

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

KANDIYOHI COUNTY
WILLMAR, MINNESOTA

YEAR ENDED DECEMBER 31, 2010

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, 2010



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

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	1	14
Statement of Activities	2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	18
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	4	22
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	27
Fiduciary Funds		
Statement of Fiduciary Net Assets	7	29
Statement of Changes in Fiduciary Net Assets - County Cemetery Investment Trust Fund	8	30
Notes to the Financial Statements		31
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	74
Road and Bridge Special Revenue Fund	A-2	77
Human Services Special Revenue Fund	A-3	78
Sanitary Landfill/Recycling Center Special Revenue Fund	A-4	79
County Building Special Revenue Fund	A-5	80
Schedule of Funding Progress - Other Postemployment Benefits	A-6	81
Notes to the Required Supplementary Information		82

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Financial Section (Continued)		
Supplementary Information		
Combining and Individual Fund Financial Statements		
Nonmajor Governmental Funds		
Combining Balance Sheet	B-1	84
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	85
Budgetary Comparison Schedules		87
Capital Equipment Special Revenue Fund	B-3	89
Green Lake Sewer Special Revenue Fund	B-4	90
County Library Special Revenue Fund	B-5	91
Health and Human Services Building Special Revenue Fund	B-6	92
Agency Funds		93
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	94
Other Schedules		
Schedule of Deposits and Investments	D-1	98
Ditch Balance Sheet - Ditch Special Revenue Fund	D-2	101
Schedule of Intergovernmental Revenue	D-3	107
Schedule of Expenditures of Federal Awards	D-4	109
Notes to the Schedule of Expenditures of Federal Awards		111
Other Information Section		
Tax Capacity, Tax Rates, Levies, and Percentage of Collections	E-1	112
Management and Compliance Section		
Schedule of Findings and Questioned Costs		114
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		126
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		129

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

ORGANIZATION
2010

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Richard Falk*	January 1999	January 2011
2nd District	Richard Larson	January 1997	January 2013
3rd District	Dean Shuck	January 2003	January 2015
4th District	Dennis Peterson**	January 1993	January 2013
5th District	Harlan Madsen	January 1995	January 2015
Officers			
Elected			
Attorney	Boyd Beccue	January 1995	January 2011
Auditor/Treasurer	Sam Modderman	January 1995	January 2015
Recorder	Julie Kalkbrenner	January 1995	January 2015
Registrar of Titles	Julie Kalkbrenner	January 1995	January 2015
Sheriff	Dan Hartog	January 2003	January 2015
Surveyor	Duane Bonnema		Indefinite
Appointed			
Administrator	Larry Kleindl		Indefinite
Assessor	Tim Falkum	January 2009	December 2012
Examiner of Titles	Dean Anderson		Indefinite
Public Works Director	Gary Danielson	May 1994	May 2011
Veterans Service Officer	Trisha Appledorn	January 2006	January 2011
Human Services Director	Jay Kieft		Indefinite
Medical Examiner	Robert Boyd		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

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, Minnesota, as of and for the year ended December 31, 2010, including the Kandiyohi County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2010, which collectively comprise Kandiyohi County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kandiyohi County's management. 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 thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Kandiyohi County HRA, is based solely upon the report of the other auditors.

We conducted our audit 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 U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kandiyohi County as of December 31, 2010, including the Kandiyohi County HRA as of June 30, 2010, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kandiyohi County's basic financial statements taken as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, and the other information section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This 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 statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The other information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2011, 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* and should be considered in assessing the results of our audit. It does not include the Kandiyohi County HRA, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 28, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. 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 assets are \$150,544,389 of which \$98,021,323 is invested in capital assets, net of related debt, and \$11,875,764 is restricted to specific purposes.
- Kandiyohi County's net assets increased by \$10,634,218 for the year ended December 31, 2010. The net assets of the County's discretely presented component unit increased by \$16,539.
- The net cost of governmental activities was \$20,631,728 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$31,265,946.
- Governmental funds' fund balances increased by \$8,311,092.

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 Assets 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 Assets and the Statement of Activities

Our analysis of the County as a whole begins with Exhibit 1. The Statement of Net Assets 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 assets and changes in them. You can think of the County's net assets--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 assets are 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 Assets 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 Assets 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 Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 7 and 8. 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 Assets

The County's net assets were \$150,544,389 on December 31, 2010. (See Table A-1.)

Table A-1
Net Assets

	Governmental Activities		Percent (%) Change
	2010	2009	
Current and other assets	\$ 83,022,540	\$ 73,054,305	13.6
Capital assets	155,429,443	151,314,294	2.7
Total Assets	\$ 238,451,983	\$ 224,368,599	6.3
Current liabilities	\$ 4,705,354	\$ 4,461,798	5.5
Long-term liabilities	83,202,240	79,996,630	4.0
Total Liabilities	\$ 87,907,594	\$ 84,458,428	4.1
Net Assets			
Invested in capital assets, net of related debt	\$ 98,021,323	\$ 92,724,459	5.7
Restricted assets	11,875,764	1,364,945	770.1
Unrestricted	40,647,302	45,820,767	(11.3)
Total Net Assets	\$ 150,544,389	\$ 139,910,171	7.6

(Unaudited)

Page 7

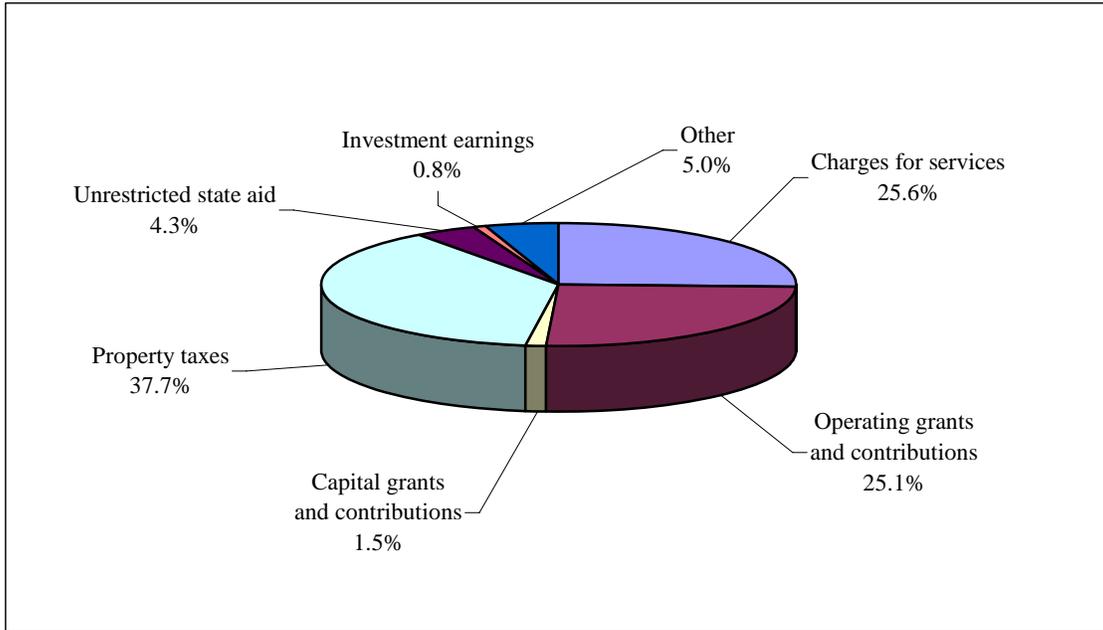
Changes in Net Assets

The County-wide total revenues were \$65,377,369 for the year ended December 31, 2010. Property taxes and intergovernmental revenues accounted for 68.6 percent of total revenues for the year. (See Figures A-3 and A-4.)

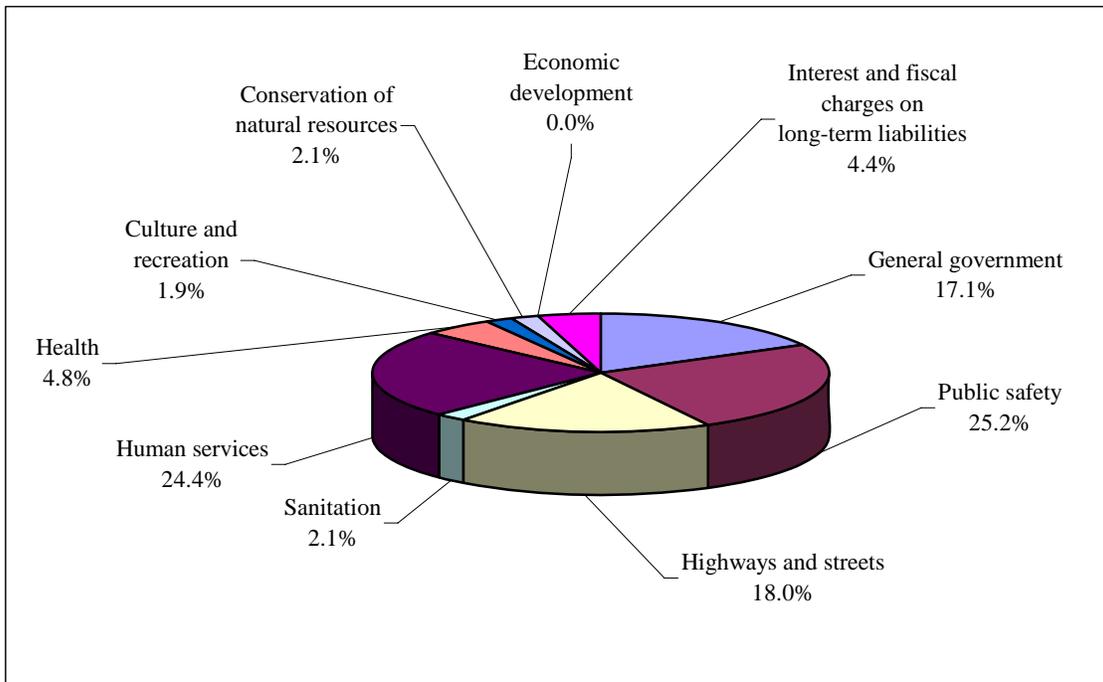
Table A-2
Changes in Net Assets

	Governmental Activities for Fiscal Year Ended December 31		Total Percent (%) Change
	2010	2009	
Revenues			
Program revenues			
Fees, charges, fines, and other	\$ 16,763,141	\$ 16,571,551	1.2
Operating grants and contributions	16,386,353	15,469,238	5.9
Capital grants and contributions	961,929	3,457,509	(72.2)
General revenues			
Taxes	24,655,067	23,938,559	3.0
Unrestricted state aid	2,848,315	3,837,373	(25.8)
Investment earnings	506,921	534,183	(5.1)
Other	3,255,643	2,810,103	15.9
Total Revenues	<u>\$ 65,377,369</u>	<u>\$ 66,618,516</u>	(1.9)
Expenses			
General government	\$ 9,368,584	\$ 10,059,576	(6.9)
Public safety	13,766,588	12,764,464	7.9
Highways and streets	9,864,719	4,382,491	125.1
Sanitation	1,140,238	8,565,382	(86.7)
Human services	13,354,670	13,870,976	(3.7)
Health	2,644,835	2,353,588	12.4
Culture and recreation	1,047,111	951,317	10.1
Conservation of natural resources	1,141,791	1,369,844	(16.6)
Economic development	8,462	18,292	(53.7)
Interest	2,406,153	2,486,331	(3.2)
Total Expenses	<u>\$ 54,743,151</u>	<u>\$ 56,822,261</u>	(3.7)
Increase in Net Assets	\$ 10,634,218	\$ 9,796,255	
Beginning Net Assets	<u>139,910,171</u>	<u>130,113,916</u>	
Ending Net Assets	<u>\$ 150,544,389</u>	<u>\$ 139,910,171</u>	

**Figure A-3
Sources of County Revenues for Fiscal Year 2010**



**Figure A-4
Sources of County Expenses for Fiscal Year 2010**



Total revenues surpassed expenses, increasing net assets \$10,634,218 over last year.

The County-wide cost of all governmental activities this year was \$54,743,151.

