063)	-	-	(3,063)
<u>85,217</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,217</u>
\$ 398,622	\$ (913,349)	\$ (123,130)	\$ (707,748)	\$ (1,191,263)
\$ 357,584	\$ (1,815,426)	\$ (443,542)	\$ (65,111)	\$ (1,316,611)
5,153,135	15,079,287	448,751	4,993,343	57,643,609
-	-	-	-	(67,838)
\$ 5,510,719	\$ 13,263,861	\$ 5,209	\$ 4,928,232	\$ 56,259,160

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,316,611)

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

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

Deferred revenue - December 31	\$ 20,287,824	
Deferred revenue - January 1	<u>(21,575,392)</u>	(1,287,568)

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

Expenditures for general capital assets and infrastructure	\$ 5,421,580	
Net book value of assets sold	(288,210)	
Current year depreciation	<u>(4,641,968)</u>	491,402

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

Debt issued		
Loans issued	\$ (1,998,583)	
Refunding bonds issued	(3,085,000)	
Discount on refunding bonds issued	<u>3,063</u>	(5,080,520)

Principal repayments		
General obligation bonds	\$ 2,735,000	
Special assessment bonds	5,255,000	
Capital leases	343,792	
Loans payable	<u>3,405,404</u>	11,739,196

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT 6
(Continued)**

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

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$	157,502	
Current year amortization of premium on bonds issued		22,062	
Current year amortization of discount on bonds issued		(13,576)	
Current year amortization of deferred debt issuance costs		(28,034)	
Change in compensated absences		26,862	
Change in net other postemployment benefits		100,634	
Change in inventories		(67,838)	
Change in estimated liability for landfill closure/postclosure		1,168,316	1,365,928
Change in Net Position of Governmental Activities (Exhibit 2)			\$ 5,911,827

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FIDUCIARY FUNDS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 7

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

	<u>Assets</u>	
Cash and investments		<u>\$ 1,524,620</u>
	<u>Liabilities</u>	
Due to other governments		<u>\$ 1,524,620</u>

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**KANDIYOHI COUNTY
WILLMAR, 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

Kandiyohi County was established March 20, 1858, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. Kandiyohi 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. The County Auditor/Treasurer, elected on a County-wide basis, serves as clerk of the Board but does not vote in its decisions.

For financial reporting purposes, Kandiyohi County has included all funds, organizations, agencies, boards, commissions, and authorities, and has considered all potential component units for which the County is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on the organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

As required by accounting principles generally accepted in the United States of America, these financial statements present Kandiyohi County (primary government) and its component units for which the County is financially accountable.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

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

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The Kandiyohi County Building Authority provides space for the County's offices.	County Commissioners are the members of the Kandiyohi County Building Authority Board.	Separate financial statements are not prepared.

Discretely Presented Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. Kandiyohi County has one discretely presented component unit.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The Kandiyohi County Housing and Redevelopment Authority (HRA) administers the public housing programs authorized by the United States Housing Act of 1937, as amended. The HRA also provides assistance grants to eligible families of the Section 8 programs.	The County appoints a voting majority of the HRA's Board of Directors and approves the HRA's budget.	Kandiyohi County HRA Kandiyohi County Health and Human Services Building 2200 - 23rd St. N.E. Suite 2090 Willmar, Minnesota 56201

Joint Ventures

The County participates in several joint ventures described in Note 5.D. The County also participates in the jointly-governed organizations described in Note 5.E.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported in a single column.

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund accounts for restricted revenue sources from the federal, state, and other oversight agencies, as well as unrestricted property tax revenues for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

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

The Sanitary Landfill/Recycling Center Special Revenue Fund accounts for the County's landfill operations and for funds used in the connection and operation of the County Recycling Center. Financing for the sanitary landfill is provided by special assessments, user charges, and the sale of solid waste bonds. Financing for the construction of the County Recycling Center was provided by the sale of solid waste bonds and a grant from the State of Minnesota under the capital assistance program.

The County Building Special Revenue Fund accounts for committed financial resources, primarily property tax revenues, for improvements to and purchases of County buildings.

The Debt Service Fund accounts for the accumulation of restricted resources used for, and the payment of, principal, interest, and related costs of the County's debt obligations.

The Capital Projects Fund accounts for financial resources for the construction of major capital facilities of the County.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

Fiduciary Funds

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Kandiyohi 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 general 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.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2012 were \$65,505.

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

2. Receivables and Payables

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

All receivables in the government-wide statements, including those of the discretely presented component unit, are shown net of an allowance for uncollectibles.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

2. Receivables and Payables (Continued)

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. The taxes receivable allowance is equal to 1.5 percent of outstanding property taxes at year-end.

Special assessments receivable consist of delinquent special assessments payable in the years 2000 through 2012 and deferred special assessments payable in 2013 and after. All special assessments receivable are shown net of an allowance for uncollectible. The special assessments receivable allowance is equal to 1.5 percent of outstanding special assessments at year-end.

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.

4. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net position because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items) are reported 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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

5. Capital Assets (Continued)

life in excess of four 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. The purchase of computer software and most communications equipment are not capitalized due to their estimated lives of less than five years. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Landfill	50
Public domain infrastructure	50 - 75
Furniture, equipment, and vehicles	5 - 20
Software	2 - 5

6. 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.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. 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 and revenues not considered to be available to liquidate liabilities of the current period.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Classification of Net Position

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Net Position (Continued)

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

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

10. 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, such as fund balance associated with inventories, prepaids, long-term receivables and loans.

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

Committed - amounts that can be used only for the specific purposes determined by a formal action of Kandiyohi County's highest level of decision-making authority; which is the Kandiyohi County Board of Commissioners. Fund balance commitments are established, modified, or rescinded by County Board action through a Board resolution.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Classification of Fund Balances (Continued)

Assigned - amounts intended to be used by the government for specific purposes but 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 of fund balance that is not restricted or committed.

Unassigned - the unassigned fund balance is 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 both restricted and unrestricted (committed, assigned, and unassigned) amounts are available. The County does not have a formal policy for its use of unrestricted fund balance amounts; therefore, it considers committed amounts used first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. Kandiyohi County's desired minimum level of unrestricted fund balance is a five-month average of operating expenditures during the previous year. This amount of unrestricted fund balance should provide the County with adequate funds until the next property tax revenue collection cycle.

The County Auditor/Treasurer is authorized to evaluate, classify and assign fund balance in accordance with GASB Statement 54. In governmental funds other than the General Fund, the assignment must follow Kandiyohi County's intent for the specific purpose of the individual funds. Therefore, all remaining positive fund balances in the special revenue, debt service, and capital projects funds are classified as assigned.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Special Revenue Fund

Forty-eight of 111 drainage systems of the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balance as of December 31, 2012:

Account balances	\$ 323,730
Account deficits	<u>(767,869)</u>
Fund Balance	<u>\$ (444,139)</u>

Regional Treatment Center Special Revenue Fund

At December 31, 2012, the Regional Treatment Center Special Revenue Fund had a deficit fund balance of \$377,461. This deficit is expected to be eliminated through the collection of future lease payments and possible transfers from other County funds.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2012:

	Expenditures	Final Budget	Excess
General Fund	\$ 23,739,452	\$ 23,086,500	\$ 652,952
Special Revenue Funds			
Sanitary Landfill/Recycling Center	4,164,922	3,200,100	964,822
County Building	642,838	495,000	147,838
Capital Equipment	505,012	-	505,012
Green Lake Sewer	1,089,977	1,056,697	33,280

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 investments	\$ 56,633,406
Statement of fiduciary net position	
Cash and investments	1,524,620
Total Cash and Investments	\$ 58,158,026

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.

**KANDIYOHI COUNTY
WILLMAR, 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 that is 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 other than complying with the requirements of Minnesota statutes. As of December 31, 2012, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**KANDIYOHI COUNTY
WILLMAR, 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.

**KANDIYOHI COUNTY
WILLMAR, 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 following table presents the County's deposit and investment balances at December 31, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Percent (%) of Portfolio	Maturity Date	
U.S. government securities					
Freddie Mac	Aaa	Moody's	<5%	03/21/2022	\$ 200,280
Federal Farm Credit Bank	Aaa	Moody's	11.2%	03/26/2019	\$ 3,210,931
Federal Home Loan Bank	Aaa	Moody's		04/22/2022	\$ 5,004,090
Federal Home Loan Bank	Aaa	Moody's		07/26/2022	600,150
Federal Home Loan Bank	Aaa	Moody's		08/15/2022	500,215
Federal Home Loan Bank	Aaa	Moody's		04/29/2022	200,540
Federal Home Loan Bank	Aaa	Moody's		06/28/2022	1,241,762
Federal Home Loan Bank	Aaa	Moody's		11/28/2022	498,130
Federal Home Loan Bank	Aaa	Moody's		07/30/2024	835,083
Federal Home Loan Bank	Aaa	Moody's		11/21/2024	500,275
Federal Home Loan Bank	Aaa	Moody's		09/28/2027	991,673
Federal Home Loan Bank	Aaa	Moody's		10/25/2027	296,802
Federal Home Loan Bank	Aaa	Moody's		12/27/2017	495,780
Total Federal Home Loan Bank			38.8%		\$ 11,164,500

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Percent (%) of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal National Mortgage Association	Aaa	Moody's		12/27/2019	\$ 4,318,873
Federal National Mortgage Association	Aaa	Moody's		08/08/2019	650,161
Federal National Mortgage Association	Aaa	Moody's		07/30/2027	449,563
Federal National Mortgage Association	N/R	N/A		10/01/2028	6,835
Federal National Mortgage Association	N/R	N/A		12/01/2031	1,191
Total Federal National Mortgage Association			18.9%		\$ 5,426,623
Federal Home Loan Mortgage Corporation	Aaa	Moody's		03/28/2022	\$ 501,155
Federal Home Loan Mortgage Corporation	Aaa	Moody's		12/16/2023	197,542
Total Federal Home Loan Mortgage Corporation			<5%		\$ 698,697
Total U.S. government securities					\$ 20,701,031
Investment pools					
MAGIC Fund	N/A	N/A	N/A	N/A	\$ 8,080,289
Total investments					\$ 28,781,320
Checking					20,854,432
Savings					2,696,179
Certificates of deposit					5,781,820
Departmental cash					41,760
Petty cash					2,515
Total Cash and Investments					\$ 58,158,026

N/A - Not Applicable

N/R - Not Rated

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Funds		
Receivables		
Taxes	\$ 495,187	\$ -
Special assessments	17,204,472	14,848,509
Accounts	2,624,269	-
Accrued interest	138,246	-
Due from other governments	1,372,866	-
Loans	3,787,207	3,394,707
Long-term	181,998	163,332
Total receivables	\$ 25,804,245	\$ 18,406,548

Long-Term Receivable

In November 2007, the County sold the Boy's Group Home and the Girl's Group Home on a contract for deed. The sales price was \$280,000. This amount is to be paid over 15 years with no interest. Future collections are to be received in monthly installments of \$1,556. This long-term receivable is reported in the County Building Special Revenue Fund.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 5,541,127	\$ 377,119	\$ -	\$ 5,918,246
Construction in progress	10,264,283	1,379,120	679,750	10,963,653
Total capital assets not depreciated	\$ 15,805,410	\$ 1,756,239	\$ 679,750	\$ 16,881,899
Capital assets depreciated				
Landfill	\$ 3,948,130	\$ 470,315	\$ -	\$ 4,418,445
Buildings	44,809,936	85,875	22,945	44,872,866
Machinery, vehicles, furniture, and equipment	15,123,717	1,012,495	831,664	15,304,548
Infrastructure	121,935,574	2,737,673	-	124,673,247
Software	276,749	38,733	-	315,482
Total capital assets depreciated	\$ 186,094,106	\$ 4,345,091	\$ 854,609	\$ 189,584,588
Less: accumulated depreciation for				
Landfill	\$ 1,065,677	\$ 106,080	\$ -	\$ 1,171,757
Buildings	11,150,240	983,043	22,945	12,110,338
Machinery, vehicles, furniture, and equipment	9,011,756	1,036,204	543,454	9,504,506
Infrastructure	22,866,017	2,458,065	-	25,324,082
Software	41,512	58,576	-	100,088
Total accumulated depreciation	\$ 44,135,202	\$ 4,641,968	\$ 566,399	\$ 48,210,771
Total capital assets depreciated, net	\$ 141,958,904	\$ (296,877)	\$ 288,210	\$ 141,373,817
Governmental Activities Capital Assets, Net	\$ 157,764,314	\$ 1,459,362	\$ 967,960	\$ 158,255,716

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 550,064
Public safety	823,217
Highways and streets, including depreciation of infrastructure assets	2,026,444
Sanitation	1,021,123
Human services	10,871
Culture and recreation	19,558
Conservation of natural resources	<u>190,691</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,641,968</u>

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General	Road and Bridge	\$ 1,893	Payroll clearing account and payroll taxes and supplies provided Charges for services rendered and supplies provided Charges for services rendered and supplies provided Charges for services rendered and supplies provided
	Human Services	45,354	
	Sanitary Landfill	1,030	
	Other nonmajor	<u>3,531</u>	
Total due to General Fund		<u>\$ 51,808</u>	
Road and Bridge	Sanitary Landfill	<u>\$ 3,723</u>	Charges for services rendered
Human Services	General	<u>\$ 895</u>	Charges for services rendered
Other nonmajor funds	Road and Bridge	<u>\$ 24,914</u>	Ditch special assessments and charges for services rendered
Total Due To/From Other Funds		<u>\$ 81,340</u>	

The above interfund balances are expected to be paid within a year.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Advance To/From Other Funds

Receivable Fund	Payable Fund	Amount	
County Building	Other nonmajor	\$ 240,607	Boiler decentralization loan

3. Interfund Transfers

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

Transfers to County Building Special Revenue Fund from	\$ 50,000	Reallocate a portion of dividends
General Fund		
Capital Projects Fund	263,405	Adjust capital lease from prior years
Total County Building Special Revenue Fund transfers	\$ 313,405	
Transfer to Debt Service Fund from nonmajor funds	\$ 634,712	Provide funds for debt service
Transfers to Capital Projects Fund from nonmajor funds	\$ 140,275	Reimburse Tri-Lakes bond and adjust capital lease from prior years
Transfers to nonmajor funds from General Fund	\$ 59,241	Adjust capital lease from prior years
Debt Service Fund	7,998	Correct expenditures for septic loan
Total nonmajor funds transfers	\$ 67,239	
Total Interfund Transfers	\$ 1,155,631	