- Some of the cost was paid by the users of the County’s programs (\$16,763,141).
- The federal and state governments subsidized certain programs with grants and contributions (\$17,348,282).
- Some of the County’s costs (\$20,631,728), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$24,398,018 in property taxes, \$6,867,928 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
	2010	2009		2010	2009	
General government	\$ 9,368,584	\$ 10,059,576	(6.9)	\$ 7,682,194	\$ 8,109,518	(5.3)
Public safety	13,766,588	12,764,464	7.9	9,999,251	9,391,538	6.5
Highways and streets	9,864,719	4,382,491	125.1	2,408,995	(6,087,904)	(139.6)
Sanitation	1,140,238	8,565,382	(86.7)	(8,795,183)	(838,827)	948.5
Human services	13,354,670	13,870,976	(3.7)	5,110,196	6,376,515	(19.9)
Health	2,644,835	2,353,588	12.4	527,420	575,751	(8.4)
Culture and recreation	1,047,111	951,317	10.1	456,027	614,332	(25.8)
Conservation of natural resources	1,141,791	1,369,844	(16.6)	828,213	678,417	22.1
Economic development	8,462	18,292	(53.7)	8,462	18,292	(53.7)
Interest and fiscal charges on long-term liabilities	2,406,153	2,486,331	(3.2)	2,406,153	2,486,331	(3.2)
Total	\$ 54,743,151	\$ 56,822,261	(3.7)	\$ 20,631,728	\$ 21,323,963	(3.2)

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 \$59,289,175.

Revenues for the County’s governmental funds were \$63,948,315, while total expenditures were \$66,463,761. During 2010, the County also issued bonds and 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	
	2010	2009	Increase (Decrease)	Percent (%)
	Taxes	\$ 12,782,164	\$ 11,698,070	\$ 1,084,094
Intergovernmental	4,654,903	4,875,351	(220,448)	(4.5)
Charges for services	4,195,640	3,970,920	224,720	5.7
Investment earnings	156,857	208,148	(51,291)	(24.6)
Miscellaneous and other	1,682,616	1,601,140	81,476	5.1
Total General Fund Revenues	\$ 23,472,180	\$ 22,353,629	\$ 1,118,551	5.0

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

**Table A-7
General Fund Expenditures**

	Year Ended December 31		Change	
	2010	2009	Increase (Decrease)	Percent (%)
	General government	\$ 8,108,868	\$ 7,618,736	\$ 490,132
Public safety	12,839,425	13,613,105	(773,680)	(5.7)
Health	2,538,219	2,347,304	190,915	8.1
Culture and recreation	501,204	387,303	113,901	29.4
Conservation of natural resources	683,956	744,694	(60,738)	(8.2)
Economic development	8,462	18,292	(9,830)	(53.7)
Debt service	126,900	232,423	(105,523)	(45.4)
Total General Fund Expenditures	\$ 24,807,034	\$ 24,961,857	\$ (154,823)	(0.6)

General Fund Budgetary Highlights

- Actual revenues were \$2,763,983 more than expected.
- Actual expenditures were \$1,121,934 more than budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2010, the County had invested over \$195,854,526 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 \$4,574,156

**Table A-8
Capital Assets**

	2010	2009	Percent (%) Change
Land	\$ 5,279,535	\$ 5,189,130	1.7
Landfill	3,948,130	3,948,130	-
Infrastructure	118,520,360	103,216,147	14.8
Buildings	44,837,349	44,123,258	1.6
Machinery, vehicles, furniture, and equipment	15,242,383	12,403,505	22.9
Construction in progress	8,026,769	18,561,226	(56.8)
Less: accumulated depreciation	<u>(40,425,083)</u>	<u>(36,127,102)</u>	11.9
Total Capital Assets	<u>\$ 155,429,443</u>	<u>\$ 151,314,294</u>	2.7

Debt

At year-end, the County had outstanding debt of \$72,568,547 versus \$66,779,362 last year, an increase of 8.7 percent as shown in Table A-9.

**Table A-9
Outstanding Debt**

	2010	2009	Percent (%) Change
General obligation bonds	\$ 28,300,000	\$ 31,070,000	(8.9)
Special assessment bonds	21,935,000	11,790,000	86.0
Capital lease	3,095,687	3,409,780	(9.2)
Deferred (discount) premiums	(23,506)	(57,468)	(59.1)
Loans payable	19,261,366	20,566,569	(6.3)
Paving assessments	<u>-</u>	<u>481</u>	(100.0)
Total Outstanding Debt	<u>\$ 72,568,547</u>	<u>\$ 66,779,362</u>	8.7

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 ASSETS
DECEMBER 31, 2010**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Kandiyohi County Housing and Redevelopment Authority</u>
<u>Assets</u>		
Current assets		
Cash and investments	\$ 51,255,143	\$ 789,889
Cash with escrow agent	4,140,639	-
Taxes receivable		
Prior - net	507,775	62,340
Special assessments receivable - prior	109,602	-
Accounts receivable - net	453,779	13,233
Accrued interest receivable	148,399	-
Property available for resale	-	99,566
Due from other governments	2,815,248	-
Current portion of loans receivable	399,049	-
Current portion of long-term receivable	18,666	-
Rent receivable	-	684
Inventories	380,264	-
Prepaid items	-	7,615
Noncurrent assets		
Special assessments receivable - net	18,153,456	-
Deferred charges	266,586	10,108
Loans receivable	4,124,707	-
Long-term receivable	200,666	366,070
Other postemployment benefits receivable	48,561	-
Restricted assets		
Cash and pooled investments	-	69,511
Capital assets		
Non-depreciable	13,306,304	82,359
Depreciable - net of accumulated depreciation	142,123,139	976,779
Total Assets	\$ 238,451,983	\$ 2,478,154

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*EXHIBIT 1
(Continued)*

**STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Kandiyohi County Housing and Redevelopment Authority</u>
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 1,271,981	\$ 10,302
Salaries payable	1,266,656	-
Accrued payroll taxes	-	35,804
Contracts payable	29,385	-
Retainage payable	428,257	-
Due to other governments	442,135	-
Accrued interest payable	962,257	4,893
Other accrued liabilities	-	1,933
Unearned revenue	304,683	62,246
Restricted payable from restricted assets		
Security deposits	-	11,170
Long-term liabilities		
Due within one year	5,314,992	39,562
Due in more than one year	77,887,248	1,575,516
	<u>\$ 87,907,594</u>	<u>\$ 1,741,426</u>
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 98,021,323	\$ (207,380)
Restricted for		
General government	436,542	-
Public safety	1,027,620	-
Sanitation	5,282,993	-
Economic development	75,000	-
Debt service	5,053,609	-
Other purpose	-	49,152
Unrestricted	40,647,302	894,956
	<u>\$ 150,544,389</u>	<u>\$ 736,728</u>

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</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>
\$ 153,995	\$ -	\$ (7,682,194)	
1,421,836	-	(9,999,251)	
5,820,113	961,929	(2,408,995)	
142,965	-	8,795,183	
7,139,386	-	(5,110,196)	
1,390,712	-	(527,420)	
271,438	-	(456,027)	
45,908	-	(828,213)	
-	-	(8,462)	
-	-	(2,406,153)	
<u>\$ 16,386,353</u>	<u>\$ 961,929</u>	<u>\$ (20,631,728)</u>	
<u>\$ 1,333,952</u>	<u>\$ -</u>		<u>\$ (117,002)</u>
		\$ 22,711,066	\$ -
		224,719	-
		32,330	-
		1,686,952	-
		-	121,718
		186,526	-
		2,848,315	-
		506,921	11,823
		3,064,316	-
		4,801	-
		<u>\$ 31,265,946</u>	<u>\$ 133,541</u>
		\$ 10,634,218	\$ 16,539
		<u>139,910,171</u>	<u>720,189</u>
		<u>\$ 150,544,389</u>	<u>\$ 736,728</u>

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	General	Road and Bridge	Human Services	Sanitary Landfill/ Recycling Center
<u>Assets</u>				
Cash and investments	\$ 12,746,226	\$ 5,010,605	\$ 6,317,704	\$ 9,663,371
Cash with escrow agent	-	-	-	-
Taxes receivable				
Prior	261,746	74,422	109,960	-
Special assessments				
Prior	25,425	-	-	38,273
Noncurrent	1,283,594	-	-	1,174,162
Accounts receivable	141,180	-	121,462	168,945
Accrued interest receivable	35,967	33,093	-	58,473
Due from other funds	48,600	37,665	350	-
Due from other governments	494,310	1,173,266	957,385	1,462
Inventories	-	380,264	-	-
Loans receivable	22,799	-	-	-
Long-term receivable	-	-	-	-
Total Assets	\$ 15,059,847	\$ 6,709,315	\$ 7,506,861	\$ 11,104,686
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Cash overdraft	\$ -	\$ -	\$ -	\$ -
Accounts payable	286,611	473,829	51,389	310,286
Salaries payable	770,733	124,325	298,765	25,786
Contracts payable	-	-	-	29,385
Retainage payable	-	426,710	-	1,547
Due to other funds	644,559	33,716	28,230	6,531
Due to other governments	218,217	21,032	145,933	17,313
Deferred revenue - unavailable	1,519,654	979,737	84,528	1,250,229
Deferred revenue - unearned	304,683	-	-	-
Total Liabilities	\$ 3,744,457	\$ 2,059,349	\$ 608,845	\$ 1,641,077

EXHIBIT 3

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 3,418,896	\$ 5,089,815	\$ 4,171,980	\$ 5,381,259	\$ 51,799,856
-	4,140,639	-	-	4,140,639
13,065	28,593	-	27,722	515,508
-	36,587	1,697	9,289	111,271
-	12,744,063	2,565,663	660,209	18,427,691
-	10,452	-	11,740	453,779
1,478	-	-	19,388	148,399
7,453	626,142	-	190,267	910,477
559	72,094	-	116,172	2,815,248
-	-	-	-	380,264
-	4,500,957	-	-	4,523,756
219,332	-	-	-	219,332
<u>\$ 3,660,783</u>	<u>\$ 27,249,342</u>	<u>\$ 6,739,340</u>	<u>\$ 6,416,046</u>	<u>\$ 84,446,220</u>
\$ -	\$ -	\$ -	\$ 544,713	\$ 544,713
989	-	45,131	103,746	1,271,981
-	-	-	47,047	1,266,656
-	-	-	-	29,385
-	-	-	-	428,257
-	-	175,000	22,441	910,477
-	-	-	39,640	442,135
12,522	12,789,183	2,566,748	756,157	19,958,758
-	-	-	-	304,683
<u>\$ 13,511</u>	<u>\$ 12,789,183</u>	<u>\$ 2,786,879</u>	<u>\$ 1,513,744</u>	<u>\$ 25,157,045</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010**

	General	Road and Bridge	Human Services	Sanitary Landfill/ Recycling Center
<u>Liabilities and Fund Balances</u>				
(Continued)				
Fund Balances				
Reserved for				
Encumbrances	\$ -	\$ 256,080	\$ -	\$ -
Inventories	-	380,264	-	-
Loans receivable	22,799	-	-	-
Recorder's equipment purchases	436,542	-	-	-
Sheriff's contingency	104,150	-	-	-
Sheriff's forfeited property	244,989	-	-	-
Permit to carry	81,457	-	-	-
Public safety	79,165	-	-	-
Economic development	75,000	-	-	-
Sanitation	-	-	-	5,282,993
Donations for public safety	5,762	-	-	-
Debt service	342,677	-	-	-
Escrow agent	-	-	-	-
Enhanced 911	512,097	-	-	-
Election equipment grant	350	-	-	-
Long-term receivable	-	-	-	-
Unreserved				
Designated for debt service	-	-	-	-
Designated for petty cash and change funds	1,640	425	-	400
Designated for unrealized gains on investments	-	-	-	-
Designated for future expenditures	176,124	-	-	-
Designated for cash flows	9,232,638	4,013,197	6,898,016	-
Undesignated	-	-	-	4,180,216
Unreserved, reported in nonmajor Special revenue funds	-	-	-	-
Total Fund Balances	\$ 11,315,390	\$ 4,649,966	\$ 6,898,016	\$ 9,463,609
Total Liabilities and Fund Balances	\$ 15,059,847	\$ 6,709,315	\$ 7,506,861	\$ 11,104,686

EXHIBIT 3
(Continued)

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 256,080
-	-	-	-	380,264
-	4,500,957	-	-	4,523,756
-	-	-	-	436,542
-	-	-	-	104,150
-	-	-	-	244,989
-	-	-	-	81,457
-	-	-	-	79,165
-	-	-	-	75,000
-	-	-	-	5,282,993
-	-	-	-	5,762
-	570,293	-	-	912,970
-	4,140,639	-	-	4,140,639
-	-	-	-	512,097
-	-	-	-	350
219,332	-	-	-	219,332
-	5,248,270	-	-	5,248,270
-	-	-	-	2,465
683	-	-	-	683
-	-	-	-	176,124
-	-	-	-	20,143,851
3,427,257	-	3,952,461	-	11,559,934
-	-	-	4,902,302	4,902,302
\$ 3,647,272	\$ 14,460,159	\$ 3,952,461	\$ 4,902,302	\$ 59,289,175
\$ 3,660,783	\$ 27,249,342	\$ 6,739,340	\$ 6,416,046	\$ 84,446,220

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010**

Fund balances - total governmental funds (Exhibit 3) \$ 59,289,175

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 155,429,443

Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds. 266,586

Revenue in the statement of activities that do not provide current financial resources are not reported in the governmental funds.