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Accounts	\$ 1,617,152	\$ -
Salaries	1,331,407	-
Contracts	299,430	-
Due to other governments	<u>505,485</u>	<u>1,524,620</u>
Total Payables	<u>\$ 3,753,474</u>	<u>\$ 1,524,620</u>

2. Other Postemployment Benefits - Retirees

The County provides postemployment health care benefits for certain retirees. The County contributes one year of single coverage paid health insurance for every three years of service, not to exceed \$430 per month per participant, until age 65. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

As of year-end, the County had 28 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2012, the County expended \$137,578 for these benefits.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
2004 Taxable G.O. Tax Abatement Bonds	2022	\$270,000 - \$540,000	3.125 - 5.30	\$ 6,135,000	\$ 4,345,000
2004 G.O. Law Enforcement Facility Refunding Bonds	2021	\$385,000 - \$1,340,000	3.375 - 4.15	7,045,000	5,410,000
2005 G.O. Road Reconstruction Bonds	2027	\$125,000 - \$270,000	3.75 - 4.25	3,700,000	3,025,000
2007 G.O. Law Enforcement Facility Refunding Bonds	2020	\$435,000 - \$695,000	4.00	7,100,000	4,795,000
2008 G.O. Capital Equipment Bonds	2016	\$40,000 - \$510,000	3.00 - 4.80	3,550,000	2,125,000
2009A Capital Improvement Bonds	2016	\$490,000 - \$615,000	2.00 - 3.00	4,010,000	2,395,000
2009B State Aid Highway Refunding Bonds	2014	\$265,000 - \$285,000	2.00 - 2.25	1,365,000	560,000
Total General Obligation Bonds				<u>\$ 32,905,000</u>	<u>\$ 22,655,000</u>
Special assessment bonds with government commitment					
2008 G.O. Wastewater Revenue Bonds	2030	\$215,000 - \$425,000	3.00 - 4.80	\$ 6,100,000	\$ 5,660,000
2010A G.O. Sewer and Water Revenue Bonds	2032	\$225,000 - \$435,000	3.00 - 4.00	6,245,000	6,245,000
2010B G.O. Sewer and Water Revenue Refunding Bonds	2022	\$380,000 - \$480,000	1.10 - 3.45	4,220,000	4,220,000
2012 G.O. Sewer and Water Revenue Refunding Bonds	2023	\$75,000 - \$305,000	1.275	3,085,000	3,085,000
Total Special Assessment Bonds with Government Commitment				<u>\$ 19,650,000</u>	<u>\$ 19,210,000</u>
Capital Leases with Government Commitment					
16-Bed Community Behavioral Health Hospital	2018	\$148,415 - \$227,959	4.57	<u>\$ 3,710,000</u>	<u>\$ 2,423,288</u>
2000 Public Facilities Authority Clean Water G.O. Revenue Note	2020	\$6,397 - \$455,000	2.25	\$ 7,188,360	\$ 3,371,000
2001 Public Facilities Authority Clean Water G.O. Revenue Note	2021	\$3,344 - \$228,000	2.25	3,648,450	1,879,000
2002 Public Facilities Authority Clean Water G.O. Revenue Note	2021	\$567 - \$40,000	2.14	651,000	333,000
2006A Public Facilities Authority Clean Water G.O. Revenue Note	2026	\$178,876 - \$216,000	1.00	3,761,876	2,842,000

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
1999 Public Facilities Authority Drinking Water G.O. Revenue Note	2019	\$6,027 - \$313,000	3.54	4,446,000	1,978,000
2000 Public Facilities Authority Drinking Water G.O. Revenue Note	2019	\$3,054 - \$158,450	3.54	2,262,450	1,002,450
2001 Public Facilities Authority Drinking Water G.O. Revenue Note	2020	\$1,409 - \$70,000	3.54	1,012,260	498,000
2002 Public Facilities Authority Drinking Water G.O. Revenue Note	2021	\$333 - \$16,000	3.54	233,000	125,000
2006B Public Facilities Authority Wastewater Infrastructure G.O. Revenue Note	2032	\$9,124 - \$109,000	0.00	1,208,124	1,208,124
Hawk Creek Watershed Clean Water Partnership Project	2014	\$8,599	2.00	155,169	25,287
Hawk Creek Watershed Continuation Clean Water Partnership Project	2016	\$17,027	2.00	307,260	130,284
Shakopee Creek Headwaters Clean Water Partnership Project	2015	\$12,907	2.00	232,906	62,641
Hawk Creek Watershed Continuation Clean Water Partnership Project	2020	\$26,804	2.00	483,701	371,645
Shakopee Creek Headwaters Continuation Clean Water Partnership Project	2018	\$11,515	2.00	207,794	129,601
Crow River Basin Clean Water Partnership Project	2021	\$23,752	2.00	370,772	323,348
Shakopee Creek Headwaters Continuation Clean Water Partnership Project	2021	\$14,408	2.00	166,331	151,147
Hawk Creek Watershed Continuation Clean Water Partnership Project*	2023	\$26,799	2.00	328,055	328,055
Crow River Watershed - Reducing Surface Water Runoff Project*	2024	\$17,290	2.00	225,056	225,056
Chippewa River Accelerated Restoration Clean Water Partnership Project*	2025	\$11,526	2.00	29,681	29,681
City of New London USDA Rural Development	2029	\$85,000 - \$125,000	2.00 - 3.10	1,735,000	1,735,000
Total Loans Payable				<u>\$ 28,653,245</u>	<u>\$ 16,748,319</u>

*The outstanding balance for these loans represents the amount received from the Minnesota Pollution Control Agency as of December 31, 2012. The County has not finished drawing down funds on these loans; therefore, final debt payment schedules are not available. The following payment schedule does not include the debt service requirements on these loans.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 2,815,000	\$ 857,456	\$ 1,140,000	\$ 621,520
2014	2,910,000	758,756	1,200,000	586,208
2015	2,725,000	655,988	1,220,000	560,340
2016	2,825,000	548,965	1,260,000	531,978
2017	1,720,000	457,070	1,285,000	501,508
2018 - 2022	8,430,000	1,111,665	6,365,000	1,960,591
2023 - 2027	1,230,000	134,173	3,490,000	1,085,152
2028 - 2032	-	-	3,250,000	298,200
Total	<u>\$ 22,655,000</u>	<u>\$ 4,524,073</u>	<u>\$ 19,210,000</u>	<u>\$ 6,145,497</u>

Year Ending December 31	Loans		Capital Leases	
	Principal	Interest	Principal	Interest
2013	\$ 1,544,763	\$ 351,592	\$ 359,679	\$ 106,654
2014	1,556,998	307,381	376,300	90,033
2015	1,575,146	269,471	393,688	72,645
2016	1,599,490	231,034	411,881	54,452
2017	1,603,452	191,873	430,914	35,419
2018 - 2022	5,435,554	412,439	450,826	15,506
2023 - 2027	1,615,000	97,182	-	-
2028 - 2032	1,235,124	7,613	-	-
Total	<u>\$ 16,165,527</u>	<u>\$ 1,868,585</u>	<u>\$ 2,423,288</u>	<u>\$ 374,709</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 25,390,000	\$ -	\$ 2,735,000	\$ 22,655,000	\$ 2,815,000
Special assessment debt with government commitment	21,380,000	3,085,000	5,255,000	19,210,000	1,140,000
Add: premium on bonds	142,686	-	22,059	120,627	-
Less: discount on bonds	(174,957)	(3,063)	(13,576)	(164,444)	-
Total bonds payable	\$ 46,737,729	\$ 3,081,937	\$ 7,998,483	\$ 41,821,183	\$ 3,955,000
Capital lease	2,767,080	-	343,792	2,423,288	359,679
Loans payable	18,155,143	1,998,583	3,405,407	16,748,319	1,544,763
Estimated liability for landfill closure/postclosure	7,603,970	-	1,168,316	6,435,654	-
Compensated absences	4,037,970	321,127	347,989	4,011,108	60,538
Governmental Activities Long-Term Liabilities	<u>\$ 79,301,892</u>	<u>\$ 5,401,647</u>	<u>\$ 13,263,987</u>	<u>\$ 71,439,552</u>	<u>\$ 5,919,980</u>

Long-term debt was liquidated by payments from the following funds:

General	\$ 187,006
Road and Bridge	415,000
Debt Service	10,501,000
Other governmental funds	<u>636,193</u>
Total Debt Reductions	<u>\$ 11,739,199</u>

6. Current Refunding

On March 29, 2012, the County issued \$3,085,000 G.O. Sewer and Water Revenue Refunding Bonds, Series 2012A, with an average interest rate of 1.00 to 1.75 percent to redeem \$2,223,000 of outstanding 1999 Public Facilities Authority Drinking Water G.O. Revenue Notes, \$137,000 of outstanding 2000 Public Facilities Authority Drinking Water G.O. Revenue Notes, and \$676,000 of outstanding 2002A Green Lake Sewer and Water Revenue Bonds. The County issued the refunding bonds to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$307,772.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

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

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

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

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

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

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

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

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

	2012	2011	2010
General Employees Retirement Fund	\$ 1,134,021	\$ 1,135,701	\$ 1,122,542
Public Employees Police and Fire Fund	346,488	334,551	330,701
Public Employees Correctional Fund	184,903	190,790	198,712

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plan (Continued)

B. Other Postemployment Benefits (OPEB)

Plan Description

In addition to the pension benefits described in Note 4.A., the County at times has provided other postemployment health care benefits for retired employees as stated in Note 3.C.2. The authority to provide these benefits is established in Minn. Stat. § 471.61, subd. 2a.

The contribution requirements of the plan members and the County are established and may be amended by the Kandiyohi County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Early retirees (under age 65) contribute to the health care plan at the same rate as active employees. This results in the early retirees receiving an implicit rate subsidy. For fiscal year 2012, the County contributed \$266,038 to the plan; there were 412 participants in the plan.

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	\$	163,245
Interest on net OPEB obligation		(6,021)
Adjustments to ARC		8,180
		8,180
Annual OPEB cost (expense)	\$	165,404
Contributions made		(266,038)
		(266,038)
Increase (Decrease) in net OPEB obligation	\$	(100,634)
Net OPEB Obligation/(Asset) - Beginning of Year		(133,800)
		(133,800)
Net OPEB Obligation/(Asset) - End of Year	\$	(234,434)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plan

B. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the preceding two years was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
December 31, 2010	\$ 159,282	\$ 148,635	93.3%	\$ (48,561)
December 31, 2011	159,181	244,420	153.5	(133,800)
December 31, 2012	165,404	266,038	160.8	(234,434)

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial liability for benefits was \$1,651,891, and the actuarial valuation of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,651,891. The covered payroll (annual payroll of active employees covered by the plan) was \$19,168,849, and the ratio of the UAAL to the covered payroll was 8.6 percent.

Actuarial Methods and Assumptions

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 about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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 the 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 administrative expenses), which is Kandiyohi County's implicit rate of return on the General Fund, and an annual health care cost trend cost of 8.0 percent initially, reduced by decrements to an ultimate rate of five percent after six years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets is set equal to the market value of assets. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 25 years.

5. Summary of Significant Contingencies and Other Items

A. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although the majority of the closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each year-end. The County estimated the cost of closure and postclosure care to be \$6,435,654 with no remaining capacity to be filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2012. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Landfill Closure and Postclosure Care Costs (Continued)

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2012, cash and investments of \$6,101,964 are held for these purposes. The County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

B. 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. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County is self-insured for employee dental coverage. For other risks, the County carries commercial insurance. There were no significant reductions in insurance coverage from the prior year. The amount of settlements did not exceed insurance coverage for any of 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.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

Kandiyohi County has a program to self-insure a dental insurance plan for participating employees. The County has contracted with Minnesota Dental Benefits, a third-party administrator, to process claims against the plan.

The County contributed \$34 per month for each participating employee in 2012. The County deposits the County contributions and employee deductions with the administrator. Any claims paid by the administrator in excess of the deposits are billed to the County. The County also pays an administrative charge for the services rendered by the administrator. Financial transactions relating to the self-insurance plan are recorded in the General Fund.

The County has not had an actuarial study of the self-insurance dental plan; it has concluded that the risk of any major losses covered by self-insurance under this plan is covered by the general taxing powers of the County. There were no accrued benefits at December 31, 2012 and 2011. The following discloses the claims activity during fiscal years 2012 and 2011.

	Year Ended December 31	
	2012	2011
Beginning liability	\$ -	\$ -
Current year claims	254,224	237,612
Claim payments	(254,224)	(237,612)
End-of-Year Liability	\$ -	\$ -

C. 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.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Contingent Liabilities (Continued)

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.

D. Joint Ventures

Kandiyohi - Region 6W Community Corrections Agencies Detention Center (Prairie Lakes Youth Programs)

Kandiyohi County entered into a joint powers agreement to create and operate the Kandiyohi - Region 6W Community Corrections Agencies Detention Center (commonly referred to as the Prairie Lakes Youth Programs) pursuant to Minn. Stat. § 471.59. The Youth Program provides detention services to juveniles under the jurisdiction of the counties who are parties to the agreement (Chippewa, Lac qui Parle, Swift, and Yellow Medicine, all of which are served by the Region 6W Community Corrections Agency) and Kandiyohi County.

Control of the Youth Program is vested in a Joint Board, which is composed of one Commissioner from each participating county. An Advisory Board has also been established, which is composed of the directors of the Kandiyohi County Community Corrections Agency and the Region 6W Community Corrections Agency, and the directors of the family services or human services departments of the counties participating in the agreement. The Youth Program is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota.

Financing is provided by charges for services to member and nonmember counties.

Complete financial information can be obtained from the Youth Program's Office, P. O. Box 894, Willmar, Minnesota 56201.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Minnesota River Board

Kandiyohi County entered into a joint powers agreement with other counties to create the Minnesota River Board. The Board promotes the orderly water quality improvement and management of the Minnesota River Watershed through information sharing, education, coordination, and related support to the member counties by assisting in the implementation and goal achievement of comprehensive water plans which counties may develop and implement pursuant to Minn. Stat. §§ 103B.311 and 103B.315.

The County is responsible for its proportionate 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 purpose 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.

Complete financial information for the Minnesota River Board can be obtained from its administrative offices at 184 Trafton Science Center S., Minnesota State University, Mankato, Minnesota 56001.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Southwest Health and Human Services, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Southwestern Minnesota Adult Mental Health Consortium Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Southwestern Minnesota Adult Mental Health Consortium Board shall take actions and enter into such agreements as may be

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

necessary to plan and develop within the Consortium Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one Commissioner from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Consortium's annual financial report for the year ended December 31, 2011 (the most recent information available):

Total assets	\$ 2,127,562
Total liabilities	564,148
Total net assets	1,563,414
Total revenues	3,744,479
Total expenditures	4,103,387
Change in net assets	(358,908)

The Board reported no long-term obligations at December 31, 2011.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at Cottonwood County Family Services Agency, Windom, Minnesota 56101.

Crow River Watershed

In April 1999, the County entered into a joint powers agreement with other counties to promote the orderly water quality improvement and management of the Crow River Watershed through information sharing, education, coordination, and related support to the member counties by assisting in the implementation and goal achievement of comprehensive water plans which counties may develop and implement pursuant to Minn. Stat. §§ 103B.311 and 103B.315. The governing board is composed of one Commissioner from each of the participating counties. Financing is provided by state proceeds. Current financial information is not available.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Central Minnesota Emergency Services Board

Kandiyohi County entered into a joint powers agreement with Benton, Big Stone, Douglas, Grant, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Swift, Todd, Traverse, Wadena, Wilkin, and Wright Counties for the activities of a Regional Radio System. The Joint Powers Board is comprised of one County Commissioner for each county. This agreement is entered into by the parties to this agreement pursuant to the authority conferred upon the parties by Minn. Stat. §§ 403.39 and 471.59 for the purpose of providing regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota. With that objective in mind, the parties to the agreement wish to collectively prepare and administer a plan which provides for the installation, operation, and maintenance of local and regional enhancements to the ARMER. This agreement may be utilized to provide joint purchase of common individual equipment needs. Joint purchases may occur when it is determined that standardization of equipment is in the best interests of the parties to this agreement or when other advantages might be achieved by joint purchases. The City of St. Cloud is the fiscal agent for the Central Minnesota Emergency Services Board. Complete financial information for the Central Minnesota Emergency Services Joint Powers Board can be obtained from the City of St. Cloud at 400 – 2nd Street South, St. Cloud, Minnesota.

E. Jointly-Governed Organizations

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

Coordinated Enforcement Effort (CEE) VI Task Force

The Task Force was established to receive and expend federal, state, and local grants and other related funds for the purpose of investigation of burglary, theft, narcotics, stolen property, and crimes of violence. Kandiyohi County has no operational or financial control over the CEE VI Task Force. During the year, Kandiyohi County did not contribute any funds to the Task Force. In an agent capacity, Kandiyohi County reports the cash transactions of the CEE VI Task Force as an agency fund on its financial statements.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Regional Library

Kandiyohi County participates in the Western Plains Library System in order to provide efficient and improved regional public library service.

The financial activities of the Western Plains Library System are reported as part of the Pioneerland Regional Library System. Financial information for the Library System is not available.

Putting All Communities Together for Families Collaborative

Putting All Communities Together for Families Collaborative (PACT) was established in 1996 by a joint powers agreement among Kandiyohi, Meeker, Renville, and Yellow Medicine Counties. The agreement was established to provide coordinated services to children and families. Effective January 1, 2011, an additional joint powers agreement was entered into to add McLeod County as a fifth county partner to PACT.

Kandiyohi County has no operational or financial control over the Collaborative.

Kandiyohi County and City of Willmar Economic Development Commission (EDC)

The EDC was established on July 1, 2003, by a joint powers agreement between Kandiyohi County and the City of Willmar by resolution pursuant to 1989 Minn. Laws, First Special Session, ch. 1, art. 17, § 21. The EDC was set up to encourage, attract, promote, and develop economically sound industry and commerce within the County and City.

The EDC has six members. Kandiyohi County appoints three members, and the City of Willmar appoints three members of the EDC. Each member is appointed to serve for three years.

Complete financial information for the EDC can be obtained at Kandiyohi County and City of Willmar Economic Development Commission, 333 Litchfield Avenue S.W., Suite 100, P. O. Box 1783, Willmar, Minnesota 56201.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies

The HRA is reporting as of and for the year ended June 30, 2012.

The HRA's government-wide financial statements (the statement of net position and the statement of activities) are prepared using the economic resources measurement focus and the accrual basis of accounting.

B. Capital Assets

Capital assets are stated at historical or estimated historical cost and are depreciated using the straight-line method over their estimated useful lives ranging from 8 to 40 years.

C. Bond Issuance Costs

Bond issuance costs are stated at historical cost and are amortized using the straight-line method over 30 years.

D. Deposits and Investments

The HRA's cash and investments as of June 30, 2012, are summarized as follows:

Unrestricted	
Cash on deposit	\$ 416,381
Investments (certificates of deposit)	479,756
Restricted	
Cash on deposit	<u>130,742</u>
Total	<u>\$ 1,026,879</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

D. Deposits and Investments (Continued)

In accordance with Minnesota statutes, the HRA maintains deposits at depository banks authorized by the Board. The carrying amount of the HRA's deposits with financial institutions was \$1,026,879 as of June 30, 2012; the bank balance was \$1,049,184.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral, and that securities pledged as collateral be legal instruments and be held in safekeeping by the HRA Treasurer or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent.

The HRA is authorized to invest available funds as described in Minn. Stat. ch. 118A. The following types of investments are allowed by Minnesota statutes:

- (a) direct obligations or obligations guaranteed by the United States or its agencies;
- (b) shares of investment companies registered under the Federal Investment Company Act of 1940 whose only investments are in securities described in Minnesota statutes;
- (c) general obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota statutes;
- (d) bankers' acceptances of United States banks, eligible for purchase by the Federal Reserve System;
- (e) commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less;
- (f) repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in United States government securities reporting to the Federal Reserve Bank of New York, certain Minnesota securities broker-dealers, or a bank qualified as a depository; and

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

D. Deposits and Investments (Continued)

(g) guaranteed investment contracts issued or guaranteed by a United States commercial bank or domestic branch of a foreign bank or a United States insurance company or its Canadian or United States subsidiary, provided it ranks on a parity with the senior unsecured debt obligations of the issuer or guarantor and meets other requirements as stated in Minnesota statutes.

E. Receivables

Receivables for the HRA at June 30, 2012, were as follows:

Accounts	\$	600
Rent		4,200
Taxes		62,136
Notes		412,301
		412,301
Total Receivables	\$	479,237

F. Capital Assets

The HRA's capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 58,916	\$ -	\$ -	\$ 58,916
Landscaping	23,443	-	-	23,443
	\$ 82,359	\$ -	\$ -	\$ 82,359
Capital assets depreciated				
Buildings	\$ 1,331,468	\$ -	\$ -	\$ 1,331,468
Carpeting	48,615	-	-	48,615
Machinery, furniture, and equipment	48,362	-	-	48,362
	\$ 1,428,445	\$ -	\$ -	\$ 1,428,445
Less: accumulated depreciation	489,080	35,852	-	524,932
	\$ 939,365	\$ (35,852)	\$ -	\$ 903,513
Total Capital Assets, Net	\$ 1,021,724	\$ (35,852)	\$ -	\$ 985,872

Depreciation expense of \$35,852 was charged to housing and redevelopment expense.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA) (Continued)

G. Payables

Payables for the HRA at June 30, 2012, were as follows:

Accounts	\$	8,588
Accrued payroll and payroll taxes		41,454
Other accrued liabilities		31,049
Total		\$ 81,091

H. Property Taxes

Property tax levies are set by the HRA and are certified to the County each year for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Real property taxes are generally due from taxpayers in equal installments on May 15 and October 15. The County remits tax settlements to the HRA at various times during the year. Taxes collectible in a given calendar year are generally recognized as revenue during that fiscal year.

I. Long-Term Debt

Long-term debt outstanding at June 30, 2012, for the HRA consists of the following:

Type of Indebtedness	Final Maturity	Interest Rate (%)	Original Issue Amount	Remaining Commitment
Essential Function Housing Development Bond of 1997	2031	5.00 - 8.75	\$ 1,530,000	\$ 1,187,750
MHFA	2036	n/a	348,561	467,475
Total			\$ 1,878,561	\$ 1,655,225

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

I. Long-Term Debt (Continued)

The estimated debt service requirements as of June 30, 2012, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 43,454	\$ 53,798	\$ 97,252
2014	45,540	51,711	97,251
2015	47,728	49,524	97,252
2016	50,020	47,231	97,251
2017	52,422	44,829	97,251
2018 - 2022	302,381	183,876	486,257
2023 - 2027	382,309	103,948	486,257
2028 - 2032	263,896	15,681	279,577
Thereafter	467,475	-	467,475
Total	<u>\$ 1,655,225</u>	<u>\$ 550,598</u>	<u>\$ 2,205,823</u>

J. Lease Agreement

The HRA, operating under a shared services agreement with the Housing and Redevelopment Authority in and for the City of Willmar, Minnesota, (Willmar HRA) entered into a five-year lease commencing November 1, 2008, for office space with Kandiyohi County. Under the terms of the lease, the HRA and the Willmar HRA are required to make monthly lease payments to the County in the amount of \$1,767.

Under the shared services agreement with the Willmar HRA, the City of Willmar, Minnesota, Kandiyohi HRA will pay 44 percent, and Willmar HRA will pay 56 percent of the aforementioned lease agreement in addition to other cost-shared services. Total HRA rental expense for the year ended June 30, 2012, totaled \$21,589.

The HRA's portion of one-year future minimum rental payments is summarized as follows:

<u>Year Ending</u>	<u>Amount</u>
2013	<u>\$ 7,068</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA) (Continued)

K. Risk Management

The HRA is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; business interruption; errors or omissions; job-related illnesses or injuries to employees; and natural disasters. The HRA has purchased commercial insurance to mitigate its exposure for such losses. 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, is consistent with coverage in the prior year.

L. Contingencies

The HRA receives grant funds, principally from the U.S. Department of Housing and Urban Development (HUD) for the Vouchers Choice program. 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 14,603,689	\$ 14,383,855	\$ 14,524,451	\$ 140,596
Special assessments	-	-	275,986	275,986
Licenses and permits	404,700	404,700	407,152	2,452
Intergovernmental	3,520,611	3,740,445	4,029,843	289,398
Charges for services	3,201,500	3,201,500	3,569,042	367,542
Fines and forfeits	122,500	122,500	121,902	(598)
Gifts and contributions	-	-	30,798	30,798
Investment earnings	200,000	200,000	77,823	(122,177)
Miscellaneous	795,200	795,200	1,425,399	630,199
Total Revenues	\$ 22,848,200	\$ 22,848,200	\$ 24,462,396	\$ 1,614,196
Expenditures				
Current				
General government				
Board of County Commissioners	\$ 379,200	\$ 379,200	\$ 347,772	\$ 31,428
Court system	35,000	35,000	7,954	27,046
Law library	82,000	82,000	89,646	(7,646)
County administrator	138,200	138,200	124,209	13,991
Auditor	642,800	642,800	579,692	63,108
License bureau	348,600	348,600	325,827	22,773
External audit	60,000	60,000	86,207	(26,207)
Assessor	464,900	464,900	380,758	84,142
Human resources	184,000	184,000	161,908	22,092
Data processing	564,400	564,400	568,605	(4,205)
Communications	-	-	3,282	(3,282)
Computer maintenance	-	-	9,396	(9,396)
GIS services	100,000	100,000	75,218	24,782
Elections	52,000	52,000	74,049	(22,049)
County attorney	1,167,400	1,167,400	1,200,236	(32,836)
County attorney's contingent	-	-	7,159	(7,159)
Recorder	430,600	430,600	395,614	34,986
County Recorder's technology fund	-	-	40,508	(40,508)
Records management	68,000	68,000	65,172	2,828
Surveyor	59,100	59,100	80,791	(21,691)
Grounds maintenance building	34,300	34,300	21,017	13,283
Prairie Lakes Youth building	81,600	81,600	61,474	20,126
Courthouse	432,200	432,200	436,435	(4,235)
County office building	68,100	68,100	49,631	18,469
Veterans service	166,600	166,600	164,657	1,943
Planning and zoning	469,400	469,400	671,460	(202,060)
Other general government	869,400	869,400	1,725,864	(856,464)
Total general government	\$ 6,897,800	\$ 6,897,800	\$ 7,754,541	\$ (856,741)

**KANDIYOHI COUNTY
WILLMAR, 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)				
Public safety				
Sheriff	\$ 4,024,500	\$ 4,024,500	\$ 4,065,617	\$ (41,117)
Safe and sober grant	40,000	40,000	10,749	29,251
BJA local law enforcement block grant	-	-	70	(70)
Snowmobile patrol	4,800	4,800	8,119	(3,319)
800 MHZ (ARMER) radio system	-	-	87,905	(87,905)
Dispatch center	1,343,500	1,343,500	1,226,017	117,483
Boat and water safety enforcement	44,400	44,400	45,686	(1,286)
ATV	-	-	8,228	(8,228)
Coroner	52,000	52,000	104,228	(52,228)
County jail	3,869,800	3,869,800	3,698,187	171,613
Community corrections	2,190,500	2,190,500	2,137,009	53,491
Civil defense	215,100	215,100	212,397	2,703
Rescue squad	71,200	71,200	54,200	17,000
911 emergency telephone	-	-	55,675	(55,675)
Correctional facility building	735,500	735,500	650,892	84,608
Shelter house	28,900	28,900	28,860	40
Total public safety	\$ 12,620,200	\$ 12,620,200	\$ 12,393,839	\$ 226,361
Sanitation				
Solid Waste Management	\$ -	\$ -	\$ 278	\$ (278)
Health				
Public health service	\$ 2,440,000	\$ 2,440,000	\$ 2,357,132	\$ 82,868
Culture and recreation				
Celebrations	\$ 1,000	\$ 1,000	\$ 150	\$ 850
Humane Society of Kandiyohi County	36,000	36,000	18,000	18,000
Historical Society	55,100	55,100	55,100	-
County fair	18,000	18,000	18,000	-
County parks	307,500	307,500	341,118	(33,618)
Snowmobile trails	-	-	33,485	(33,485)
Total culture and recreation	\$ 417,600	\$ 417,600	\$ 465,853	\$ (48,253)
Conservation of natural resources				
County extension	\$ 165,400	\$ 165,400	\$ 124,117	\$ 41,283
County extension - reimbursement programs	4,000	4,000	2,312	1,688
Soil and Water Conservation District	128,600	128,600	128,600	-
Extension programs	-	-	42	(42)
County extension youth programs	2,000	2,000	207	1,793
Public drainage	93,300	93,300	3,741	89,559