Revenue deferred as unavailable	\$ 19,958,758	
Allowance for uncollectible receivables included in deferred revenue	(283,637)	19,675,121

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	\$ (28,300,000)	
Special assessment bonds	(21,935,000)	
Unamortized premium on bonds	(164,746)	
Unamortized discount on bonds	188,252	
Capital leases payable	(3,095,687)	
Loans payable	(19,261,366)	
Estimated liability for landfill closure/postclosure	(6,429,132)	
Compensated absences	(4,204,561)	
Net other postemployment benefits	48,561	(83,153,679)

Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds. (962,257)

Net Assets of Governmental Activities (Exhibit 1) \$ 150,544,389

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Sanitary Landfill/ Recycling Center</u>
Revenues				
Taxes	\$ 12,782,164	\$ 3,599,059	\$ 4,993,292	\$ -
Special assessments	193,379	4,439	-	928,754
Licenses and permits	350,121	-	-	980
Intergovernmental	4,654,903	6,724,106	7,718,968	142,965
Charges for services	4,195,640	669,243	820,900	2,080,187
Fines and forfeits	-	-	-	-
Gifts and contributions	7,210	-	-	-
Investment earnings	156,857	65,157	-	175,449
Miscellaneous	1,131,906	-	284,188	496,851
Total Revenues	\$ 23,472,180	\$ 11,062,004	\$ 13,817,348	\$ 3,825,186
Expenditures				
Current				
General government	\$ 8,108,868	\$ -	\$ -	\$ -
Public safety	12,839,425	-	-	-
Highways and streets	-	11,249,686	-	-
Sanitation	-	-	-	2,587,206
Human services	-	-	13,227,676	-
Health	2,538,219	-	-	-
Culture and recreation	501,204	-	-	-
Conservation of natural resources	683,956	-	-	-
Economic development	8,462	-	-	-
Intergovernmental				
Highways and streets	-	303,307	-	-
Culture and recreation	-	-	-	-
Capital outlay				
General government	-	-	-	-
Public safety	-	-	-	-
Sanitation	-	-	-	-
Debt service				
Principal	110,147	405,000	-	255,000
Interest	16,753	162,917	-	18,352
Bond issuance costs	-	-	-	-
Administrative (fiscal) charges	-	2,000	-	431
Total Expenditures	\$ 24,807,034	\$ 12,122,910	\$ 13,227,676	\$ 2,860,989
Excess of Revenues Over (Under) Expenditures	\$ (1,334,854)	\$ (1,060,906)	\$ 589,672	\$ 964,197

EXHIBIT 5

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 317,970	\$ 1,696,310	\$ -	\$ 1,323,890	\$ 24,712,685
-	2,023,297	80,257	257,021	3,487,147
-	-	-	-	351,101
42,038	203,443	-	423,534	19,909,957
-	1,964,558	-	1,002,303	10,732,831
-	-	-	16,299	16,299
-	-	-	1,000	8,210
159,461	-	-	(25,802)	531,122
41,993	340,672	179,352	1,724,001	4,198,963
\$ 561,462	\$ 6,228,280	\$ 259,609	\$ 4,722,246	\$ 63,948,315
\$ 44,641	\$ -	\$ -	\$ 1,083,821	\$ 9,237,330
2,950	-	-	71,209	12,913,584
-	-	-	215,149	11,464,835
-	-	-	1,049,609	3,636,815
-	-	-	-	13,227,676
-	-	-	1,252	2,539,471
28,092	-	-	178,337	707,633
-	-	-	405,694	1,089,650
-	-	-	-	8,462
-	-	-	-	303,307
-	-	-	345,800	345,800
-	-	644	-	644
-	-	120,852	-	120,852
-	-	3,469,108	-	3,469,108
481	3,643,000	-	624,789	5,038,417
36	1,897,617	-	169,627	2,265,302
-	42,362	43,743	-	86,105
-	6,339	-	-	8,770
\$ 76,200	\$ 5,589,318	\$ 3,634,347	\$ 4,145,287	\$ 66,463,761
\$ 485,262	\$ 638,962	\$ (3,374,738)	\$ 576,959	\$ (2,515,446)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Sanitary Landfill/ Recycling Center</u>
Other Financing Sources (Uses)				
Transfers in	\$ 1,141,000	\$ -	\$ -	\$ -
Transfers out	(337,897)	-	-	(1,141,000)
Loans issued	314,010	-	-	-
Bonds issued	-	-	-	-
Refunding bonds issued	-	-	-	-
Premium on bonds/notes issued	-	-	-	-
Discount on bonds issued	-	-	-	-
Sale of capital assets	4,801	-	-	-
Total Other Financing Sources (Uses)	\$ 1,121,914	\$ -	\$ -	\$ (1,141,000)
Net Changes in Fund Balances	\$ (212,940)	\$ (1,060,906)	\$ 589,672	\$ (176,803)
Fund Balance - January 1	11,528,330	5,670,780	6,308,344	9,640,412
Increase (decrease) in reserved for inventories	-	40,092	-	-
Fund Balance - December 31	\$ 11,315,390	\$ 4,649,966	\$ 6,898,016	\$ 9,463,609

EXHIBIT 5
(Continued)

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ 912,019	\$ 100,292	\$ 18,000	\$ 2,171,311
(100,292)	-	(18,000)	(574,122)	(2,171,311)
-	-	-	-	314,010
-	-	6,245,000	-	6,245,000
-	4,220,000	-	-	4,220,000
-	-	76,080	-	76,080
-	(33,353)	-	-	(33,353)
-	-	-	-	4,801
<u>\$ (100,292)</u>	<u>\$ 5,098,666</u>	<u>\$ 6,403,372</u>	<u>\$ (556,122)</u>	<u>\$ 10,826,538</u>
\$ 384,970	\$ 5,737,628	\$ 3,028,634	\$ 20,837	\$ 8,311,092
3,262,302	8,722,531	923,827	4,881,465	50,937,991
-	-	-	-	40,092
<u>\$ 3,647,272</u>	<u>\$ 14,460,159</u>	<u>\$ 3,952,461</u>	<u>\$ 4,902,302</u>	<u>\$ 59,289,175</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 8,311,092

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	\$ 19,958,758	
Less: allowance for uncollectible receivables	(283,637)	
Deferred revenue - January 1	(18,508,176)	
Less: allowance for uncollectible receivables	<u>257,308</u>	1,424,253

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 assets differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 8,689,305	
Current year depreciation	<u>(4,574,156)</u>	4,115,149

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 assets. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net assets.

Debt issued		
Bonds issued	\$ (6,245,000)	
Refunding bonds issued	(4,220,000)	
Premium on bonds issued	(76,080)	
Discount on refunding bonds issued	33,353	
Debt issuance costs	86,105	
Loans issued	<u>(328,640)</u>	(10,750,262)

Principal repayments		
General obligation bonds	\$ 2,770,000	
Special assessment bonds	320,000	
Paving special assessments	481	
Capital leases	314,093	
Loans payable	<u>1,633,843</u>	5,038,417

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT 6
(Continued)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

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	\$ (98,182)	
Current year amortization of premium on bonds issued	22,060	
Current year amortization of discount on bonds issued	(13,295)	
Current year amortization of deferred debt issuance costs	(28,034)	
Change in compensated absences	(714,872)	
Change in net other postemployment benefits	(10,647)	
Change in inventories	40,092	
Change in estimated liability for landfill closure/postclosure	3,298,447	<u>2,495,569</u>
Change in Net Assets of Governmental Activities (Exhibit 2)		<u>\$ 10,634,218</u>

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FIDUCIARY FUNDS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010**

	County Cemetery Investment Trust Fund	Agency Funds
<u>Assets</u>		
Cash and investments	\$ 29,957	\$ 1,641,312
Accrued interest receivable	75	-
Due from other governments	85	-
Total Assets	\$ 30,117	\$ 1,641,312
<u>Liabilities</u>		
Due to other governments	\$ -	\$ 1,641,312
<u>Net Assets</u>		
Net assets, held in trust for perpetual care - expendable	\$ 30,117	

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
COUNTY CEMETERY INVESTMENT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Total</u>
<u>Additions</u>	
Investment earnings	\$ 444
Miscellaneous	<u>85</u>
Total additions	\$ 529
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>-</u>
Change in net assets	\$ 529
Net Assets - January 1	<u>29,588</u>
Net Assets - December 31	<u>\$ 30,117</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2010. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. 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 that 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 assets 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 assets, 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 assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. 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 general government, except those required to be accounted for in another fund.

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

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

The Sanitary Landfill/Recycling Center Special Revenue Fund is used to account 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 is used to account for funds used for improvements to and purchases of County buildings. Financing is provided by property taxes authorized by the County Board.

The Debt Service Fund is used to account for financial resources to be used to account for the payment of principal, interest, and related costs of the County's debt obligations.

The Capital Projects Fund is used to account for financial resources to be used 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 County Cemetery Investment Trust Fund is used to account for the collection and distribution of funds to the County Cemetery Association.

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 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 Assets 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, 2010, 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 2010 were \$44,323.

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). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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 Assets 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 2001 through 2010 and deferred special assessments payable in 2011 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 assets 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.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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 \$2,500 and an estimated useful 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

6. Compensated Absences

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets 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 assets. 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. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Special Revenue Fund

Forty-nine of 108 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 unreserved, undesignated fund balance as of December 31, 2010:

Account balances	\$ 429,744
Account deficits	<u>(639,393)</u>
Fund Balance	<u>\$ (209,649)</u>

Regional Treatment Center Special Revenue Fund

At December 31, 2010, the Regional Treatment Center Special Revenue Fund had a deficit fund balance of \$219,272. 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, 2010:

	Expenditures	Final Budget	Excess
General Fund	\$ 24,807,034	\$ 23,685,100	\$ 1,121,934
Special Revenue Funds			
Road and Bridge	12,122,910	10,959,800	1,163,110
Capital Equipment	436,379	-	436,379

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and investments	\$ 51,255,143
Cash with escrow agent	4,140,639
Statement of fiduciary net assets	
Cash and investments	1,671,269
Total Cash and Investments	\$ 57,067,051

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

2. 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, 2010, 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

2. 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, 2010, 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					
Federal Farm Credit Bank	Aaa	Moody's	6.0%	12/08/2025	\$ 1,807,183
Federal Home Loan Bank	Aaa	Moody's		12/28/2018	\$ 779,984
Federal Home Loan Bank	Aaa	Moody's		11/26/2018	695,730
Federal Home Loan Bank	Aaa	Moody's		12/16/2015	425,292
Federal Home Loan Bank	Aaa	Moody's		09/29/2017	249,683
Federal Home Loan Bank	Aaa	Moody's		06/30/2014	201,602
Federal Home Loan Bank	Aaa	Moody's		06/29/2016	161,237
Federal Home Loan Bank	Aaa	Moody's		10/29/2015	751,463
Total Federal Home Loan Bank			10.8%		\$ 3,264,991

**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		07/14/2015	\$ 500,190
Federal National Mortgage Association	Aaa	Moody's		08/24/2022	593,730
Federal National Mortgage Association	Aaa	Moody's		10/01/2028	11,054
Federal National Mortgage Association	Aaa	Moody's		07/07/2025	982,597
Federal National Mortgage Association	Aaa	Moody's		12/01/2031	5,386
Federal National Mortgage Association	Aaa	Moody's		02/09/2026	502,460
Federal National Mortgage Association	Aaa	Moody's		06/07/2027	3,269,539
Federal National Mortgage Association	Aaa	Moody's		06/15/2027	105,040
Federal National Mortgage Association	Aaa	Moody's		09/30/2025	188,348
Total Federal National Mortgage Association			20.3%		\$ 6,158,344
Federal Home Loan Mortgage Corporation	Aaa	Moody's		08/25/2020	\$ 4,336,066
Federal Home Loan Mortgage Corporation	Aaa	Moody's		01/15/2013	100,015
Federal Home Loan Mortgage Corporation	Aaa	Moody's		02/15/2014	1,500,750
Federal Home Loan Mortgage Corporation	Aaa	Moody's		05/20/2025	2,148,607
Federal Home Loan Mortgage Corporation	Aaa	Moody's		09/22/2025	3,035,721
Federal Home Loan Mortgage Corporation	Aaa	Moody's		06/30/2020	504,995
Total Federal Home Loan Mortgage Corporation			38.3%		\$ 11,626,154
Total U.S. government securities					\$ 22,856,672
State and local government securities					
Time deposit SLGS	N/A	N/R		02/01/2011	\$ 46,273
Time deposit SLGS	N/A	N/R		08/21/2011	42,151
Time deposit SLGS	N/A	N/R		02/01/2012	4,052,215
Total state and local government securities			13.6%		\$ 4,140,639
Investment pools					
MAGIC Fund	N/A	N/R	11.0%	N/A	\$ 3,354,040
Total investments					\$ 30,351,351
Checking					19,364,401
Savings					6,119,301
Money market					113,111
Certificates of deposit					1,116,372
Petty cash					2,515
Total Cash and Investments					\$ 57,067,051

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

2. Receivables

Receivables as of December 31, 2010, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Funds		
Receivables		
Taxes	\$ 515,508	\$ -
Special assessments	18,538,962	14,765,648
Accounts	453,779	-
Accrued interest	148,399	-
Due from other governments	2,815,248	-
Loans	4,523,756	4,124,707
Long-term	219,332	200,666
Total gross receivables	\$ 27,214,984	\$ 19,091,021
Less: allowance for uncollectibles	(283,637)	
Total Net Receivables	\$ 26,931,347	

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, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 5,189,130	\$ 90,405	\$ -	\$ 5,279,535
Construction in progress	18,561,226	3,322,119	13,856,576	8,026,769
Total capital assets not depreciated	\$ 23,750,356	\$ 3,412,524	\$ 13,856,576	\$ 13,306,304
Capital assets depreciated				
Landfill	\$ 3,948,130	\$ -	\$ -	\$ 3,948,130
Buildings	44,123,258	714,091	-	44,837,349
Machinery, vehicles, furniture, and equipment	12,403,505	3,115,053	276,175	15,242,383
Infrastructure	103,216,147	15,304,213	-	118,520,360
Total capital assets depreciated	\$ 163,691,040	\$ 19,133,357	\$ 276,175	\$ 182,548,222
Less: accumulated depreciation for				
Landfill	\$ 907,151	\$ 79,263	\$ -	\$ 986,414
Buildings	9,246,649	974,965	-	10,221,614
Machinery, vehicles, furniture, and equipment	7,954,946	1,130,333	276,175	8,809,104
Infrastructure	18,018,356	2,389,595	-	20,407,951
Total accumulated depreciation	\$ 36,127,102	\$ 4,574,156	\$ 276,175	\$ 40,425,083
Total capital assets depreciated, net	\$ 127,563,938	\$ 14,559,201	\$ -	\$ 142,123,139
Governmental Activities Capital Assets, Net	\$ 151,314,294	\$ 17,971,725	\$ 13,856,576	\$ 155,429,443

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

Governmental Activities	
General government	\$ 558,923
Public safety	800,722
Highways and streets, including depreciation of infrastructure assets	1,991,599
Sanitation	1,010,739
Human services	18,996
Health	2,278
Culture and recreation	18,385
Conservation of natural resources	172,514
Total Depreciation Expense - Governmental Activities	\$ 4,574,156

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2010, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General	Road and Bridge	\$ 18,562	Payroll clearing account and payroll taxes Charges for services rendered and supplies provided Charges for services rendered and supplies provided Charges for services rendered and supplies provided
	Human Services	28,022	
	Sanitary Landfill	1,438	
	Other governmental	<u>578</u>	
Total due to General Fund		<u>\$ 48,600</u>	
Road and Bridge	General	\$ 17,954	Charges for services rendered Charges for services rendered Charges for services rendered
	Sanitary Landfill	5,093	
	Other governmental	<u>14,618</u>	
Total due to Road and Bridge Fund		<u>\$ 37,665</u>	
Human Services	General	<u>\$ 350</u>	Charges for services rendered
Debt Service	General	<u>\$ 626,142</u>	Correction of ARMER Activity
County Building	Human Services	\$ 208	Charges for services rendered Rent receipt miscoded
	Other governmental	<u>7,245</u>	
Total due to County Building Fund		<u>\$ 7,453</u>	
Other governmental	General	\$ 113	Charges for services rendered Ditch special assessments Capitalized interest owed
	Road and Bridge	15,154	
	Capital Projects	<u>175,000</u>	
Total due to other governmental funds		<u>\$ 190,267</u>	
Total Due To/From Other Funds		<u>\$ 910,477</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. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of the following:

Transfer to General Fund from Sanitary Landfill Fund	<u>\$ 1,141,000</u>	Provide funds for operations
Transfers to Debt Service Fund from General Fund	\$ 337,897	Provide funds for debt service
Nonmajor funds	<u>574,122</u>	Provide funds for debt service
Total Debt Service Fund transfers	<u>\$ 912,019</u>	
Transfers to Capital Projects Fund from County Building Fund	<u>\$ 100,292</u>	Provide funds for capital projects
Transfers to nonmajor funds from Capital Projects Fund	<u>\$ 18,000</u>	Provide funds for operations and maintenance of GLSSWD lift stations
Total Interfund Transfers	<u>\$ 2,171,311</u>	

C. Liabilities

1. Payables

Payables at December 31, 2010, were as follows:

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Accounts	\$ 1,271,981	\$ -
Salaries	1,266,656	-
Contracts	29,385	-
Retainage	428,257	-
Due to other governments	<u>442,135</u>	<u>1,641,312</u>
Total Payables	<u>\$ 3,438,414</u>	<u>\$ 1,641,312</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

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 21 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2010, the County expended \$81,720 for these benefits.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2010
General Obligation Bonds					
2000 G.O. Solid Waste Refunding Bonds	2011	\$225,000 - \$290,000	4.30 - 4.70	\$ 2,560,000	\$ 265,000
2004 Taxable G.O. Tax Abatement Bonds	2022	\$270,000 - \$540,000	3.125 - 5.30	6,135,000	4,990,000
2004 G.O. Law Enforcement Facility Refunding Bonds	2021	\$385,000 - \$1,340,000	3.375 - 4.15	7,045,000	6,260,000
2005 G.O. Road Reconstruction Bonds	2027	\$125,000 - \$270,000	3.75 - 4.25	3,700,000	3,310,000
2007 G.O. Law Enforcement Facility Refunding Bonds	2020	\$435,000 - \$695,000	4.00	7,100,000	5,770,000
2008 G.O. Capital Equipment Bonds	2016	\$40,000 - \$510,000	3.00 - 4.80	3,550,000	3,090,000
2009A Capital Improvement Bonds	2016	\$490,000 - \$615,000	2.00 - 3.00	4,010,000	3,520,000
2009B State Aid Highway Refunding Bonds	2014	\$265,000 - \$285,000	2.00 - 2.25	1,365,000	1,095,000
Total General Obligation Bonds				<u>\$ 35,465,000</u>	<u>\$ 28,300,000</u>

**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, 2010
Special Assessment Bonds with Government Commitment					
2001B G.O. Sewer and Water Revenue Bonds	2022	\$30,000 - \$495,000	2.65 - 4.85	\$ 6,000,000	\$ 4,610,000
2002A Green Lake Sewer and Water Revenue Bonds	2023	\$15,000 - \$80,000	3.50 - 4.85	1,000,000	760,000
2008 G.O. Wastewater Revenue Bonds	2030	\$215,000 - \$425,000	3.00 - 4.80	6,100,000	6,100,000
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
Total Special Assessment Bonds with Government Commitment				<u>\$ 23,565,000</u>	<u>\$ 21,935,000</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>\$ 3,095,687</u>
2000 Public Facilities Authority Clean Water G.O. Revenue Note	2020	\$6,397 - \$455,000	2.25	\$ 7,188,360	\$ 4,124,000
2001 Public Facilities Authority Clean Water G.O. Revenue Note	2021	\$3,344 - \$228,000	2.25	3,648,450	2,247,000
2002 Public Facilities Authority Clean Water G.O. Revenue Note	2021	\$567 - \$40,000	2.14	651,000	399,000
2006A Public Facilities Authority Clean Water G.O. Revenue Note	2026	\$178,876 - \$216,000	1.00	3,761,876	3,216,000
1999 Public Facilities Authority Drinking Water G.O. Revenue Note	2019	\$6,027 - \$313,000	3.54	4,446,000	2,460,000
2000 Public Facilities Authority Drinking Water G.O. Revenue Note	2019	\$3,054 - \$158,450	3.54	2,262,450	1,246,450
2001 Public Facilities Authority Drinking Water G.O. Revenue Note	2020	\$1,409 - \$70,000	3.54	1,012,260	602,000
2002 Public Facilities Authority Drinking Water G.O. Revenue Note	2021	\$333 - \$16,000	3.54	233,000	148,000
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	57,853
Hawk Creek Watershed Continuation Clean Water Partnership Project	2016	\$17,027	2.00	307,260	191,639
Shakopee Creek Headwaters Clean Water Partnership Project	2015	\$12,907	2.00	232,906	110,558

**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, 2010
Hawk Creek Watershed Continuation Clean Water Partnership Project	2020	\$26,804	2.00	483,701	461,734
Shakopee Creek Headwaters Continuation Clean Water Partnership Project	2018	\$11,515	2.00	207,794	169,475
Crow River Basin Clean Water Partnership Project*	2021	\$23,752	2.00	370,772	370,772
Shakopee Creek Headwaters Continuation Clean Water Partnership Project*	2021	\$14,408	2.00	123,152	123,152
Hawk Creek Watershed Continuation Clean Water Partnership Project*	2023	\$18,154	2.00	52,982	52,982
Boiler Replacement Loan	2012	\$9,233	5.00	870,000	342,627
City of New London USDA Rural Development	2042	\$19,800 - \$97,000	4.375	1,884,800	1,730,000
Total Loans Payable				<u>\$ 29,100,056</u>	<u>\$ 19,261,366</u>

*The outstanding balance for these loans represents the amount received from the Minnesota Pollution Control Agency as of December 31, 2010. The County has not finished drawing down funds on these loans; therefore, final debt payment schedules are not available. The payment schedule below does not include the debt service requirements on these loans.