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

**KANDIYOHI COUNTY
WILLMAR, 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				
Conservation of natural resources (Continued)				
Prairie Woods Environmental Learning Center	119,200	119,200	120,320	(1,120)
Shorelands management project	6,400	6,400	4,541	1,859
Water planning	54,700	54,700	53,794	906
Feedlot program	59,800	59,800	56,326	3,474
Lakes	37,500	37,500	30,079	7,421
Total conservation of natural resources	\$ 670,900	\$ 670,900	\$ 524,079	\$ 146,821
Economic development				
Tourism and economic development	\$ 12,000	\$ 12,000	\$ 2,036	\$ 9,964
Region 6E Community Action Agency	28,000	28,000	28,000	-
Total economic development	\$ 40,000	\$ 40,000	\$ 30,036	\$ 9,964
Debt service				
Principal	\$ -	\$ -	\$ 187,003	\$ (187,003)
Interest	-	-	26,691	(26,691)
Total debt service	\$ -	\$ -	\$ 213,694	\$ (213,694)
Total Expenditures	\$ 23,086,500	\$ 23,086,500	\$ 23,739,452	\$ (652,952)
Excess of Revenues Over (Under) Expenditures	\$ (238,300)	\$ (238,300)	\$ 722,944	\$ 961,244
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (109,241)	\$ (109,241)
Loans issued	-	-	263,583	263,583
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 154,342	\$ 154,342
Net Change in Fund Balance	\$ (238,300)	\$ (238,300)	\$ 877,286	\$ 1,115,586
Fund Balance - January 1	11,774,576	11,774,576	11,774,576	-
Fund Balance - December 31	\$ 11,536,276	\$ 11,536,276	\$ 12,651,862	\$ 1,115,586

**KANDIYOHI COUNTY
WILLMAR, 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	\$ 3,951,282	\$ 3,951,282	\$ 3,918,566	\$ (32,716)
Intergovernmental	7,959,718	7,959,718	7,294,160	(665,558)
Charges for services	700,000	700,000	455,163	(244,837)
Investment earnings	75,000	75,000	15,827	(59,173)
Miscellaneous	-	-	21,166	21,166
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 12,686,000	\$ 12,686,000	\$ 11,704,882	\$ (981,118)
Expenditures				
Current				
Highways and streets				
Administration	\$ -	\$ -	\$ 721,126	\$ (721,126)
Road and bridge	3,805,000	3,805,000	2,324,207	1,480,793
Construction	7,895,000	7,895,000	7,182,659	712,341
Equipment maintenance shop	700,000	700,000	933,132	(233,132)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total highways and streets	\$ 12,400,000	\$ 12,400,000	\$ 11,161,124	\$ 1,238,876
Intergovernmental				
Highways and streets	-	-	346,321	(346,321)
Debt service				
Principal	269,000	269,000	415,000	(146,000)
Interest	17,000	17,000	138,371	(121,371)
Administrative (fiscal) charges	-	-	450	(450)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 12,686,000	\$ 12,686,000	\$ 12,061,266	\$ 624,734
Net Change in Fund Balance	\$ -	\$ -	\$ (356,384)	\$ (356,384)
Fund Balance - January 1	4,762,106	4,762,106	4,762,106	-
Increase (decrease) in inventories	-	-	(67,838)	(67,838)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 4,762,106	\$ 4,762,106	\$ 4,337,884	\$ (424,222)

**KANDIYOHI COUNTY
WILLMAR, 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	\$ 5,661,527	\$ 5,661,527	\$ 5,621,434	\$ (40,093)
Intergovernmental	7,085,673	7,085,673	6,878,467	(207,206)
Charges for services	654,100	654,100	858,578	204,478
Miscellaneous	152,900	152,900	279,287	126,387
Total Revenues	\$ 13,554,200	\$ 13,554,200	\$ 13,637,766	\$ 83,566
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,890,200	\$ 3,890,200	\$ 3,878,037	\$ 12,163
Social services	9,664,000	9,664,000	9,539,673	124,327
Total Expenditures	\$ 13,554,200	\$ 13,554,200	\$ 13,417,710	\$ 136,490
Net Change in Fund Balance	\$ -	\$ -	\$ 220,056	\$ 220,056
Fund Balance - January 1	5,063,800	5,063,800	5,063,800	-
Fund Balance - December 31	\$ 5,063,800	\$ 5,063,800	\$ 5,283,856	\$ 220,056

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SANITARY LANDFILL/RECYCLING CENTER 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				
Licenses and permits	\$ 100	\$ 100	\$ 780	\$ 680
Intergovernmental	103,900	103,900	108,862	4,962
Charges for services	2,909,500	2,909,500	3,155,062	245,562
Investment earnings	90,000	90,000	152,657	62,657
Miscellaneous	550,000	550,000	656,487	106,487
Total Revenues	\$ 3,653,500	\$ 3,653,500	\$ 4,073,848	\$ 420,348
Expenditures				
Current				
Sanitation				
Solid waste	3,200,100	3,200,100	4,164,922	(964,822)
Net Change in Fund Balance	\$ 453,400	\$ 453,400	\$ (91,074)	\$ (544,474)
Fund Balance - January 1	10,368,611	10,368,611	10,368,611	-
Fund Balance - December 31	\$ 10,822,011	\$ 10,822,011	\$ 10,277,537	\$ (544,474)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
COUNTY BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 467,021	\$ 467,021	\$ 464,023	\$ (2,998)
Intergovernmental	27,979	27,979	38,000	10,021
Investment earnings	-	-	30,591	30,591
Miscellaneous	-	-	69,186	69,186
Total Revenues	<u>\$ 495,000</u>	<u>\$ 495,000</u>	<u>\$ 601,800</u>	<u>\$ 106,800</u>
Expenditures				
Current				
General government	\$ 287,000	\$ 287,000	\$ 466,457	\$ (179,457)
Public safety	10,000	10,000	58,762	(48,762)
Culture and recreation	169,000	169,000	72,988	96,012
Conservation of natural resources	29,000	29,000	44,631	(15,631)
Total Expenditures	<u>\$ 495,000</u>	<u>\$ 495,000</u>	<u>\$ 642,838</u>	<u>\$ (147,838)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (41,038)</u>	<u>\$ (41,038)</u>
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 313,405	\$ 313,405
Sale of capital assets	-	-	85,217	85,217
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 398,622</u>	<u>\$ 398,622</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 357,584</u>	<u>\$ 357,584</u>
Fund Balance - January 1	<u>5,153,135</u>	<u>5,153,135</u>	<u>5,153,135</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 5,153,135</u>	<u>\$ 5,153,135</u>	<u>\$ 5,510,719</u>	<u>\$ 357,584</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-6

**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, 2008	\$ -	\$ 1,343,799	\$ 1,343,799	0.0%	\$ 19,339,847	6.9%
January 1, 2010	-	1,753,622	1,753,622	0.0	20,734,186	8.5
January 1, 2012	-	1,651,891	1,651,891	0.0	19,168,849	8.6

**KANDIYOHI COUNTY
WILLMAR, 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, Eagle Lake Sewer, DARE, Forfeited Tax Sale, and Regional Treatment Center Special Revenue Funds; the Debt Service Fund; and the Capital Projects Fund. All annual appropriations lapse at fiscal year-end. Comparisons of estimated revenues and expenditures to actual are presented in the budgetary comparison schedules for the General Fund and the major special revenue funds.

The appropriated budget is prepared by fund, function, and department. Kandiyohi County's department heads may make transfers of appropriations within the department. Transfers of appropriations between departments require the approval of the Board of Commissioners. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the fund level.

The Board of County Commissioners did not revise the budgetary appropriations at the fund, function, or department level during the fiscal year.

Encumbrance accounting, under which commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the governmental funds.

2. Excess of Expenditures Over Budget

The following is a summary of individual major funds that 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	\$ 23,739,452	\$ 23,086,500	\$ 652,952
Special Revenue Funds			
Sanitary Landfill/Recycling Center	4,164,922	3,200,100	964,822
County Building	642,838	495,000	147,838

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Other Postemployment Benefits Funding Status

Kandiyohi County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Three actuarial valuations are now available, which provides sufficient trend analysis to meet the three valuation funding status requirement.

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

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Capital Equipment Fund - to account for funds used to purchase capital equipment. Financing is provided by property taxes authorized by the County Board.

Ditch Fund - to account for funds used by the various ditches. Financing is provided by special assessments.

Eagle Lake Sewer Fund - to account for funds used by the Eagle Lake sewer system. Financing is provided by special assessments.

Green Lake Sewer Fund - to account for funds used by the Green Lake sewer system. Financing is provided by special assessments and charges for services.

County Library Fund - to account for funds used by the library. Financing is provided primarily by property taxes authorized by the County Board.

DARE Fund - to account for funds used by the County to sponsor its Drug Abuse Resistance Education (DARE) program. Financing is provided by gifts and contributions from outside sources.

Health and Human Services Building Fund - to account for revenues collected from the lease of the County's Health and Human Services Building and the expenditures associated with the operation.

Forfeited Tax Sale Fund - to account for all funds received from the sale of land for forfeited taxes. Monies are held until disbursement to various entities.

Regional Treatment Center Fund - to account for revenues collected from the lease of the Regional Treatment Center Building and the expenditures associated with the operation.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	<u>Capital Equipment</u>	<u>Ditch</u>	<u>Eagle Lake Sewer</u>	<u>Green Lake Sewer</u>
<u>Assets</u>				
Cash and investments	\$ 3,419,514	\$ -	\$ 278,191	\$ 1,444,203
Taxes receivable				
Prior	10,946	-	-	-
Special assessments receivable				
Prior	-	1,441	-	-
Noncurrent	-	613,018	-	-
Accounts receivable	-	1,594	261,990	208,438
Accrued interest receivable	57,244	596	727	-
Due from other funds	-	24,914	-	-
Due from other governments	-	153,207	-	54,120
Total Assets	\$ 3,487,704	\$ 794,770	\$ 540,908	\$ 1,706,761
<u>Liabilities and Fund Balances</u>				
Liabilities				
Cash overdraft	\$ -	\$ 383,020	\$ -	\$ -
Accounts payable	-	122,623	7,439	43,234
Salaries payable	-	-	197	23,936
Contracts payable	-	-	-	-
Due to other funds	-	-	-	482
Due to other governments	-	-	15	7,489
Deferred revenue - unavailable	65,955	733,266	259,523	190,712
Advance from other funds	-	-	-	-
Total Liabilities	\$ 65,955	\$ 1,238,909	\$ 267,174	\$ 265,853
Fund Balances				
Restricted for				
Ditch maintenance and repairs	\$ -	\$ 323,730	\$ -	\$ -
Committed to				
Purchases of capital equipment	3,421,749	-	-	-
Eagle Lake Sewer	-	-	273,734	-
Green Lake Sewer	-	-	-	1,440,908
Library operations and building maintenance	-	-	-	-
DARE program	-	-	-	-
Health and Human Services	-	-	-	-
Building operations and maintenance	-	-	-	-
Unassigned	-	(767,869)	-	-
Total Fund Balances	\$ 3,421,749	\$ (444,139)	\$ 273,734	\$ 1,440,908
Total Liabilities and Fund Balances	\$ 3,487,704	\$ 794,770	\$ 540,908	\$ 1,706,761