4. Debt Service Requirements

Debt service requirements at December 31, 2010, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2011	\$ 2,910,000	\$ 1,045,447	\$ 555,000	\$ 851,037
2012	2,735,000	950,567	4,585,000	719,354
2013	2,815,000	857,457	880,000	604,315
2014	2,910,000	758,756	900,000	582,395
2015	2,725,000	655,988	920,000	558,027
2016 - 2020	10,165,000	1,913,599	5,070,000	2,338,835
2021 - 2025	3,515,000	315,643	4,325,000	1,416,036
2026 - 2030	525,000	22,631	3,845,000	607,624
2031 - 2035	-	-	855,000	34,500
2036 - 2040	-	-	-	-
2041 - 2045	-	-	-	-
Total	<u>\$ 28,300,000</u>	<u>\$ 6,520,088</u>	<u>\$ 21,935,000</u>	<u>\$ 7,712,123</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Loans		Capital Leases	
	Principal	Interest	Principal	Interest
2011	\$ 1,695,174	\$ 452,631	\$ 328,607	\$ 137,726
2012	1,386,252	402,942	343,792	122,541
2013	1,422,011	368,516	359,679	106,654
2014	1,449,226	332,648	376,300	90,033
2015	1,463,332	296,059	393,688	72,644
2016 - 2020	7,125,341	912,970	1,293,621	105,377
2021 - 2025	1,549,000	340,965	-	-
2026 - 2030	1,356,000	242,342	-	-
2031 - 2035	667,124	176,234	-	-
2036 - 2040	411,000	97,101	-	-
2041 - 2045	190,000	12,579	-	-
Total	\$ 18,714,460	\$ 3,634,987	\$ 3,095,687	\$ 634,975

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 31,070,000	\$ -	\$ 2,770,000	\$ 28,300,000	\$ 2,910,000
Special assessment debt with government commitment	11,790,000	10,465,000	320,000	21,935,000	555,000
Add: premium on bonds	110,726	76,080	22,060	164,746	14,539
Less: discount on bonds	(168,194)	(33,353)	(13,295)	(188,252)	(9,358)
Total bonds payable	\$ 42,802,532	\$ 10,507,727	\$ 3,098,765	\$ 50,211,494	\$ 3,470,181
Paving special assessments	481	-	481	-	-
Capital lease	3,409,780	-	314,093	3,095,687	328,607
Loans payable	20,566,569	328,640	1,633,843	19,261,366	1,398,517
Estimated liability for landfill closure/postclosure	9,727,579	-	3,298,447	6,429,132	-
Compensated absences	3,489,689	1,026,598	311,726	4,204,561	122,868
Governmental Activities Long-Term Liabilities	\$ 79,996,630	\$ 11,862,965	\$ 8,657,355	\$ 83,202,240	\$ 5,320,173

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

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

General	\$	110,147
Road and Bridge		405,000
Sanitary Landfill/Recycling Center		255,000
County Building		481
Debt Service		3,643,000
Other governmental funds		624,789
		<hr/>
Total Debt Reductions	\$	<u>5,038,417</u>

6. Crossover Refunding

On July 13, 2010, the County issued \$4,220,000 2010B G.O. Sewer and Water Revenue Refunding Bonds to refund the 2001B G.O. Sewer and Water Revenue Bonds. This is a crossover refunding with the proceeds deposited with an escrow agent. The 2001B Series will be called on February 1, 2012, and redeemed with proceeds from the escrow account. The County will start making semiannual interest payments on the 2010B Series on February 1, 2011, and will start making annual principal payments on February 1, 2013. The County refunded the 2001B Series to reduce its total debt service payments by \$217,781 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$179,216.

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 Plans (Continued)

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.00 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.40 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 2010:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.00
Public Employees Police and Fire Fund	14.10
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2010	2009	2008
General Employees Retirement Fund	\$ 1,122,542	\$ 1,071,007	\$ 991,582
Public Employees Police and Fire Fund	330,701	320,650	291,070
Public Employees Correctional Fund	198,712	194,191	193,764

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 Plans (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 2010, the County contributed \$148,635 to the plan; there were 428 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	\$ 158,359
Interest on net OPEB obligation	(2,664)
Adjustments to ARC	<u>3,587</u>
Annual OPEB cost (expense)	\$ 159,282
Contributions made	<u>(148,635)</u>
Increase (Decrease) in net OPEB obligation	\$ 10,647
Net OPEB Obligation/(Asset) - Beginning of Year	<u>(59,208)</u>
Net OPEB Obligation/(Asset) - End of Year	<u><u>\$ (48,561)</u></u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

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 2010 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, 2008	\$ 132,480	\$ 164,118	123.9%	\$ (31,638)
December 31, 2009	132,956	160,526	120.7	(59,208)
December 31, 2010	159,282	148,635	93.3	(48,561)

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the County had no assets to fund the plan. The actuarial liability for benefits was \$1,753,622, and the actuarial valuation of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,753,622. The covered payroll (annual payroll of active employees covered by the plan) was \$20,734,186, and the ratio of the UAAL to the covered payroll was 8.5 percent.

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

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of 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, 2010, 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 8.5 percent initially, reduced by decrements to an ultimate rate of five percent after seven 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, 2010, was 27 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 \$6,429,132 with no remaining capacity to be filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2010. 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, 2010, cash and investments of \$5,282,993 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 self-insures 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 \$450,000 per claim in 2010 and 2011. 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 2010. 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, 2010 and 2009. The following discloses the claims activity during fiscal years 2010 and 2009.

	Year Ended December 31	
	2010	2009
Beginning liability	\$ -	\$ -
Current year claims	254,224	216,346
Claim payments	(254,224)	(216,346)
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.

At December 31, 2010, the Youth Program had long-term debt of \$392,771. This debt consisted of \$173,438 related to compensated absences, and \$219,333 for a contract for deed. 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

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 Lincoln, Lyon, & Murray Human Services,

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium (Continued)

creating and operating the Southwestern Minnesota Adult Mental Health Consortium under the authority of Minn. Stat. § 471.59. The Consortium is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Consortium shall take actions and enter into such agreements as may be necessary to plan and develop within the Consortium'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 Board member 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, 2009 (the most recent information available):

Total Assets	\$ 2,304,308
Total Liabilities	327,637
Total Net Assets	1,976,671
Total Revenues	4,271,686
Total Expenditures/Expenses	4,327,451
Increase (Decrease) in Net Assets	(55,765)

The Consortium reported no long-term obligations at December 31, 2009.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium 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 Board member 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 Regional Radio 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 Regional Radio Board.

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 (PACT) 4 Families Collaborative

PACT 4 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.

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**

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

F. Subsequent Event

The Board of County Commissioners, in its meeting on April 5, 2011, approved a motion to borrow money in the form of a general obligation note from the Minnesota Pollution Control Agency in the amount of \$600,000.

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, 2010.

The HRA's government-wide financial statements (the statement of net assets 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, 2010, are summarized as follows:

Unrestricted	
Cash on deposit	\$ 317,797
Investments (certificates of deposit)	472,092
Restricted	
Cash on deposit	<u>69,511</u>
Total	<u>\$ 859,400</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 \$859,400 as of June 30, 2010; the bank balance was \$870,688. Of the bank balance, \$268,825 was covered by federal depository insurance and the remainder was covered by qualified collateral held in safekeeping.

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 was in compliance with these Minnesota statutes at June 30, 2010.

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, 2010, were as follows:

Accounts	\$	13,233
Rent		684
Taxes		62,340
Notes		366,070
		366,070
Total Receivables	\$	442,327

F. Capital Assets

The HRA's capital asset activity for the year ended June 30, 2010, 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	412,554	39,112	-	451,666
	\$ 1,015,891	\$ (39,112)	\$ -	\$ 976,779
Total Capital Assets, Net	\$ 1,098,250	\$ (39,112)	\$ -	\$ 1,059,138

Depreciation expense of \$39,112 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, 2010, were as follows:

Accounts	\$	10,302
Accrued payroll and payroll taxes		35,804
Other accrued liabilities		6,826
Total	\$	52,932

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, 2010, 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	2030	5.25 - 8.75	\$ 1,530,000	\$ 1,266,517
MHFA	2036	n/a	348,561	348,561
Total			\$ 1,878,561	\$ 1,615,078

**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, 2010, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 39,562	\$ 57,689	\$ 97,251
2012	41,462	55,789	97,251
2013	43,454	53,798	97,252
2014	45,540	51,711	97,251
2015	47,728	49,524	97,252
2016 - 2020	275,303	210,954	486,257
2021 - 2025	348,073	138,184	486,257
2026 - 2030	425,395	46,428	471,823
2031 - 2035	348,561	-	348,561
Total	<u>\$ 1,615,078</u>	<u>\$ 664,077</u>	<u>\$ 2,279,155</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 \$1,647.

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, 2010, totaled \$15,615.

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

<u>Year Ending</u>	<u>Amount</u>
2011	\$ 20,612
2012	21,036
2013	7,012
Total	<u>\$ 48,660</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 12,891,197	\$ 12,891,197	\$ 12,782,164	\$ (109,033)
Special assessments	-	-	193,379	193,379
Licenses and permits	383,600	383,600	350,121	(33,479)
Intergovernmental	2,776,000	2,776,000	4,654,903	1,878,903
Charges for services	3,916,400	3,916,400	4,195,640	279,240
Gifts and contributions	-	-	7,210	7,210
Investment earnings	500,000	500,000	156,857	(343,143)
Miscellaneous	241,000	241,000	1,131,906	890,906
Total Revenues	\$ 20,708,197	\$ 20,708,197	\$ 23,472,180	\$ 2,763,983
Expenditures				
Current				
General government				
Commissioners	\$ 373,000	\$ 373,000	\$ 328,814	\$ 44,186
Courts	40,000	40,000	20,184	19,816
County auditor	1,104,600	1,104,600	1,110,319	(5,719)
County assessor	468,300	468,300	369,788	98,512
Elections	45,000	45,000	64,836	(19,836)
Records management	65,300	65,300	61,647	3,653
Data processing	833,200	833,200	1,157,135	(323,935)
Attorney	1,120,200	1,120,200	1,139,822	(19,622)
Law library	100,000	100,000	83,495	16,505
Recorder	451,600	451,600	421,790	29,810
Surveyor	60,200	60,200	54,199	6,001
Planning and zoning	449,700	449,700	709,926	(260,226)
Buildings and plant	590,200	590,200	464,645	125,555
Veterans service officer	163,800	163,800	167,877	(4,077)
County administrator	359,400	359,400	341,271	18,129
Other general government	623,400	623,400	1,613,120	(989,720)
Total general government	\$ 6,847,900	\$ 6,847,900	\$ 8,108,868	\$ (1,260,968)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<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	\$ 5,663,700	\$ 5,663,700	\$ 5,526,087	\$ 137,613
Boat and water safety	49,900	49,900	41,888	8,012
Coroner	56,000	56,000	27,995	28,005
E-911 system	-	-	58,755	(58,755)
County jail	4,171,100	4,171,100	3,983,108	187,992
Law enforcement center	725,500	725,500	636,998	88,502
Community corrections	2,346,700	2,346,700	2,244,818	101,882
Civil defense	215,700	215,700	202,211	13,489
Other	63,600	63,600	117,565	(53,965)
Total public safety	\$ 13,292,200	\$ 13,292,200	\$ 12,839,425	\$ 452,775
Health				
Nursing service	\$ 2,411,700	\$ 2,411,700	\$ 2,538,219	\$ (126,519)
Culture and recreation				
Historical society	\$ 54,000	\$ 54,000	\$ 54,000	\$ -
Parks	319,900	319,900	335,134	(15,234)
Snowmobile trails	-	-	84,401	(84,401)
Other	29,000	29,000	27,669	1,331
Total culture and recreation	\$ 402,900	\$ 402,900	\$ 501,204	\$ (98,304)
Conservation of natural resources				
County extension	\$ 193,800	\$ 193,800	\$ 181,626	\$ 12,174
Soil and water conservation	128,600	128,600	128,600	-
Agricultural inspections	85,900	85,900	83,222	2,678
Agricultural society/County fair	18,000	18,000	18,956	(956)
Water planning	51,100	51,100	43,326	7,774
Environmental services	62,700	62,700	41,256	21,444
Land use	7,700	7,700	10,890	(3,190)
Other	169,600	169,600	176,080	(6,480)
Total conservation of natural resources	\$ 717,400	\$ 717,400	\$ 683,956	\$ 33,444
Economic development				
Community development	\$ 13,000	\$ 13,000	\$ 8,462	\$ 4,538

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Debt service				
Principal	\$ -	\$ -	\$ 110,147	\$ (110,147)
Interest	-	-	16,753	(16,753)
Total debt service	\$ -	\$ -	\$ 126,900	\$ (126,900)
Total Expenditures	\$ 23,685,100	\$ 23,685,100	\$ 24,807,034	\$ (1,121,934)
Excess of Revenues Over (Under)				
Expenditures	\$ (2,976,903)	\$ (2,976,903)	\$ (1,334,854)	\$ 1,642,049
Other Financing Sources (Uses)				
Transfers in	\$ 917,900	\$ 917,900	\$ 1,141,000	\$ 223,100
Transfers out	-	-	(337,897)	(337,897)
Loans issued	2,400	2,400	314,010	311,610
Sale of capital assets	-	-	4,801	4,801
Total Other Financing Sources (Uses)	\$ 920,300	\$ 920,300	\$ 1,121,914	\$ 201,614
Net Change in Fund Balance	\$ (2,056,603)	\$ (2,056,603)	\$ (212,940)	\$ 1,843,663
Fund Balance - January 1	11,528,330	11,528,330	11,528,330	-
Fund Balance - December 31	\$ 9,471,727	\$ 9,471,727	\$ 11,315,390	\$ 1,843,663