EXHIBIT B-1

<u>County Library</u>	<u>DARE</u>	<u>Health and Human Services Building</u>	<u>Forfeited Tax Sale</u>	<u>Regional Treatment Center</u>	<u>Total</u>
\$ 232,556	\$ 20,919	\$ 419,966	\$ 7,036	\$ -	\$ 5,822,385
6,573	-	11,018	-	-	28,537
-	-	-	-	-	1,441
-	-	-	-	-	613,018
-	-	183	-	-	472,205
-	-	-	-	-	58,567
-	-	-	-	-	24,914
-	587	85	-	-	207,999
<u>\$ 239,129</u>	<u>\$ 21,506</u>	<u>\$ 431,252</u>	<u>\$ 7,036</u>	<u>\$ -</u>	<u>\$ 7,229,066</u>
\$ -	\$ -	\$ -	\$ -	\$ 122,402	\$ 505,422
670	-	4,882	-	5,214	184,062
3,556	-	17,145	-	8,321	53,155
-	-	-	-	-	-
1,000	-	1,657	-	392	3,531
9,371	352	26,196	7,036	525	50,984
5,135	-	8,482	-	-	1,263,073
-	-	-	-	240,607	240,607
<u>\$ 19,732</u>	<u>\$ 352</u>	<u>\$ 58,362</u>	<u>\$ 7,036</u>	<u>\$ 377,461</u>	<u>\$ 2,300,834</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 323,730
-	-	-	-	-	3,421,749
-	-	-	-	-	273,734
-	-	-	-	-	1,440,908
219,397	-	-	-	-	219,397
-	21,154	-	-	-	21,154
-	-	372,890	-	-	372,890
-	-	-	-	(377,461)	(1,145,330)
<u>\$ 219,397</u>	<u>\$ 21,154</u>	<u>\$ 372,890</u>	<u>\$ -</u>	<u>\$ (377,461)</u>	<u>\$ 4,928,232</u>
<u>\$ 239,129</u>	<u>\$ 21,506</u>	<u>\$ 431,252</u>	<u>\$ 7,036</u>	<u>\$ -</u>	<u>\$ 7,229,066</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	<u>Capital Equipment</u>	<u>Ditch</u>	<u>Eagle Lake Sewer</u>	<u>Green Lake Sewer</u>
Revenues				
Taxes	\$ 586,064	\$ -	\$ -	\$ -
Special assessments	-	955,366	-	-
Intergovernmental	36,496	-	-	-
Charges for services	-	-	233,681	896,170
Fines and forfeits	-	-	-	-
Investment earnings	30,562	2,264	1,329	-
Miscellaneous	-	-	-	121,553
Total Revenues	\$ 653,122	\$ 957,630	\$ 235,010	\$ 1,017,723
Expenditures				
Current				
General government	\$ 81,662	\$ -	\$ -	\$ -
Public safety	112,536	-	-	-
Highways and streets	310,814	-	-	-
Sanitation	-	-	235,061	1,089,977
Culture and recreation	-	-	-	-
Conservation of natural resources	-	988,211	-	-
Intergovernmental				
Culture and recreation	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	\$ 505,012	\$ 988,211	\$ 235,061	\$ 1,089,977
Excess of Revenues Over (Under)				
Expenditures	\$ 148,110	\$ (30,581)	\$ (51)	\$ (72,254)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ -	\$ 7,998
Transfers out	-	-	-	(10,203)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ (2,205)
Net Change in Fund Balance	\$ 148,110	\$ (30,581)	\$ (51)	\$ (74,459)
Fund Balance - January 1	3,273,639	(413,558)	273,785	1,515,367
Fund Balance - December 31	\$ 3,421,749	\$ (444,139)	\$ 273,734	\$ 1,440,908

EXHIBIT B-2

<u>County Library</u>	<u>DARE</u>	<u>Health and Human Services Building</u>	<u>Forfeited Tax Sale</u>	<u>Regional Treatment Center</u>	<u>Total</u>
\$ 382,197	\$ -	\$ 697,809	\$ -	\$ -	\$ 1,666,070
-	-	-	-	-	955,366
108,573	-	43,561	-	-	188,630
-	-	-	-	-	1,129,851
-	11,377	-	-	-	11,377
-	-	-	-	-	34,155
34,052	-	532,387	2,649	911,756	1,602,397
\$ 524,822	\$ 11,377	\$ 1,273,757	\$ 2,649	\$ 911,756	\$ 5,587,846
\$ -	\$ -	\$ 556,948	\$ 2,649	\$ 259,985	\$ 901,244
-	10,902	-	-	-	123,438
-	-	-	-	-	310,814
-	-	-	-	-	1,325,038
177,515	-	-	-	-	177,515
-	-	-	-	-	988,211
345,800	-	-	-	-	345,800
-	-	-	-	636,193	636,193
-	-	-	-	136,956	136,956
\$ 523,315	\$ 10,902	\$ 556,948	\$ 2,649	\$ 1,033,134	\$ 4,945,209
\$ 1,507	\$ 475	\$ 716,809	\$ -	\$ (121,378)	\$ 642,637
\$ -	\$ -	\$ -	\$ -	\$ 59,241	\$ 67,239
-	-	(634,712)	-	(130,072)	(774,987)
\$ -	\$ -	\$ (634,712)	\$ -	\$ (70,831)	\$ (707,748)
\$ 1,507	\$ 475	\$ 82,097	\$ -	\$ (192,209)	\$ (65,111)
217,890	20,679	290,793	-	(185,252)	4,993,343
\$ 219,397	\$ 21,154	\$ 372,890	\$ -	\$ (377,461)	\$ 4,928,232

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
CAPITAL EQUIPMENT 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	\$ 589,674	\$ 589,674	\$ 586,064	\$ (3,610)
Intergovernmental	35,326	35,326	36,496	1,170
Investment earnings	-	-	30,562	30,562
Total Revenues	\$ 625,000	\$ 625,000	\$ 653,122	\$ 28,122
Expenditures				
Current				
General government	\$ -	\$ -	\$ 81,662	\$ (81,662)
Public safety	-	-	112,536	(112,536)
Highways and streets	-	-	310,814	(310,814)
Total Expenditures	\$ -	\$ -	\$ 505,012	\$ (505,012)
Net Change in Fund Balance	\$ 625,000	\$ 625,000	\$ 148,110	\$ (476,890)
Fund Balance - January 1	3,273,639	3,273,639	3,273,639	-
Fund Balance - December 31	\$ 3,898,639	\$ 3,898,639	\$ 3,421,749	\$ (476,890)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
GREEN LAKE SEWER 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				
Charges for services	\$ 935,900	\$ 935,900	\$ 896,170	\$ (39,730)
Miscellaneous	194,700	194,700	121,553	(73,147)
Total Revenues	\$ 1,130,600	\$ 1,130,600	\$ 1,017,723	\$ (112,877)
Expenditures				
Current				
Sanitation	1,056,697	1,056,697	1,089,977	(33,280)
Excess of Revenues Over (Under) Expenditures	\$ 73,903	\$ 73,903	\$ (72,254)	\$ (146,157)
Other Financing Sources (Uses)				
Transfers in	-	-	7,998	7,998
Transfers out	-	-	(10,203)	(10,203)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (2,205)	\$ (2,205)
Net Change in Fund Balance	\$ 73,903	\$ 73,903	\$ (74,459)	\$ (148,362)
Fund Balance - January 1	1,515,367	1,515,367	1,515,367	-
Fund Balance - December 31	\$ 1,589,270	\$ 1,589,270	\$ 1,440,908	\$ (148,362)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
COUNTY LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 385,788	\$ 385,788	\$ 382,197	\$ (3,591)
Intergovernmental	117,712	117,712	108,573	(9,139)
Miscellaneous	32,100	32,100	34,052	1,952
Total Revenues	\$ 535,600	\$ 535,600	\$ 524,822	\$ (10,778)
Expenditures				
Current				
Culture and recreation	\$ 191,800	\$ 191,800	\$ 177,515	\$ 14,285
Intergovernmental				
Culture and recreation	345,800	345,800	345,800	-
Total Expenditures	\$ 537,600	\$ 537,600	\$ 523,315	\$ 14,285
Net Change in Fund Balance	\$ (2,000)	\$ (2,000)	\$ 1,507	\$ 3,507
Fund Balance - January 1	217,890	217,890	217,890	-
Fund Balance - December 31	\$ 215,890	\$ 215,890	\$ 219,397	\$ 3,507

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 703,835	\$ 703,835	\$ 697,809	\$ (6,026)
Intergovernmental	42,165	42,165	43,561	1,396
Miscellaneous	557,200	557,200	532,387	(24,813)
Total Revenues	\$ 1,303,200	\$ 1,303,200	\$ 1,273,757	\$ (29,443)
Expenditures				
Current				
General government	1,303,200	1,303,200	556,948	746,252
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 716,809	\$ 716,809
Other Financing Sources (Uses)				
Transfers out	-	-	(634,712)	(634,712)
Net Change in Fund Balance	\$ -	\$ -	\$ 82,097	\$ 82,097
Fund Balance - January 1	290,793	290,793	290,793	-
Fund Balance - December 31	\$ 290,793	\$ 290,793	\$ 372,890	\$ 82,097

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

AGENCY FUNDS

Agency funds account for assets held in a custodial capacity for others and/or other funds.

Current School Fund - to account for the collection of taxes and penalties and their distribution to the various school districts.

Deed Tax Fund - to account for the collection and distribution of deed tax.

Game and Fish Fund - to account for the County sales of game and fish licenses.

Mortgage Registry Tax Fund - to account for the collection of mortgage registry tax and its distribution to the various other funds and governmental units.

Watershed District Fund - to account for collections and payments to Watershed Districts.

County-Wide Levy Fund - to account for the collection and payment of funds to the Mid-Minnesota Development Commission, Rural Development Finance Authority, and the Housing and Redevelopment Authority. Financing is provided by property taxes authorized by the County Board.

State Agency Fund - to account for the collection and distribution of various funds to the state.

Taxes and Penalties Fund - to account for the collection of taxes and penalties and their distribution to the various funds and governmental units.

Towns and Cities Fund - to account for the collections made by the County on behalf of the towns and cities and the subsequent distributions.

Kandiyohi County/City of Willmar EDC Fund - to account for the funds collected from the Economic Development Commission.

Coordinated Enforcement Effort (CEE) VI Task Force Fund - to account for the financial and payroll affairs of the CEE VI Drug Task Force under an agreement between the County and the CEE VI Task Force.

Social Welfare - to account for the collection and disbursement of funds held on behalf of individuals in the Social Welfare program.

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**KANDIYOHI COUNTY
WILLMAR, 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>CURRENT SCHOOL</u>				
<u>Assets</u>				
Cash and investments	\$ -	\$ 14,293,845	\$ 14,293,845	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 14,293,845	\$ 14,293,845	\$ -
 <u>DEED TAX</u>				
<u>Assets</u>				
Cash and investments	\$ 58,643	\$ 522,739	\$ 487,426	\$ 93,956
<u>Liabilities</u>				
Due to other governments	\$ 58,643	\$ 522,739	\$ 487,426	\$ 93,956
 <u>GAME AND FISH</u>				
<u>Assets</u>				
Cash and investments	\$ 3,147	\$ -	\$ -	\$ 3,147
<u>Liabilities</u>				
Due to other governments	\$ 3,147	\$ -	\$ -	\$ 3,147

**KANDIYOHI COUNTY
WILLMAR, 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>MORTGAGE REGISTRY TAX</u>				
<u>Assets</u>				
Cash and investments	\$ <u>62,948</u>	\$ <u>750,731</u>	\$ <u>773,670</u>	\$ <u>40,009</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>62,948</u>	\$ <u>750,731</u>	\$ <u>773,670</u>	\$ <u>40,009</u>
 <u>WATERSHED DISTRICT</u>				
<u>Assets</u>				
Cash and investments	\$ <u>-</u>	\$ <u>296,044</u>	\$ <u>296,044</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>296,044</u>	\$ <u>296,044</u>	\$ <u>-</u>
 <u>COUNTY-WIDE LEVY</u>				
<u>Assets</u>				
Cash and investments	\$ <u>-</u>	\$ <u>686,214</u>	\$ <u>686,214</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>686,214</u>	\$ <u>686,214</u>	\$ <u>-</u>

**KANDIYOHI COUNTY
WILLMAR, 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>STATE AGENCY</u>				
<u>Assets</u>				
Cash and investments	\$ <u>117,127</u>	\$ <u>15,339,988</u>	\$ <u>15,374,330</u>	\$ <u>82,785</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>117,127</u>	\$ <u>15,339,988</u>	\$ <u>15,374,330</u>	\$ <u>82,785</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and investments	\$ <u>704,623</u>	\$ <u>2,766,285</u>	\$ <u>2,366,598</u>	\$ <u>1,104,310</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>704,623</u>	\$ <u>2,766,285</u>	\$ <u>2,366,598</u>	\$ <u>1,104,310</u>
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and investments	\$ <u>-</u>	\$ <u>12,423,428</u>	\$ <u>12,423,348</u>	\$ <u>80</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>12,423,428</u>	\$ <u>12,423,348</u>	\$ <u>80</u>

**KANDIYOHI COUNTY
WILLMAR, 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>KANDIYOHI COUNTY/CITY OF WILLMAR EDC</u>				
<u>Assets</u>				
Cash and investments	<u>\$ 293,833</u>	<u>\$ 217,042</u>	<u>\$ 510,875</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 293,833</u>	<u>\$ 217,042</u>	<u>\$ 510,875</u>	<u>\$ -</u>
 <u>CEE VI TASK FORCE</u>				
<u>Assets</u>				
Cash and investments	<u>\$ 143,697</u>	<u>\$ 757,453</u>	<u>\$ 700,817</u>	<u>\$ 200,333</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 143,697</u>	<u>\$ 757,453</u>	<u>\$ 700,817</u>	<u>\$ 200,333</u>
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and investments	<u>\$ 66,293</u>	<u>\$ -</u>	<u>\$ 66,293</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 66,293</u>	<u>\$ -</u>	<u>\$ 66,293</u>	<u>\$ -</u>

**KANDIYOHI COUNTY
WILLMAR, 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 investments	<u>\$ 1,450,311</u>	<u>\$ 48,053,769</u>	<u>\$ 47,979,460</u>	<u>\$ 1,524,620</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 1,450,311</u>	<u>\$ 48,053,769</u>	<u>\$ 47,979,460</u>	<u>\$ 1,524,620</u>

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OTHER SCHEDULES

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2012**

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Pooled Deposits and Investments			
Checking accounts			
Bremer Bank of Willmar		0.05%	\$ 20,289,409
Bremer Bank of Willmar		0.01%	19,018
Bremer Bank of Willmar		0.05%	10,336
Heritage Bank - Willmar		0.01%	6,767
US Bank of Willmar		0.06%	<u>528,902</u>
Total checking accounts			\$ <u>20,854,432</u>
Savings accounts			
Atwater State Bank		0.50%	\$ 72,075
North American State Bank		0.20%	1,550,774
Citizens State Bank - Lake Lillian		0.10%	26,589
United Minnesota Bank		0.15%	4,200
Home State Bank		0.05%	31,863
Lake Region Bank - New London		0.06%	68,093
Lake Region Bank - New London		0.25%	743,434
Prinsburg State Bank		0.31%	6,408
Wells Fargo		0.00%	<u>192,743</u>
Total savings accounts			\$ <u>2,696,179</u>
Certificates of deposit			
North American State Bank	July 22, 2024	1.00%	\$ 2,000,000
North American State Bank	August 22, 2023	0.70%	<u>1,000,000</u>
Total certificates of deposit			\$ <u>3,000,000</u>
U.S. government securities			
Morgan Keegan	December 19, 2023	2.05%	\$ 197,542
Morgan Keegan	December 27, 2027	2.14%	<u>495,780</u>
Total U.S. government securities			\$ <u>693,322</u>
MAGIC Fund			
Cadre Financial Services		Various	\$ <u>8,080,289</u>
Total pooled deposits and investments			\$ <u>35,324,222</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2012**

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Fund Deposits and Investments			
General Fund			
Certificates of deposit			
Atwater State Bank	January 10, 2013	1.00%	\$ 100,419
Home State Bank - Willmar	July 16, 2013	1.15%	200,000
Bremer Bank	Various	.80 to 1.05%	188,467
Morgan Keegan	Various	.55 to 2.25%	<u>1,441,556</u>
Total certificates of deposit			\$ <u>1,930,442</u>
U.S. government securities			
Charles Schwab & Co., Inc.	December 27, 2019	1.50%	\$ 1,079,718
Morgan Keegan	Various	2.17 to 3.81%	3,678,948
Wells Fargo	Various	1.01 to 2.13%	<u>1,001,370</u>
Total U.S. government securities			\$ <u>5,760,036</u>
Total General Fund			\$ <u>7,690,478</u>
Road and Bridge Special Revenue Fund			
Certificates of deposit			
Concorde Bank	March 22, 2013	0.39%	\$ <u>100,052</u>
U.S. government securities			
Charles Schwab & Co., Inc.	August 8, 2019	1.63%	\$ 650,161
Morgan Keegan	Various	2.24 to 6.00%	<u>301,698</u>
Total U.S. government securities			\$ <u>951,859</u>
Total Road and Bridge Special Revenue Fund			\$ <u>1,051,911</u>
County Building Special Revenue Fund			
U.S. government securities			
Charles Schwab & Co, Inc.	April 22, 2022	2.20%	\$ 1,000,818
Morgan Keegan	September 28, 2027	2.24%	<u>300,507</u>
Total County Building Special Revenue Fund			\$ <u>1,301,325</u>
Capital Equipment Special Revenue Fund			
U.S. government securities			
Charles Schwab & Co., Inc.	March 26, 2019	2.30%	\$ <u>3,210,931</u>
Ditch Special Revenue Fund			
Certificates of deposit			
United Prairie Bank	September 27, 2014	1.29%	\$ <u>175,000</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

***EXHIBIT D-1
(Continued)***

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2012**

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Fund Deposits and Investments (Continued)			
Eagle Lake Sewer Special Revenue Fund			
Certificates of deposit			
United Prairie Bank	April 10, 2013	0.79%	<u>\$ 125,000</u>
Sanitary Landfill/Recycling Center Special Revenue Fund			
Certificates of deposit			
Morgan Keegan	Various	1.35 to 2.25%	<u>\$ 292,444</u>
U.S. government securities			
Charles Schwab & Co, Inc.	Various	2.50 to 3.25%	\$ 7,242,426
Morgan Keegan	Various	1.00 to 3.25%	940,982
Wells Fargo	July 20, 2021	2.00%	<u>600,150</u>
Total U.S. government securities			<u>\$ 8,783,558</u>
Total Sanitary Landfill/Recycling Center Special Revenue Fund			<u>\$ 9,076,002</u>
Taxes and Penalties Agency Fund			
Certificates of deposit			
Bremer Bank of Willmar	Various	.80 to 1.05%	<u>\$ 158,882</u>
Total fund deposits and investments			<u>\$ 22,789,529</u>
Total Deposits and Investments			<u>\$ 58,113,751</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**DITCH BALANCE SHEET
DITCH SPECIAL REVENUE FUND
December 31, 2012**

	Assets							Total Assets
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Accounts Receivable	Due from Other Funds	Due from Other Governments	
			Delinquent	Deferred				
County Ditches								
#7	\$ 740	\$ -	\$ -	\$ 9,060	\$ 53	\$ 27	\$ 286	\$ 10,166
#7 Rep D	7,509	-	-	-	-	-	-	7,509
#8	2,038	-	237	-	-	-	-	2,275
#8A	(10,139)	-	-	-	-	-	-	(10,139)
#8 Lat A	(42)	-	-	-	-	-	-	(42)
#8 Lat B	(39)	-	-	-	-	-	-	(39)
#9	4,414	-	70	14,369	-	142	36	19,031
#9 Rep D	-	-	-	-	-	-	-	-
#9 Lat 1 Br A	22,675	-	-	-	-	-	-	22,675
#10 Impr C	(85,755)	-	80	70,977	504	1,642	20,158	7,606
#12	(18,579)	-	-	-	-	-	-	(18,579)
#15	(614)	-	17	324	-	-	-	(273)
#16A	643	-	-	-	-	-	-	643
#18A	(1,485)	-	-	81	-	-	-	(1,404)
#19	(52,913)	-	-	49,101	6	1,115	11,195	8,504
#20	(655)	-	-	1,157	-	38	-	540
#23A	(46,527)	-	1	(46,527)	-	-	-	(46,526)
#24A	(2,547)	-	1	34,884	7	2,839	7,753	42,937
#24A Lat G	(1,648)	-	-	2,977	28	165	178	1,700
#24A Lat H	1,189	-	-	804	1	76	2	2,072
#24A Lat H-1	(817)	-	-	1,445	-	164	114	906
#24A Lat J	579	-	-	-	-	-	-	579
#26	(20,988)	-	200	-	-	-	-	(20,788)
#27	(18,103)	-	-	24,457	-	308	126	6,788
#28	(61,807)	-	-	58,163	-	5,543	949	2,848
#28 Impr Br 7	91	-	-	855	-	63	-	1,009
#28 Lat A Br 4	7,283	-	-	-	-	-	-	7,283
#28 Impr Br 5	119	-	-	-	-	-	-	119
#29	668	-	-	3,060	-	44	69	3,841
#31 Impr	(67,376)	125,426	-	-	-	-	-	58,050
#31 Lat A of Br 10 of Lat	(374)	-	-	-	-	-	-	(374)
#31 Lat A of Br 2 of Lat 1	11,304	-	-	-	-	-	-	11,304
#34	329	-	-	633	-	-	31	993
#37	(264)	-	546	2,121	-	2	35	2,440
#38	3,946	-	-	10,397	-	92	236	14,671
#40	(1,311)	-	-	1,933	-	22	66	710
#42	253	-	-	-	-	-	-	253
#43	172	-	-	-	-	-	-	172
#45	(3,063)	-	-	3,029	-	-	-	(34)
#46	(56,540)	-	-	14,128	550	2,453	3,102	(36,307)
#47	(9,456)	-	36	23,168	113	392	655	14,908
#48	5,655	-	66	1,246	-	-	-	6,967
#50	(2,338)	-	-	3,222	-	60	77	1,021
#51	2,151	-	37	2,860	-	30	48	5,126
#51 Lat A-1	1,063	-	-	552	-	49	28	1,692
#52	(19,206)	-	-	1,956	-	94	59	(17,097)
#52 Lat A	(20,496)	-	-	-	-	-	-	(20,496)
#54	487	-	-	-	-	-	-	487
#54 Impr	26,527	-	-	-	-	-	-	26,527
#55	713	-	89	-	-	-	-	802

EXHIBIT D-2

Liabilities			Fund Balance			Total Liabilities and Fund Balances
Accounts Payables	Deferred Revenue	Total Liabilities	Restricted for Ditch Maintenance and Repairs	Unassigned	Total Fund Balances	
\$ -	\$ 9,426	\$ 9,426	\$ 740	\$ -	\$ 740	\$ 10,166
-	-	-	7,509	-	7,509	7,509
-	237	237	2,038	-	2,038	2,275
-	-	-	-	(10,139)	(10,139)	(10,139)
-	-	-	-	(42)	(42)	(42)
-	-	-	-	(39)	(39)	(39)
-	14,617	14,617	4,414	-	4,414	19,031
301	-	301	-	(301)	(301)	-
-	-	-	22,675	-	22,675	22,675
-	93,361	93,361	-	(85,755)	(85,755)	7,606
1,967	-	1,967	-	(20,546)	(20,546)	(18,579)
1,220	338	1,558	-	(1,831)	(1,831)	(273)
-	-	-	643	-	643	643
-	81	81	-	(1,485)	(1,485)	(1,404)
-	61,417	61,417	-	(52,913)	(52,913)	8,504
-	1,195	1,195	-	(655)	(655)	540
14,962	1	14,963	-	(61,489)	(61,489)	(46,526)
40,662	45,484	86,146	-	(43,209)	(43,209)	42,937
-	3,348	3,348	-	(1,648)	(1,648)	1,700
-	883	883	1,189	-	1,189	2,072
-	1,723	1,723	-	(817)	(817)	906
-	-	-	579	-	579	579
10,591	-	10,591	-	(31,379)	(31,379)	(20,788)
11,047	24,891	35,938	-	(29,150)	(29,150)	6,788
8,564	64,655	73,219	-	(70,371)	(70,371)	2,848
286	918	1,204	-	(195)	(195)	1,009
-	-	-	7,283	-	7,283	7,283
-	-	-	119	-	119	119
6,830	3,173	10,003	-	(6,162)	(6,162)	3,841
3,605	426	4,031	54,019	-	54,019	58,050
-	-	-	-	(374)	(374)	(374)
-	-	-	11,304	-	11,304	11,304
-	664	664	329	-	329	993
272	2,704	2,976	-	(536)	(536)	2,440
161	10,725	10,886	3,785	-	3,785	14,671
-	2,021	2,021	-	(1,311)	(1,311)	710
-	-	-	253	-	253	253
-	-	-	172	-	172	172
230	3,029	3,259	-	(3,293)	(3,293)	(34)
-	20,233	20,233	-	(56,540)	(56,540)	(36,307)
-	24,364	24,364	-	(9,456)	(9,456)	14,908
-	1,312	1,312	5,655	-	5,655	6,967
137	3,359	3,496	-	(2,475)	(2,475)	1,021
-	2,938	2,938	2,188	-	2,188	5,126
2,184	629	2,813	-	(1,121)	(1,121)	1,692
2,026	2,109	4,135	-	(21,232)	(21,232)	(17,097)
-	-	-	-	(20,496)	(20,496)	(20,496)
-	-	-	487	-	487	487
-	-	-	26,527	-	26,527	26,527
-	89	89	713	-	713	802

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**DITCH BALANCE SHEET
DITCH SPECIAL REVENUE FUND
December 31, 2012**

	Assets							Total Assets
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Accounts Receivable	Due from Other Funds	Due from Other Governments	
			Delinquent	Deferred				
County Ditches (Continued)								
#56 Outlet	1,152	-	-	-	-	-	-	1,152
#58	(43,405)	-	-	44,127	106	1,304	2,619	4,751
#60	2,396	-	-	-	-	-	-	2,396
#61	41	-	-	602	-	34	-	677
#62	(6,918)	-	-	7,104	-	362	151	699
#63	1,003	-	14	887	-	29	31	1,964
#64	(6,968)	-	-	17,295	-	506	216	11,049
#65	(1,644)	-	-	2,609	-	-	38	1,003
State Ditch								
#1 Impr Div 2	(461)	-	-	1,749	-	95	16	1,399
Judicial Ditches								
#1 M & K (Rep F)	(17,047)	-	16	32,003	-	541	7,049	22,562
#1 Lat A, M & K	107	-	1	349	-	1	35	493
#1 Lat M & K	19,164	-	-	58,736	-	-	-	77,900
#1 Lat B, M & K	543	-	-	742	-	86	494	1,865
#1 Lat A of Lat B, M & K	2,616	-	-	-	-	-	-	2,616
#1 Br 4 of Lat B, M & K	1,516	-	-	-	-	-	-	1,516
#1 Lat C, M & K	40	-	-	985	-	48	131	1,204
#1 Lat D, M & K	383	-	-	-	-	-	-	383
#1 Lat E, M & K	(1,167)	-	-	2,531	-	37	445	1,846
#1 Br 2 of Lat F, M & K	4,092	-	-	-	-	-	138	4,230
#1 Lat G, M & K	(33)	-	-	1,359	-	-	-	1,326
#2 R & K	5,049	-	-	-	-	-	1,801	6,850
#2 Lat 3, R & K	565	-	-	441	-	7	36	1,049
#2 Lat 4, R & K	498	-	-	375	-	47	16	936
#2 Lat A of Lat 4, R & K	7	-	-	624	-	32	10	673
#2 Lat 5, R & K	1,588	-	-	-	-	-	-	1,588
#2 Lat 7, R & K	22	-	-	-	-	-	-	22
#2 Lat 8, R & K	205	-	-	516	-	11	9	741
#2 C & K	(2,139)	-	-	5,498	35	96	2,587	6,077
#2 St & K	211	-	-	-	-	-	153	364
#3 Lat B, K & C	691	-	-	435	-	17	33	1,176
#3 Lat A of Lat B, K & C	806	-	-	528	-	17	47	1,398
#3 Lat C, C & K	(7,719)	-	-	12,103	-	416	409	5,209
#3 Lat D, C & K	32,081	50,170	-	-	-	-	38	82,289
#3 Impr Br 5 & 6, C & K	3,133	-	-	-	-	-	-	3,133
#3 Impr Br 7 & 8, C & K	621	-	-	-	-	-	-	621
#3 Impr Br 9, C & K	1,680	-	-	-	-	-	-	1,680
#3 Impr Br 10, C & K	72	-	-	27	-	-	-	99
#3 Br 10 of Lat A, C & K	(383)	-	-	653	-	19	144	433
#3 St & K	(49,020)	-	-	21,906	-	-	28,310	1,196
#3 Rep A, St & K	2,047	-	-	-	-	-	-	2,047
#7 C, K & R (& Rep F)	(77,242)	-	29	35,861	191	3,317	41,167	3,323
#7 Lat A, C, K & R	(7,640)	-	-	8,913	-	858	8,831	10,962
#7 Lat B, C, K & R	74	-	-	175	-	29	636	914
#7 Lat E, C, K & R	1,298	-	1	-	-	-	1,797	3,096
#10 R & K	(63)	-	-	-	-	-	-	(63)
#11 K & M	(47,947)	-	-	4,800	-	911	2,721	(39,515)
#16 R & K	(2,268)	-	-	9,670	-	561	5,000	12,963
#17 M & K	18,361	-	-	-	-	-	62	18,423
#17 Rep A, M & K	3,900	-	-	-	-	-	498	4,398