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,691,337	\$ 3,691,337	\$ 3,599,059	\$ (92,278)
Special assessments	-	-	4,439	4,439
Intergovernmental	5,607,463	5,607,463	6,724,106	1,116,643
Charges for services	1,750,000	1,750,000	669,243	(1,080,757)
Investment earnings	80,000	80,000	65,157	(14,843)
Total Revenues	\$ 11,128,800	\$ 11,128,800	\$ 11,062,004	\$ (66,796)
Expenditures				
Current				
Highways and streets				
Administration	\$ -	\$ -	\$ 707,178	\$ (707,178)
Maintenance	3,692,800	3,692,800	2,404,098	1,288,702
Construction	5,169,000	5,169,000	7,103,883	(1,934,883)
Equipment maintenance and shop	1,800,000	1,800,000	1,034,527	765,473
Total highways and streets	\$ 10,661,800	\$ 10,661,800	\$ 11,249,686	\$ (587,886)
Intergovernmental				
Highways and streets	-	-	303,307	(303,307)
Debt service				
Principal	-	-	405,000	(405,000)
Interest	298,000	298,000	162,917	135,083
Administrative (fiscal) charges	-	-	2,000	(2,000)
Total Expenditures	\$ 10,959,800	\$ 10,959,800	\$ 12,122,910	\$ (1,163,110)
Net Change in Fund Balance	\$ 169,000	\$ 169,000	\$ (1,060,906)	\$ (1,229,906)
Fund Balance - January 1	5,670,780	5,670,780	5,670,780	-
Increase (decrease) in reserved for inventories	-	-	40,092	40,092
Fund Balance - December 31	\$ 5,839,780	\$ 5,839,780	\$ 4,649,966	\$ (1,189,814)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,252,972	\$ 5,252,972	\$ 4,993,292	\$ (259,680)
Intergovernmental	7,040,028	7,040,028	7,718,968	678,940
Charges for services	734,700	734,700	820,900	86,200
Miscellaneous	180,900	180,900	284,188	103,288
Total Revenues	\$ 13,208,600	\$ 13,208,600	\$ 13,817,348	\$ 608,748
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,360,020	\$ 3,360,020	\$ 3,611,448	\$ (251,428)
Social services	10,220,380	10,220,380	9,616,228	604,152
Total Expenditures	\$ 13,580,400	\$ 13,580,400	\$ 13,227,676	\$ 352,724
Net Change in Fund Balance	\$ (371,800)	\$ (371,800)	\$ 589,672	\$ 961,472
Fund Balance - January 1	6,308,344	6,308,344	6,308,344	-
Fund Balance - December 31	\$ 5,936,544	\$ 5,936,544	\$ 6,898,016	\$ 961,472

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SANITARY LANDFILL/RECYCLING CENTER SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 910,000	\$ 910,000	\$ 928,754	\$ 18,754
Licenses and permits	700	700	980	280
Intergovernmental	132,400	132,400	142,965	10,565
Charges for services	1,734,600	1,734,600	2,080,187	345,587
Investment earnings	80,000	80,000	175,449	95,449
Miscellaneous	350,000	350,000	496,851	146,851
Total Revenues	\$ 3,207,700	\$ 3,207,700	\$ 3,825,186	\$ 617,486
Expenditures				
Current				
Sanitation				
Solid waste	\$ 2,728,300	\$ 2,728,300	\$ 2,587,206	\$ 141,094
Capital outlay				
Sanitation	2,000	2,000	-	2,000
Debt service				
Principal	287,000	287,000	255,000	32,000
Interest	18,400	18,400	18,352	48
Administrative (fiscal) charges	1,000	1,000	431	569
Total Expenditures	\$ 3,036,700	\$ 3,036,700	\$ 2,860,989	\$ 175,711
Excess of Revenues Over (Under) Expenditures	\$ 171,000	\$ 171,000	\$ 964,197	\$ 793,197
Other Financing Sources (Uses)				
Transfers in	\$ 196,100	\$ 196,100	\$ -	\$ (196,100)
Transfers out	(346,100)	(346,100)	(1,141,000)	(794,900)
Total Other Financing Sources (Uses)	\$ (150,000)	\$ (150,000)	\$ (1,141,000)	\$ (991,000)
Net Change in Fund Balance	\$ 21,000	\$ 21,000	\$ (176,803)	\$ (197,803)
Fund Balance - January 1	9,640,412	9,640,412	9,640,412	-
Fund Balance - December 31	\$ 9,661,412	\$ 9,661,412	\$ 9,463,609	\$ (197,803)

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
COUNTY BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 324,594	\$ 324,594	\$ 317,970	\$ (6,624)
Intergovernmental	35,406	35,406	42,038	6,632
Investment earnings	-	-	159,461	159,461
Miscellaneous	-	-	41,993	41,993
Total Revenues	<u>\$ 360,000</u>	<u>\$ 360,000</u>	<u>\$ 561,462</u>	<u>\$ 201,462</u>
Expenditures				
Current				
General government	\$ 147,000	\$ 147,000	\$ 44,641	\$ 102,359
Public safety	30,000	30,000	2,950	27,050
Culture and recreation	183,000	183,000	28,092	154,908
Debt service				
Principal	-	-	481	(481)
Interest	-	-	36	(36)
Total Expenditures	<u>\$ 360,000</u>	<u>\$ 360,000</u>	<u>\$ 76,200</u>	<u>\$ 283,800</u>
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 485,262	\$ 485,262
Other Financing Sources (Uses)				
Transfers out	-	-	(100,292)	(100,292)
Net Change in Fund Balance	\$ -	\$ -	\$ 384,970	\$ 384,970
Fund Balance - January 1	<u>3,262,302</u>	<u>3,262,302</u>	<u>3,262,302</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 3,262,302</u></u>	<u><u>\$ 3,262,302</u></u>	<u><u>\$ 3,647,272</u></u>	<u><u>\$ 384,970</u></u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2010**

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	6.8%
January 1, 2010	-	1,753,622	1,753,622	0.0	20,734,186	8.5

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2010

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. Encumbrances outstanding at year-end are reported as reserved fund balances since they do not constitute expenditures or liabilities. Encumbrances lapse at year-end and are rebudgeted the following year.

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, 2010:

	Expenditures		Final Budget	Excess
General Fund	\$ 24,807,034		\$ 23,685,100	\$ 1,121,934
Special Revenue Fund				
Road and Bridge	12,122,910		10,959,800	1,163,110

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Other Postemployment Benefits Funding Status

Beginning in 2008, Kandiyohi County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets to pay the accrued liability for postemployment benefits is zero. Currently, only two actuarial valuations are available. As the information becomes available, future reports will provide additional trend analysis to meet the three-year 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, 2010**

	<u>Capital Equipment</u>	<u>Ditch</u>	<u>Eagle Lake Sewer</u>	<u>Green Lake Sewer</u>
<u>Assets</u>				
Cash and investments	\$ 3,019,958	\$ -	\$ 331,598	\$ 1,484,937
Taxes receivable				
Prior	12,528	-	-	-
Special assessments receivable				
Prior	-	1,059	3,317	4,913
Noncurrent	-	294,146	213,668	152,395
Accounts receivable	-	106	-	11,552
Accrued interest receivable	17,224	413	1,751	-
Due from other funds	-	15,154	-	-
Due from other governments	-	56,175	-	57,647
Total Assets	<u>\$ 3,049,710</u>	<u>\$ 367,053</u>	<u>\$ 550,334</u>	<u>\$ 1,711,444</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Cash overdraft	\$ -	\$ 165,434	\$ -	\$ -
Accounts payable	-	52,336	107	35,032
Salaries payable	-	-	188	20,117
Due to other funds	-	14,618	-	-
Due to other governments	-	-	14	6,154
Deferred revenue - unavailable	27,053	344,314	217,544	156,101
Total Liabilities	<u>\$ 27,053</u>	<u>\$ 576,702</u>	<u>\$ 217,853</u>	<u>\$ 217,404</u>
Fund Balances				
Unreserved				-
Undesignated	3,022,657	(209,649)	332,481	1,494,040
Total Liabilities and Fund Balances	<u>\$ 3,049,710</u>	<u>\$ 367,053</u>	<u>\$ 550,334</u>	<u>\$ 1,711,444</u>

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>
\$ 229,890	\$ 19,310	\$ 294,992	\$ 574	\$ -	\$ 5,381,259
6,538	-	8,656	-	-	27,722
-	-	-	-	-	9,289
-	-	-	-	-	660,209
-	-	65	-	17	11,740
-	-	-	-	-	19,388
-	-	-	-	175,113	190,267
-	-	2,350	-	-	116,172
\$ 236,428	\$ 19,310	\$ 306,063	\$ 574	\$ 175,130	\$ 6,416,046
\$ -	\$ -	\$ -	\$ -	\$ 379,279	\$ 544,713
1,698	-	8,261	-	6,312	103,746
3,731	-	15,374	-	7,637	47,047
-	-	7,788	-	35	22,441
7,674	466	23,619	574	1,139	39,640
4,915	-	6,230	-	-	756,157
\$ 18,018	\$ 466	\$ 61,272	\$ 574	\$ 394,402	\$ 1,513,744
218,410	18,844	244,791	-	(219,272)	4,902,302
\$ 236,428	\$ 19,310	\$ 306,063	\$ 574	\$ 175,130	\$ 6,416,046

**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, 2010**

	<u>Capital Equipment</u>	<u>Ditch</u>	<u>Eagle Lake Sewer</u>	<u>Green Lake Sewer</u>
Revenues				
Taxes	\$ 516,519	\$ -	\$ -	\$ -
Special assessments	-	126,845	129,900	276
Intergovernmental	59,669	-	-	-
Charges for services	-	-	-	970,005
Fines and forfeits	-	-	-	-
Gifts and contributions	-	-	-	-
Investment earnings	(32,253)	2,824	3,627	-
Miscellaneous	-	-	-	10,408
Total Revenues	\$ 543,935	\$ 129,669	\$ 133,527	\$ 980,689
Expenditures				
Current				
General government	\$ 162,204	\$ -	\$ -	\$ -
Public safety	57,774	-	-	-
Highways and streets	215,149	-	-	-
Sanitation	-	-	116,656	932,953
Health	1,252	-	-	-
Culture and recreation	-	-	-	-
Conservation of natural resources	-	405,694	-	-
Intergovernmental				
Culture and recreation	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	\$ 436,379	\$ 405,694	\$ 116,656	\$ 932,953
Excess of Revenues Over (Under) Expenditures	\$ 107,556	\$ (276,025)	\$ 16,871	\$ 47,736
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ -	\$ 18,000
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ 18,000
Net Change in Fund Balance	\$ 107,556	\$ (276,025)	\$ 16,871	\$ 65,736
Fund Balance - January 1	2,915,101	66,376	315,610	1,428,304
Fund Balance - December 31	\$ 3,022,657	\$ (209,649)	\$ 332,481	\$ 1,494,040

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>
\$ 298,155	\$ -	\$ 509,216	\$ -	\$ -	\$ 1,323,890
-	-	-	-	-	257,021
304,396	-	59,469	-	-	423,534
-	-	32,298	-	-	1,002,303
-	16,299	-	-	-	16,299
-	1,000	-	-	-	1,000
-	-	-	-	-	(25,802)
32,100	-	573,979	812	1,106,702	1,724,001
\$ 634,651	\$ 17,299	\$ 1,174,962	\$ 812	\$ 1,106,702	\$ 4,722,246
\$ -	\$ -	\$ 618,679	\$ 812	\$ 302,126	\$ 1,083,821
-	13,435	-	-	-	71,209
-	-	-	-	-	215,149
-	-	-	-	-	1,049,609
-	-	-	-	-	1,252
178,337	-	-	-	-	178,337
-	-	-	-	-	405,694
345,800	-	-	-	-	345,800
-	-	-	-	624,789	624,789
-	-	-	-	169,627	169,627
\$ 524,137	\$ 13,435	\$ 618,679	\$ 812	\$ 1,096,542	\$ 4,145,287
\$ 110,514	\$ 3,864	\$ 556,283	\$ -	\$ 10,160	\$ 576,959
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,000
-	-	(574,122)	-	-	(574,122)
\$ -	\$ -	\$ (574,122)	\$ -	\$ -	\$ (556,122)
\$ 110,514	\$ 3,864	\$ (17,839)	\$ -	\$ 10,160	\$ 20,837
107,896	14,980	262,630	-	(229,432)	4,881,465
\$ 218,410	\$ 18,844	\$ 244,791	\$ -	\$ (219,272)	\$ 4,902,302