EXHIBIT D-2
(Continued)

Liabilities			Fund Balance			Total Liabilities and Fund Balances
Accounts Payables	Deferred Revenue	Total Liabilities	Restricted for Ditch Maintenance and Repairs	Unassigned	Total Fund Balances	
-	-	-	1,152	-	1,152	1,152
533	48,156	48,689	-	(43,938)	(43,938)	4,751
-	-	-	2,396	-	2,396	2,396
-	636	636	41	-	41	677
900	7,617	8,517	-	(7,818)	(7,818)	699
-	947	947	1,017	-	1,017	1,964
129	18,017	18,146	-	(7,097)	(7,097)	11,049
43	2,647	2,690	-	(1,687)	(1,687)	1,003
-	1,860	1,860	-	(461)	(461)	1,399
-	36,720	36,720	-	(14,158)	(14,158)	22,562
-	383	383	110	-	110	493
-	58,736	58,736	19,164	-	19,164	77,900
-	910	910	955	-	955	1,865
-	-	-	2,616	-	2,616	2,616
-	-	-	1,516	-	1,516	1,516
-	1,164	1,164	40	-	40	1,204
-	-	-	383	-	383	383
-	3,013	3,013	-	(1,167)	(1,167)	1,846
-	138	138	4,092	-	4,092	4,230
-	1,359	1,359	-	(33)	(33)	1,326
-	898	898	5,952	-	5,952	6,850
-	484	484	565	-	565	1,049
-	438	438	498	-	498	936
-	666	666	7	-	7	673
-	-	-	1,588	-	1,588	1,588
-	-	-	22	-	22	22
-	536	536	205	-	205	741
-	5,774	5,774	303	-	303	6,077
-	153	153	211	-	211	364
-	485	485	691	-	691	1,176
-	592	592	806	-	806	1,398
2,625	12,888	15,513	-	(10,304)	(10,304)	5,209
-	170	170	82,119	-	82,119	82,289
-	-	-	3,133	-	3,133	3,133
-	-	-	621	-	621	621
-	-	-	1,680	-	1,680	1,680
-	27	27	72	-	72	99
-	692	692	-	(259)	(259)	433
-	21,906	21,906	-	(20,710)	(20,710)	1,196
-	-	-	2,047	-	2,047	2,047
-	74,004	74,004	-	(70,681)	(70,681)	3,323
-	10,646	10,646	316	-	316	10,962
-	204	204	710	-	710	914
-	-	-	3,096	-	3,096	3,096
-	-	-	-	(63)	(63)	(63)
-	5,957	5,957	-	(45,472)	(45,472)	(39,515)
-	11,455	11,455	1,508	-	1,508	12,963
6,921	-	6,921	11,502	-	11,502	18,423
891	-	891	3,507	-	3,507	4,398

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**DITCH BALANCE SHEET
DITCH SPECIAL REVENUE FUND
December 31, 2012**

	Assets							Total Assets
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Accounts Receivable	Due from Other Funds	Due from Other Governments	
			Delinquent	Deferred				
Judicial Ditches (Continued)								
#17 Br 4 of Lat A, M & K	461	-	-	-	-	-	-	461
#17 Br 4 of Lat B, M & K	7,108	-	-	-	-	-	-	7,108
#18 Sw, K & C	(5,458)	-	-	-	-	1,432	-	(4,026)
#18 M & K	2,237	-	-	-	-	-	158	2,395
#18 Lat A, M & K	4,328	-	-	-	-	-	596	4,924
#18 Lat C, M & K	1,601	-	-	853	-	25	14	2,493
#19 Sw & K	(5)	-	-	232	-	-	-	227
#21 R, C & K	222	-	-	-	-	-	27	249
#21 Sw, K & C	(442)	-	-	1,370	-	148	109	1,185
#29 Rep B, R, M & K	27	-	-	1	-	-	-	28
#52 691/695	(1,727)	-	-	-	-	-	-	(1,727)
Rinke Noonan Attorney	2,264	-	-	-	-	-	-	2,264
Total	\$ (558,020)	\$ 175,596	\$ 1,441	\$ 613,018	\$ 1,594	\$ 24,914	\$ 153,207	\$ 411,750

EXHIBIT D-2
(Continued)

<u>Liabilities</u>			<u>Fund Balance</u>			<u>Total Liabilities and Fund Balances</u>
<u>Accounts Payables</u>	<u>Deferred Revenue</u>	<u>Total Liabilities</u>	<u>Restricted for Ditch Maintenance and Repairs</u>	<u>Unassigned</u>	<u>Total Fund Balances</u>	
-	-	-	461	-	461	461
508	-	508	6,600	-	6,600	7,108
900	-	900	-	(4,926)	(4,926)	(4,026)
-	-	-	2,395	-	2,395	2,395
251	-	251	4,673	-	4,673	4,924
1,713	887	2,600	-	(107)	(107)	2,493
-	232	232	-	(5)	(5)	227
-	-	-	249	-	249	249
1,963	1,518	3,481	-	(2,296)	(2,296)	1,185
1	1	2	26	-	26	28
-	-	-	-	(1,727)	(1,727)	(1,727)
200	-	200	2,064	-	2,064	2,264
<u>\$ 122,623</u>	<u>\$ 733,266</u>	<u>\$ 855,889</u>	<u>\$ 323,730</u>	<u>\$ (767,869)</u>	<u>\$ (444,139)</u>	<u>\$ 411,750</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT D-3

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

	Total Primary Government	Housing and Redevelopment Authority Component Unit
	<u> </u>	<u> </u>
Shared Revenue		
State		
Highway users tax	\$ 6,083,641	\$ -
County program aid	1,553,284	-
Market value credit	219,834	-
PERA rate reimbursement	73,608	-
Disparity reduction aid	20,733	-
Police aid	213,593	-
Enhanced 911	136,651	-
Local performance aid	11,826	-
	<u>8,313,170</u>	<u>-</u>
Total shared revenue	\$ 8,313,170	\$ -
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 1,224,497	\$ -
	<u>1,224,497</u>	<u>-</u>
Payments		
Local		
Payments in lieu of taxes	\$ 49,584	\$ -
Local	116,241	-
	<u>165,825</u>	<u>-</u>
Total payments	\$ 165,825	\$ -
Grants		
State		
Minnesota Department/Board of		
Public Safety	\$ 54,292	\$ -
Health	141,694	-
Natural Resources	54,898	-
Human Services	2,366,505	-
Veterans Affairs	6,498	-
Corrections	755,087	-
Transportation	100,649	-
Water and Soil Resources	253,676	-
Peace Officer Standards and Training Board	10,959	-
Pollution Control Agency	103,663	-
	<u>3,847,921</u>	<u>-</u>
Total state	\$ 3,847,921	\$ -

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-3
(Continued)**

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

	Total Primary Government	Housing and Redevelopment Authority Component Unit
	<u> </u>	<u> </u>
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 561,230	\$ -
Commerce	35,241	-
Housing and Urban Development	-	1,284,965
Justice	17,112	-
Transportation	899,274	-
Health and Human Services	3,414,029	-
Homeland Security	61,993	-
	<u> </u>	<u> </u>
Total federal	\$ 4,988,879	\$ 1,284,965
	<u> </u>	<u> </u>
Total state and federal grants	\$ 8,836,800	\$ 1,284,965
	<u> </u>	<u> </u>
Total Intergovernmental Revenue	\$ 18,540,292	\$ 1,284,965
	<u> </u>	<u> </u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT D-4

**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		
Direct		
Conservation Reserve Program	10.069	\$ 14,294
Passed Through Minnesota Department of Health		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	269,743
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>277,193</u>
Total U.S. Department of Agriculture		<u>\$ 561,230</u>
U.S. Department of Commerce		
Passed through Central Minnesota Regional Radio Board		
Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 35,241</u>
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	<u>\$ 17,112</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 865,188
Passed Through Minnesota Department of Public Safety		
Highway Safety Cluster		
Occupant Protection Incentive Grants	20.602	5,931
Safety Belt Performance Grants	20.609	17,000
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>11,155</u>
Total U.S. Department of Transportation		<u>\$ 899,274</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-4
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Direct		
Drug-Free Communities Support Program Grants	93.276	\$ 118,763
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	32,721
Universal Newborn Hearing Screening	93.251	450
Immunization Cooperative Agreements	93.268	2,250
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	75
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	61,320
(Total Temporary Assistance for Needy Families 93.558 \$593,766)		
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	33,248
Maternal and Child Health Services Block Grant to the States	93.994	47,818
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	18,675
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	532,446
(Total Temporary Assistance for Needy Families 93.558 \$593,766)		
Emergency Contingency Fund for TANF State Program - ARRA	93.714	41,517
Child Support Enforcement	93.563	798,423
Refugee and Entrant Assistance - State Administered Programs	93.566	528
Child Care and Development Block Grant	93.575	21,575
Community-Based Child Abuse Prevention Grants	93.590	12,903
Stephanie Tubbs Jones Child Welfare Services Program	93.645	10,056
Foster Care Title IV-E	93.658	276,498
Social Services Block Grant	93.667	325,591
Chafee Foster Care Independence Program	93.674	15,015
Children's Health Insurance Program	93.767	72
Medical Assistance Program	93.778	954,700
Block Grants for Community Mental Health Services	93.958	109,385
Total U.S. Department of Health and Human Services		\$ 3,414,029

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

***EXHIBIT D-4
(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 Natural Resources Boating Safety Financial Assistance	97.012	\$ 5,125
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grants	97.042	53,869
Passed through Central Minnesota Regional Radio Board Homeland Security Grant Program	97.067	<u>2,999</u>
Total U.S. Department of Homeland Security		<u>\$ 61,993</u>
Total Federal Awards		<u><u>\$ 4,988,879</u></u>

**KANDIYOHI COUNTY
WILLMAR, 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 Kandiyohi County. The County's reporting entity is defined in Note 1 to the financial statements. The schedule does not include \$1,279,740 in federal awards expended by the Kandiyohi County Housing and Redevelopment Authority component unit, which had a separate single audit performed by other auditors.

2. Basis of Presentation

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

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Highway Safety Cluster	\$	22,931
Temporary Assistance for Needy Families (TANF) Cluster		635,283

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2012.

6. 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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**KANDIYOHI COUNTY
WILLMAR, 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:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families (TANF) Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for TANF State	
Program - ARRA	CFDA #93.714
Child Support Enforcement	CFDA #93.563
Social Services Block Grant	CFDA #93.667

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

Kandiyohi 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

96-8 Segregation of Duties

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

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

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

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

Cause: The County informed us that they do not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

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

Client's Response:

The County is aware of the lack of segregation of accounting functions in several County offices because of limited office personnel. The County Auditor/Treasurer will continually oversee procedures to ensure that the internal control structure policies and procedures are implemented.

06-1 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. Clarified Auditing Standards AU-C Section 265 defines a material weakness as 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.

Condition: During our audit, we identified material adjustments that were proposed and recorded. These adjustments resulted in significant changes to the County's financial statements. The County provides cash basis financial information and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis, and some of the additional information necessary for preparing the government-wide financial statements.

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were necessary to be recorded for December 31, 2012:

- An advance to other funds of \$293,791 was recorded in the County Building Special Revenue Fund. The balloon payment for the Boiler Decentralization loan was made from the County Building Special Revenue Fund, and the Regional Treatment Center Fund making loan payments to the County Building Special Revenue Fund.
- Refunding bonds of \$1,735,000 were issued during 2012 to refinance the City of New London USDA Rural Development debt. The corresponding principal payment of \$1,677,000 and interest payment of \$58,000 were recorded in the Debt Service Fund.
- The Ditch Special Revenue Fund was adjusted by increasing deferred revenue - unavailable and noncurrent special assessments receivable in the amount of \$373,901 to properly include additional deferred special assessments that were excluded from the special assessments file listing.
- Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

Cause: County staff did not have the time to prepare all of the information necessary to provide accurate financial statements.

Recommendation: We recommend that the County staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made so that, in future audits, this information can be prepared by the County.

Client's Response:

Kandiyohi County will continue to implement internal controls for making all necessary entries required to convert the account activity, which is recorded on the cash basis, to the modified accrual basis, for financial statement purposes, in accordance with generally accepted accounting principles (GAAP). The appropriate staff will review the trial balances and journal entries in detail to gain an understanding of all audit adjustments made.

ITEM ARISING THIS YEAR

12-1 Bank Reconciliations

Criteria: Reconciliations are control activities which involve the comparison of two sets of related records or balances from different sources. Effective reconciliations identify differences between the records or balances. When differences are found, one should then investigate why the differences exist and resolve the differences in a timely manner. Documentation resolving the differences should be retained. Reconciliations should also be reviewed and approved by a separate person in order to prevent and deter the misappropriation of assets.

Condition: During our review of the bank reconciliations, it was noted that the person performing the reconciliations did not note the date as to when they were performed. Thus, we were unable to determine if the reconciliations were performed in a timely manner. It was also noted that no one other than the person preparing the reconciliations was reviewing them for accuracy and reasonableness.

Context: Performing and reviewing complete and timely bank reconciliations is a control designed to detect errors and irregularities in time to allow any errors to be corrected.

Effect: The County may not detect errors within a timely manner, and it is also at a higher risk of misappropriation of assets.

Cause: There are a limited number of office personnel within the County.

Recommendation: We recommend that the preparer sign and date the reconciliations when they are complete and have a supervisor sign and date the reconciliation after they have reviewed it for accuracy and reasonableness.

Client's Response:

Kandiyohi County will implement the changes recommended effective immediately. The preparer will sign and date the reconciliations when complete and a supervisor will also sign and date after reviewing for accuracy and reasonableness.

PREVIOUSLY REPORTED ITEMS RESOLVED

Journal Entries (07-2)

Management was not reviewing or approving entries made by the Human Services Fiscal Supervisor or the County Auditor/Treasurer, and for two journal entries tested, no supporting documentation could be located.

Resolution

The County established procedures to have journal entries reviewed and approved by more than one person. Also, during the current audit, supporting documentation was provided for all journal entries tested.