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
CAPITAL EQUIPMENT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 541,013	\$ 541,013	\$ 516,519	\$ (24,494)
Intergovernmental	58,987	58,987	59,669	682
Investment earnings	-	-	(32,253)	(32,253)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 600,000	\$ 600,000	\$ 543,935	\$ (56,065)
Expenditures				
Current				
General government	\$ -	\$ -	\$ 162,204	\$ (162,204)
Public safety	-	-	57,774	(57,774)
Highways and streets	-	-	215,149	(215,149)
Health	-	-	1,252	(1,252)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ -	\$ -	\$ 436,379	\$ (436,379)
Net Change in Fund Balance	\$ 600,000	\$ 600,000	\$ 107,556	\$ (492,444)
Fund Balance - January 1	2,915,101	2,915,101	2,915,101	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 3,515,101	\$ 3,515,101	\$ 3,022,657	\$ (492,444)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
GREEN LAKE SEWER SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ -	\$ 276	\$ 276
Charges for services	985,000	985,000	970,005	(14,995)
Miscellaneous	6,400	6,400	10,408	4,008
Total Revenues	\$ 991,400	\$ 991,400	\$ 980,689	\$ (10,711)
Expenditures				
Current				
Sanitation	987,600	987,600	932,953	54,647
Excess of Revenues Over (Under) Expenditures	\$ 3,800	\$ 3,800	\$ 47,736	\$ 43,936
Other Financing Sources (Uses)				
Transfers in	\$ 128,500	\$ 128,500	\$ 18,000	\$ (110,500)
Transfers out	(69,200)	(69,200)	-	69,200
Total Other Financing Sources (Uses)	\$ 59,300	\$ 59,300	\$ 18,000	\$ (41,300)
Net Change in Fund Balance	\$ 63,100	\$ 63,100	\$ 65,736	\$ 2,636
Fund Balance - January 1	1,428,304	1,428,304	1,428,304	-
Fund Balance - December 31	\$ 1,491,404	\$ 1,491,404	\$ 1,494,040	\$ 2,636

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
COUNTY LIBRARY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 312,904	\$ 312,904	\$ 298,155	\$ (14,749)
Intergovernmental	125,696	125,696	304,396	178,700
Miscellaneous	32,100	32,100	32,100	-
Total Revenues	\$ 470,700	\$ 470,700	\$ 634,651	\$ 163,951
Expenditures				
Current				
Culture and recreation	\$ 186,800	\$ 186,800	\$ 178,337	\$ 8,463
Intergovernmental				
Culture and recreation	345,800	345,800	345,800	-
Total Expenditures	\$ 532,600	\$ 532,600	\$ 524,137	\$ 8,463
Net Change in Fund Balance	\$ (61,900)	\$ (61,900)	\$ 110,514	\$ 172,414
Fund Balance - January 1	107,896	107,896	107,896	-
Fund Balance - December 31	\$ 45,996	\$ 45,996	\$ 218,410	\$ 172,414

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES BUILDING SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 539,284	\$ 539,284	\$ 509,216	\$ (30,068)
Intergovernmental	58,816	58,816	59,469	653
Charges for services	-	-	32,298	32,298
Miscellaneous	590,000	590,000	573,979	(16,021)
Total Revenues	\$ 1,188,100	\$ 1,188,100	\$ 1,174,962	\$ (13,138)
Expenditures				
Current				
General government	1,188,100	1,188,100	618,679	569,421
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 556,283	\$ 556,283
Other Financing Sources (Uses)				
Transfers out	-	-	(574,122)	(574,122)
Net Change in Fund Balance	\$ -	\$ -	\$ (17,839)	\$ (17,839)
Fund Balance - January 1	262,630	262,630	262,630	-
Fund Balance - December 31	\$ 262,630	\$ 262,630	\$ 244,791	\$ (17,839)

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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.

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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, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CURRENT SCHOOL</u>				
<u>Assets</u>				
Cash and investments	\$ -	\$ 13,408,833	\$ 13,408,833	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 13,408,833	\$ 13,408,833	\$ -
<u>DEED TAX</u>				
<u>Assets</u>				
Cash and investments	\$ 36,372	\$ 448,850	\$ 421,418	\$ 63,804
<u>Liabilities</u>				
Due to other governments	\$ 36,372	\$ 448,850	\$ 421,418	\$ 63,804
<u>GAME AND FISH</u>				
<u>Assets</u>				
Cash and investments	\$ 1,531	\$ 1,952	\$ 336	\$ 3,147
<u>Liabilities</u>				
Due to other governments	\$ 1,531	\$ 1,952	\$ 336	\$ 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, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MORTGAGE REGISTRY TAX</u>				
<u>Assets</u>				
Cash and investments	\$ <u>49,012</u>	\$ <u>687,495</u>	\$ <u>668,153</u>	\$ <u>68,354</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>49,012</u>	\$ <u>687,495</u>	\$ <u>668,153</u>	\$ <u>68,354</u>
 <u>WATERSHED DISTRICT</u>				
<u>Assets</u>				
Cash and investments	\$ <u>-</u>	\$ <u>237,922</u>	\$ <u>237,922</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>237,922</u>	\$ <u>237,922</u>	\$ <u>-</u>
 <u>COUNTY-WIDE LEVY</u>				
<u>Assets</u>				
Cash and investments	\$ <u>-</u>	\$ <u>640,124</u>	\$ <u>640,124</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>640,124</u>	\$ <u>640,124</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, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE AGENCY</u>				
<u>Assets</u>				
Cash and investments	\$ <u>130,760</u>	\$ <u>13,822,689</u>	\$ <u>13,844,822</u>	\$ <u>108,627</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>130,760</u>	\$ <u>13,822,689</u>	\$ <u>13,844,822</u>	\$ <u>108,627</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and investments	\$ <u>616,732</u>	\$ <u>62,845,604</u>	\$ <u>62,609,536</u>	\$ <u>852,800</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>616,732</u>	\$ <u>62,845,604</u>	\$ <u>62,609,536</u>	\$ <u>852,800</u>
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and investments	\$ <u>-</u>	\$ <u>10,498,723</u>	\$ <u>10,498,723</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>10,498,723</u>	\$ <u>10,498,723</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, 2010**

	Balance January 1	Additions	Deductions	Balance December 31
<u>KANDIYOHI COUNTY/CITY OF WILLMAR EDC</u>				
<u>Assets</u>				
Cash and investments	\$ <u>454,615</u>	\$ <u>549,985</u>	\$ <u>567,613</u>	\$ <u>436,987</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>454,615</u>	\$ <u>549,985</u>	\$ <u>567,613</u>	\$ <u>436,987</u>
 <u>CEE VI TASK FORCE</u>				
<u>Assets</u>				
Cash and investments	\$ <u>106,127</u>	\$ <u>789,362</u>	\$ <u>787,896</u>	\$ <u>107,593</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>106,127</u>	\$ <u>789,362</u>	\$ <u>787,896</u>	\$ <u>107,593</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments	\$ <u>1,395,149</u>	\$ <u>103,931,539</u>	\$ <u>103,685,376</u>	\$ <u>1,641,312</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>1,395,149</u>	\$ <u>103,931,539</u>	\$ <u>103,685,376</u>	\$ <u>1,641,312</u>

OTHER SCHEDULES

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
December 31, 2010**

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Pooled Deposits and Investments			
Checking accounts			
Bremer Bank of Willmar		0.10%	\$ 18,063,546
Bremer Bank of Willmar		0.05%	9,349
Bremer Bank of Willmar		0.10%	4,358
Bremer Bank of Willmar		0.05%	512,120
Heritage Bank - Wilmar		0.00%	436,745
US Bank of Willmar		0.18%	338,283
Total checking accounts			<u>\$ 19,364,401</u>
Savings accounts			
Atwater State Bank		0.01%	\$ 79,481
North American State Bank		0.40%	2,536,476
Citizens State Bank - Lake Lillian		0.10%	104,161
United Minnesota Bank		0.25%	154,023
Home State Bank		0.20%	7,560
Lake Region Bank - New London		0.20%	59,337
Prinsburg State Bank		0.31%	151,974
Concorde Bank		0.25%	82,277
United Prairie Bank		0.30%	19,777
Wells Fargo		0.03%	192,702
Lake Region Bank - Willmar		0.25%	2,731,533
Total savings accounts			<u>\$ 6,119,301</u>
U.S. government securities			
Morgan Keegan	July 14, 2015	2.00%	\$ 500,190
Morgan Keegan	December 28, 2018	2.25%	487,490
Total U.S. government securities			<u>\$ 987,680</u>
MAGIC Fund			
Cadre Financial Services		Various	<u>\$ 3,354,040</u>
Total pooled deposits and investments			<u>\$ 29,825,422</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF DEPOSITS AND INVESTMENTS
December 31, 2010**

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Fund Deposits and Investments			
General Fund			
Certificates of deposit			
Atwater State Bank	January 10, 2011	1.75%	\$ 100,947
Home State Bank - Willmar	July 16, 2011	1.25%	200,000
Bremer Bank	Various	1.00% to 4.00%	<u>193,442</u>
Total certificates of deposit			<u>\$ 494,389</u>
Money market account			
Charles Schwab Institutional			<u>\$ 113,111</u>
U.S. government securities			
Charles Schwab & Co., Inc.	Various	2.5% to 4.23%	\$ 2,047,848
Morgan Keegan	Various	1.00% to 6.00%	<u>3,841,377</u>
Total U.S. government securities			<u>\$ 5,889,225</u>
Total General Fund			<u>\$ 6,496,725</u>
Road and Bridge Special Revenue Fund			
Certificates of deposit			
Concorde Bank	March 22, 2011	0.43%	<u>\$ 100,000</u>
U.S. government securities			
Charles Schwab & Co., Inc.	Various	4.3% to 4.5%	\$ 3,131,204
Morgan Keegan	Various	1.00% to 6.00%	<u>305,971</u>
Total U.S. government securities			<u>\$ 3,437,175</u>
Total Road and Bridge Special Revenue Fund			<u>\$ 3,537,175</u>
County Building Special Revenue Fund			
U.S. government securities			
Morgan Keegan	October 29, 2015	1.00%	<u>\$ 350,683</u>
Capital Equipment Special Revenue Fund			
U.S. government securities			
Charles Schwab & Co., Inc.	September 22, 2025	2.00%	<u>\$ 3,035,721</u>
Ditch Special Revenue Fund			
Certificates of deposit			
United Prairie Bank	March 20, 2011	0.85%	<u>\$ 175,000</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF DEPOSITS AND INVESTMENTS
December 31, 2010**

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Fund Deposits and Investments (Continued)			
Eagle Lake Sewer Special Revenue Fund			
Certificates of deposit			
Bremer Bank of Willmar	December 11, 2011	1.00%	\$ 50,000
United Prairie Bank	April 10, 2011	1.75%	125,000
Total Eagle Lake Sewer Special Revenue Fund			\$ 175,000
Sanitary Landfill/Recycling Center Special Revenue Fund			
U.S. government securities			
Charles Schwab & Co., Inc.	Various	2.50% to 5.945%	\$ 7,364,941
Morgan Keegan	Various	2.00% to 6.28%	1,286,252
Wells Fargo	June 30, 2020	3.00%	504,995
Total Sanitary Landfill/Recycling Center Special Revenue Fund			\$ 9,156,188
Debt Service Fund			
U.S. government securities			
US Bank	Various	0.15% to 0.53%	\$ 4,140,639
County Cemetery Investment Trust Fund			
Certificates of deposit			
Bremer Bank of Willmar	September 28, 2011	1.00%	\$ 29,000
Taxes and Penalties Agency Fund			
Certificates of deposit			
Bremer Bank of Willmar	Various	1.00% to 1.150%	\$ 142,983
Total fund deposits and investments			\$ 27,239,114
Total Deposits and Investments			\$ 57,064,536

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**DITCH BALANCE SHEET
DITCH SPECIAL REVENUE FUND
December 31, 2010**

	Assets					Due from Other Funds
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Receivables	
			Delinquent	Deferred		
County Ditches						
#7	\$ 524	\$ -	\$ -	\$ -	\$ -	\$ -
#7 Rep D	7,520	-	-	-	-	-
#8	(27,476)	-	-	31,600	-	174
#8A	(39,084)	-	-	9,280	-	1,804
#8 Lat A	(11,380)	-	-	5,091	-	-
#8 Lat B	(369)	-	-	530	-	60
#9	(2,640)	-	-	4,734	-	47
#9 Lat 1 Br A	22,675	-	-	-	-	-
#10 Impr C	(71,710)	-	-	-	-	-
#12	(14,678)	-	-	-	-	-
#15	(10,695)	-	-	10,714	-	-
#16A	1,418	-	-	-	-	-
#18A	(4,134)	-	-	2,975	-	236
#19	(78,257)	-	-	-	-	-
#20	57	-	-	-	-	-
#23A	(29,300)	-	2	11,550	49	1,543
#23A, Branch 3	(10,103)	-	-	-	-	-
#24A	(3,990)	-	-	4,103	1	355
#24A Lat G	11	-	-	-	-	-
#24A Lat H	(7,850)	-	-	3,872	4	380
#24A Lat H-1	(19,757)	-	-	7,291	-	820
#24A Lat J	1,026	-	-	-	-	-
#26	(17,746)	-	210	17,479	-	1,318
#27	(40,469)	-	-	38,026	-	441
#28	18,953	-	-	-	-	-
#28 Impr Br 7	253	-	-	-	-	-
#28 Lat A Br 4	7,283	-	-	-	-	-
#28 Impr Br 5	119	-	-	-	-	-
#29	(951)	-	-	3,631	-	44
#31 Impr	64,845	125,295	-	-	-	-
#31 Lat A of Br 10 of Lat 10	70	-	-	-	-	-
#31 Lat A of Br 2 of Lat 10	12,298	-	-	-	-	-
#34	504	-	-	-	-	-
#37	(684)	-	523	-	-	-
#38	(13,699)	-	-	-	-	-
#40	(180)	-	-	-	-	-
#42	(45)	-	-	305	-	-
#43	(2,114)	-	-	-	-	-
#45	57	-	-	-	-	-
#46	(26,963)	-	-	-	-	-
#47	(33,664)	-	-	-	-	-
#48	(4,964)	-	-	-	-	-
#50	771	-	-	-	-	-
#51	-	-	-	-	-	-
#51 Lat A-1	(120)	-	-	1,041	-	97
#52	2,414	-	-	-	-	-

EXHIBIT D-2

	Due from Other Governments	Total Assets	Liabilities			Fund Balances - Unreserved Undesignated	Total Liabilities and Fund Balances
			Payables	Due to Other Funds	Deferred Revenue		
\$	-	\$ 524	\$ -	\$ -	\$ -	\$ -	\$ 524
	-	7,520	-	-	-	-	7,520
	899	5,197	24,080	-	32,673	56,753	(51,556)
	2,010	(25,990)	-	-	13,094	13,094	(39,084)
	606	(5,683)	-	-	5,697	5,697	(11,380)
	12	233	-	-	602	602	(369)
	12	2,153	-	-	4,793	4,793	(2,640)
	-	22,675	-	-	-	-	22,675
	-	(71,710)	-	-	-	-	(71,710)
	-	(14,678)	-	-	-	-	(14,678)
	-	19	-	-	10,714	10,714	(10,695)
	-	1,418	-	-	-	-	1,418
	917	(6)	-	-	4,128	4,128	(4,134)
	-	(78,257)	-	-	-	-	(78,257)
	-	57	-	-	-	-	57
	18,208	2,052	-	-	31,350	31,350	(29,298)
	-	(10,103)	-	-	-	-	(10,103)
	940	1,409	1,620	-	5,399	7,019	(5,610)
	-	11	-	-	-	-	11
	7	(3,587)	-	-	4,263	4,263	(7,850)
	572	(11,074)	-	-	8,683	8,683	(19,757)
	-	1,026	-	-	-	-	1,026
	-	1,261	-	-	19,005	19,005	(17,744)
	210	(1,792)	1,742	-	38,677	40,419	(42,211)
	-	18,953	4,284	-	-	4,284	14,669
	-	253	-	-	-	-	253
	-	7,283	-	-	-	-	7,283
	-	119	-	-	-	-	119
	69	2,793	-	-	3,744	3,744	(951)
	-	190,140	2,540	-	295	2,835	187,305
	-	70	-	-	-	-	70
	-	12,298	-	-	-	-	12,298
	-	504	-	-	-	-	504
	-	(161)	-	-	524	524	(685)
	-	(13,699)	-	-	-	-	(13,699)
	-	(180)	-	-	-	-	(180)
	2	262	-	-	307	307	(45)
	-	(2,114)	-	-	-	-	(2,114)
	-	57	-	-	-	-	57
	-	(26,963)	-	-	-	-	(26,963)
	-	(33,664)	1,040	-	-	1,040	(34,704)
	-	(4,964)	-	-	-	-	(4,964)
	-	771	-	-	-	-	771
	-	-	596	-	-	596	(596)
	55	1,073	-	-	1,193	1,193	(120)
	-	2,414	895	-	-	895	1,519

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**DITCH BALANCE SHEET
DITCH SPECIAL REVENUE FUND
December 31, 2010**

	Assets					Due from Other Funds
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Receivables	
			Delinquent	Deferred		
County Ditches (Continued)						
#54	487	-	-	-	-	-
#54 Impr	26,527	-	-	-	-	-
#55	2,126	-	159	-	-	-
#56 Outlet	6	-	-	-	-	-
#58	192	-	115	-	-	-
#60	747	-	-	-	-	-
#61	(64)	-	-	-	-	-
#62	(28)	-	-	-	-	-
#63	505	-	-	-	-	-
#64	(17,808)	-	-	20,534	-	675
#65	(1,214)	-	-	2,522	-	-
State Ditch						
#1 Impr Div 2	(468)	-	-	-	-	-
Judicial Ditches						
#1 M & K (Rep F)	(855)	-	24	-	-	-
#1 Lat A, M & K	(119)	-	-	330	-	1
#1 Lat M & K	(660)	-	-	71,788	-	-
#1 Lat B, M & K	(10,993)	-	-	8,385	-	1,028
#1 Lat A of Lat B, M & K	3,455	-	-	-	-	-
#1 Br 4 of Lat B, M & K	1,550	-	-	-	-	-
#1 Lat C, M & K	894	-	-	-	-	-
#1 Lat D, M & K	383	-	-	-	-	-
#1 Lat E, M & K	378	-	-	-	-	-
#1 Br 2 of Lat F, M & K	(1,298)	-	-	3,544	-	309
#1 Lat G, M & K	(59)	-	-	538	-	-
#2 R & K	(2,697)	-	-	1,579	-	39
#2 Lat 3, R & K	565	-	-	-	-	-
#2 Lat 4, R & K	525	-	-	-	-	-
#2 Lat A of Lat 4, R & K	328	-	-	-	-	-
#2 Lat 5, R & K	(13)	-	-	867	-	165
#2 Lat 7, R & K	22	-	-	-	-	-
#2 Lat 8, R & K	607	-	-	-	-	-
#2 C & K	243	-	-	-	-	-
#2 St & K	211	-	-	-	-	-
#3 Lat B, K & C	833	-	-	-	-	-
#3 Lat A of Lat B, K & C	1,625	-	-	-	-	-
#3 Lat C, C & K	3,159	-	-	-	-	-
#3 Lat D, C & K	36,710	50,118	-	-	-	-
#3 Impr Br 5 & 6, C & K	921	-	-	-	-	-
#3 Impr Br 7 & 8, C & K	604	-	-	-	-	-
#3 Impr Br 9, C & K	1,748	-	-	-	-	-
#3 Impr Br 10, C & K	169	-	-	-	-	-
#3 Br 10 of Lat A, C & K	385	-	-	-	-	-
#3 St & K	(2,419)	-	-	994	-	-

EXHIBIT D-2
(Continued)

Due from Other Governments	Total Assets	Liabilities				Fund Balances - Unreserved Undesignated	Total Liabilities and Fund Balances
		Payables	Due to Other Funds	Deferred Revenue	Total Liabilities		
-	487	-	-	-	-	487	487
-	26,527	-	-	-	-	26,527	26,527
-	2,285	-	-	-	-	2,285	2,285
-	6	-	-	-	-	6	6
-	307	-	-	-	-	307	307
-	747	-	-	-	-	747	747
-	(64)	-	-	-	-	(64)	(64)
-	(28)	-	-	-	-	(28)	(28)
-	505	-	-	-	-	505	505
287	3,688	129	12,008	21,496	33,633	(29,945)	3,688
22	1,330	54	862	2,544	3,460	(2,130)	1,330
-	(468)	-	-	-	-	(468)	(468)
731	(100)	5,315	-	566	5,881	(5,981)	(100)
35	247	-	-	366	366	(119)	247
-	71,128	-	-	71,788	71,788	(660)	71,128
1,288	(292)	-	-	10,400	10,400	(10,692)	(292)
-	3,455	-	-	-	-	3,455	3,455
-	1,550	-	-	-	-	1,550	1,550
-	894	-	-	(566)	(566)	1,460	894
-	383	-	-	-	-	383	383
-	378	-	-	-	-	378	378
232	2,787	-	-	3,673	3,673	(886)	2,787
-	479	755	-	538	1,293	(814)	479
431	(648)	-	-	2,049	2,049	(2,697)	(648)
-	565	-	-	-	-	565	565
-	525	-	-	-	-	525	525
-	328	-	-	-	-	328	328
4	1,023	3,600	-	1,036	4,636	(3,613)	1,023
-	22	-	-	-	-	22	22
-	607	-	-	-	-	607	607
23	266	-	-	-	-	266	266
-	211	-	-	-	-	211	211
-	833	-	-	-	-	833	833
-	1,625	-	-	-	-	1,625	1,625
24	3,183	-	-	-	-	3,183	3,183
16	86,844	-	-	118	118	86,726	86,844
-	921	-	-	-	-	921	921
-	604	-	-	-	-	604	604
-	1,748	-	-	-	-	1,748	1,748
-	169	-	-	-	-	169	169
-	385	-	-	-	-	385	385
1,627	202	600	-	994	1,594	(1,392)	202

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**DITCH BALANCE SHEET
DITCH SPECIAL REVENUE FUND
December 31, 2010**

	Assets					Due from Other Funds
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Receivables	
			Delinquent	Deferred		
Judicial Ditches (Continued)						
#3 Rep A, St & K	2,047	-	-	-	-	-
#7 C, K & R (& Rep F)	(24,714)	-	25	5,792	39	663
#7 Lat A, C, K & R	24	-	-	-	-	-
#7 Lat B, C, K & R	2,260	-	-	-	-	-
#7 Lat E, C, K & R	(199)	-	1	-	-	-
#10 R & K	18	-	-	-	-	-
#11 K & M	(45,719)	-	-	16,732	-	4,556
#16 R & K	(4,979)	-	-	2,736	-	165
#17 M & K	8,940	-	-	1,994	-	-
#17 Rep A, M & K	4,475	-	-	-	-	-
#17 Br 4 of Lat A, M & K	461	-	-	-	-	-
#17 Br 4 of Lat B, M & K	7,108	-	-	-	-	-
#18 Sw, K & C	(6,803)	-	-	771	13	77
#18 M & K	608	-	-	-	-	-
#18 Lat A, M & K	5,050	-	-	-	-	-
#18 Lat C, M & K	(2,928)	-	-	1,877	-	51
#19 Sw & K	111	-	-	-	-	-
#21 R, C & K	140	-	-	-	-	-
#21 Sw, K & C	(1,393)	-	-	941	-	106
#29 Rep B, R, M & K	73	-	-	-	-	-
Total	\$ (340,434)	\$ 175,413	\$ 1,059	\$ 294,146	\$ 106	\$ 15,154

EXHIBIT D-2
(Continued)

<u>Due from Other Governments</u>	<u>Total Assets</u>	<u>Liabilities</u>				<u>Fund Balances - Unreserved Undesignated</u>	<u>Total Liabilities and Fund Balances</u>
		<u>Payables</u>	<u>Due to Other Funds</u>	<u>Deferred Revenue</u>	<u>Total Liabilities</u>		
-	2,047	-	-	-	-	2,047	