Segregation of Duties - Vendor Setup (09-1)

During our review of the general disbursements process in the previous audit, we noted that several individuals had the ability to both process disbursements and set up new vendors.

Resolution

The County has implemented a procedure for setting up new vendors that includes a secondary review and approval.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

12-2 Davis-Bacon Act

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205)

Pass-Through Agency: Minnesota Department of Transportation

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 programs. Per Part 3 of the OMB Compliance Supplement, it is required that the contractor or

subcontractor submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 C.F.R. §§ 5.5 and 5.6).

Condition: During the review of the Davis-Bacon Act requirements, it was noted that the County was missing several weeks of certified payrolls for Project 034-605-020 during 2012. In addition, the County could not provide support to verify that it had received every week of payroll for two subcontractors that either do not perform work on-site or do not work during normal business hours.

Questioned Costs: None.

Context: The County keeps weekly construction diaries that note what contractors and subcontractors are on-site each day. These diaries are not reconciled to the Davis-Bacon payroll summary until the end of the project; thus, the County is not verifying that it has certified payrolls for every week from the contractor or subcontractor on a timely basis. There are two subcontractors of this project that the County does not record in its weekly construction diaries (a staffing agency that only does administrative work and one that works at non-traditional hours of the day/night). There is no other control in place to ensure that all certified payrolls are received for every week for these two subcontractors.

Effect: There is a lack of documentation to support that the County is in compliance with the Davis-Bacon Act requirements.

Cause: The County did not reconcile its weekly construction diaries to its Davis-Bacon payroll summary. The County did not verify that it received certified payrolls for every week for the two subcontractors that the County cannot observe on-site.

Recommendation: We recommend that the County reconcile its weekly construction diaries to the Davis-Bacon payroll summary on a monthly basis in order to ensure its compliance on a timely basis. We also recommend that the County have the two subcontractors not observed on-site submit certified payrolls (including nonperforming weeks) for every week during the project timeline.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Ray Krossman, Assistant County Engineer

Corrective Action Planned:

Prior to the final payment to the contractor, the contractor and subcontractors listed on all the weekly diaries are checked against the master list of payroll received to identify if there is any missing payroll. If there are any missing payrolls, the prime contractor is notified to submit the missing payroll.

Office staff that review the payroll are now receiving a copy of the weekly diary each week to check against the master list of payroll received and will notify the prime contractor the same day if any payroll is missing.

Anticipated Completion Date:

This change will be made immediately.

12-3 Reporting

Programs:	Pass-Through Agencies:
U.S. Department of Health and Human Services	
Temporary Assistance for Needy Families Cluster:	
Temporary Assistance for Needy Families (CFDA No. 93.558)	Minnesota Department of Health, Minnesota Department of Human Services
Emergency Contingency Fund for TANF State Program - ARRA (CFDA No. 93.714)	Minnesota Department of Human Services
Child Support Enforcement (CFDA No. 93.563)	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 programs.

The OMB Circular also states that reports are to be complete and accurate as well as prepared in accordance with the required accounting basis. The Family Services and Public Health departments prepare reports to be submitted to the Minnesota Department of Health and the Minnesota Department of Human Services (DHS). The information is prepared using the County’s Integrated Financial System (IFS) and is reviewed for accuracy by the Director of the Department before reports are submitted to the State.

Condition: During the review of these reports, several problems were noted:

- The first and second quarter signed copies the Income Maintenance Quarterly Expense Report (DHS-2550) and the MFIP - Consolidated Fund Support Services (DHS-2902) reports could not be located; thus, we were unable to determine if they had been properly approved.

- The hard copies of the third and fourth quarter DHS-2550 reports were missing at least one of the required signatures (preparer and reviewer). For the electronic submission, the typed names of preparer and reviewer are adequate, but per directions on the form, the County is also required to print and maintain a signed copy of the report for three years.

Questioned Costs: None.

Context: These reports are submitted electronically to the State and electronic copies of the missing reports were able to be reprinted. However, the electronic copies do not contain the required signatures.

Effect: The lack of signatures from a supervisor increases the potential risk that errors or omissions may occur and not be detected prior to the report being submitted to DHS.

Cause: The former Fiscal Supervisor for the Family Services Department retired during 2012 and the new Fiscal Supervisor took over. During the transition, some documents were misplaced and were not available for the auditors. The correct signatures for the reports were not acquired.

Recommendation: We recommend that the County maintain documentation to support its compliance with its policies and procedures as well as Federal requirements. We also recommend that the preparer certify their report as valid and the supervisor review and sign the report as accurate.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Carol Tollefson, Fiscal Supervisor

Corrective Action Planned:

The Fiscal Supervisor and Health & Human Services Director will sign all quarterly reports. We will continue to submit reports to the Minnesota Department of Human Services (DHS) electronically as we have done in the past. According to DHS Bulletin 11-32-06, "electronic submission to DHS only requires that you type in the names of the signers. However, you must print and retain an original signed copy at your County for at least three (3) years." We will comply with these retention requirements.

Anticipated Completion Date:

This change will be made immediately.

12-4 Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Program: U.S. Department of Health and Human Services' Child Support Enforcement (CFDA No. 93.563)

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 material effect on each of its federal programs. Per Part 4 of the OMB Compliance Supplement, individual transactions are to be properly classified and accumulated into the activity total.

Condition: Based on our testing of internal control over disbursements, we noted that 17 out of 40 disbursements tested did not have evidence indicating a secondary approval by a supervisor or Director.

Questioned Costs: None.

Context: The approval of disbursements by an initial staff for validity and by a supervisor or Director for accuracy is an important control, ensuring that amounts charged to federal programs are accurate and proper.

Effect: The County is at greater risk for paying unallowable or fraudulent expenditures with Federal funding and could possibly lose this funding.

Cause: The County did not have a policy in place requiring written evidence of review and approval of each invoice.

Recommendation: We recommend that someone other than the person initially approving the disbursement review and authorize the expenditure to be paid and that both individuals reviewing the disbursement document their approval.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Carol Tollefson, Fiscal Supervisor

Corrective Action Planned:

We recognize the need to be diligent in ensuring validity and accuracy when working with public funds. Some of our secondary approvals in the past have been done verbally or via emails that may not have been printed and attached to

the voucher. The County has recently purchased an electronic payable system that will automate our entire payable process. Supervisors and/or staff will be asked to approve payments via an invoice approval portal. This system is being tested at the Auditor/Treasurer's Office and will be installed at the Health and Human Services Office at a later date. In the meantime, accounting staff will make every effort to get written secondary approval on all payments.

Anticipated Completion Date:

Immediate and ongoing.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Cash Balance Deficits

Criteria: As stated in Minn. Stat. § 385.04, payment of expenditures may be made only if money is available in the fund for that purpose. As provided by Minn. Stat. § 385.32, temporary fund transfers may be made with the approval of the County Board and County Auditor-Treasurer. The County Board has oversight responsibilities for the property, funds, and business of the County. The Board should be notified if a fund does not have sufficient money available to cover expenditures so that it can provide temporary or permanent resources as needed for the fund.

Condition: At December 31, 2012, the Regional Treatment Center Special Revenue Fund had a deficit cash balance of \$122,402. The Ditch Special Revenue Fund had a deficit cash balance of \$383,020.

Context: When the County allows disbursements on a fund that causes or already has a cash balance deficit, cash from other County funds to cover the disbursement is borrowed interest-free.

Effect: Allowing payment of expenditures from the Regional Treatment Center Special Revenue Fund and the Ditch Special Revenue Fund when cash balances were not available resulted in deficit cash balances in these funds, which is inconsistent with Minn. Stat. § 385.04.

Cause: Expenditures in both funds were necessary. The Regional Treatment Center's negative cash balance decreased during 2012 due to the County satisfying a \$175,000 interfund receivable from 2010. The Ditch Special

Revenue Fund did not have sufficient resources to cover expenditures as ditch levies were not sufficient to cover the ditch work performed. Temporary transfers as allowed by Minn. Stat. § 385.32 were not approved by the Board and the County Auditor/Treasurer.

Recommendation: We recommend that the County borrow from another fund when the cash balances are so low as to cause the fund to have a cash deficit when a payment is made from that fund.

Client's Response:

The Kandiyohi County Board of Commissioners will review the status of the Regional Treatment Center Special Revenue Fund and the Ditch Special Revenue Fund, and if necessary, an interfund transfer will be made in October 2013.

96-3

Individual Ditch System Cash Deficits

Criteria: As stated in Minn. Stat. § 385.04, in part, “. . . every warrant shall be paid only from the cash on hand in the fund from which it may be properly payable.” As allowed by Minn. Stat. § 103E.655, subd. 2, loans may be made from ditch systems with surplus funds or from the General Fund to a ditch with insufficient cash to pay expenditures. The loan must be repaid with interest.

Condition: Forty-six of the 111 individual ditch systems had deficit cash balances totaling \$715,402 at December 31, 2012. This amount decreased from the prior year when 56 of the 110 individual ditch systems had deficit cash balances totaling \$728,795.

Context: If the County Board transfers money from another account or fund to a drainage system account, the money plus interest must be reimbursed from the proceeds of the drainage system that received the transfer, under Minn. Stat. § 103E.655, subd. 2. A fund balance to be used for repairs may be established under Minn. Stat. § 103E.735, subd. 1, for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

Effect: Allowing a ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other County funds and, as such, is in noncompliance with Minnesota law.

Cause: Ditch expenditures were necessary; the ditch levies were not sufficient, and no loans were formally made between ditches.

Recommendation: We recommend that the County eliminate the ditch system cash deficits by borrowing from an eligible fund with a surplus cash balance and by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus cash balance to provide for the repair and maintenance costs of a ditch system.

Client's Response:

In 2013, one-year ditch repair liens will be levied.

09-2

Traffic Safety Course

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

Condition: Kandiyohi 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 is two hours long and costs \$75, which is payable to the Kandiyohi County Sheriff.

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 Traffic Safety Course is unauthorized and in violation of Minn. Stat. § 169.022.

Cause: The County asserts that it disagrees with this finding.

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.

Client’s Response:

The conclusions of Kandiyohi County differ from those reached in the State Auditor’s report, and we respectfully disagree with the report’s findings and recommendations.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-11

Individual Ditch System Equity Balance Deficits

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Under Minn. Stat. § 103E.655, drainage project costs must be paid from the drainage system account. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

Condition: As of December 31, 2012, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance accounts.

Context: Forty-eight of the 111 individual ditch systems had deficit fund balances as of December 31, 2012, totaling \$767,869, which is an increase from the \$767,113 deficit reported in the prior year.

Effect: Allowing a ditch system to maintain a deficit fund balance, in effect, constitutes an interest-free loan from other individual ditch systems, and may be inconsistent with Minn. Stat. § 103E.655.

Cause: Ditch expenditures were necessary and the ditch levies were not sufficient to cover all costs.

Recommendation: We recommend that the County eliminate the ditch fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.

Client's Response:

In 2013, one-year ditch repair liens will be levied.

ITEM ARISING THIS YEAR

12-5

Refunding Debt

Criteria: Governmental entities need to monitor expenditures to ensure that no unnecessary obligations are incurred and eventually paid.

Condition: During 2012, the County issued the General Obligation Sewer and Water Revenue Refunding Bonds, Series 2012A. The proceeds were to be used to redeem three outstanding debt obligations. Per the bond documents, the County was to redeem outstanding principal of \$2,223,000 on the MPFA Loan, Series 1999; \$137,000 on the MPFA Loan, Series 2011; and \$670,000 on the General Obligation Sewer and Water Revenue Bonds, Series 2002A.

The County redeemed the 2002A Bonds on April 10, 2012, for \$670,000 of principal and \$6,177 of interest in accordance with the stipulations noted in the bond documents. According to the bond documents, the County was to redeem the MPFA Loans mentioned previously on March 29, 2012. During audit procedures, it was noted that the County did not redeem these loans until August 6, 2013, which was more than a year after the refunding bonds were issued.

Context: This did not cause the County to be non-compliant on any of its debt obligations as it continued making the required principal and interest payments.

Effect: The County continued paying interest on the outstanding MPFA Loans and incurred an additional \$41,772 of interest expenditures during 2012 and \$74,446 during 2013.

Cause: The former County Auditor/Treasurer retired during 2012, and this bond issue occurred during the transition to the new administration. The retirement of the loans was overlooked during the transition.

Recommendation: We recommend that the County, in the future, be timely in paying off existing debt when a new refunding bond is used.

Client's Response:

The former Auditor/Treasurer retired during 2012, and the newly appointed Auditor/Treasurer took over. The funds had come in while the former Auditor/Treasurer was still here but were not paid to the Minnesota Public Facilities Authority while he was still here. The newly appointed Auditor/Treasurer was unaware that this had not been handled. This was paid immediately when the error was discovered. Kandiyohi County will be more diligent in the future in checking so transactions are followed through.

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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
Kandiyohi 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 Kandiyohi County, Minnesota as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 26, 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Kandiyohi County Housing and Redevelopment Authority (HRA) for the year ended June 30, 2012, as described in our report on the Kandiyohi County's financial statements. This report does not include the results of other auditors' 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 Kandiyohi 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 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 06-1 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 96-8 and 12-1 to be significant deficiencies.

Compliance and Other Matters

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

In connection with our audit, nothing came to our attention that caused us to believe that Kandiyohi 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 96-1, 96-3, and 09-2. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

Also included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 26, 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
Kandiyohi County

Report on Compliance for Each Major Federal Program

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

Kandiyohi County's basic financial statements include the operations of the Kandiyohi County Housing and Redevelopment Authority (HRA) component unit, which expended \$1,279,740 in federal awards during the year ended June 30, 2012, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA because other auditors were engaged to perform a separate single audit in accordance with OMB Circular A-133.

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 Kandiyohi 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 Kandiyohi 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, Kandiyohi 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-2 and 12-3. Our opinion on each major federal program is not modified with respect to these matters.

Kandiyohi County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Kandiyohi County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Kandiyohi 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 a 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 certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 12-2, 12-3, and 12-4 that we consider to be significant deficiencies.

Kandiyohi County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. Kandiyohi County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 26, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR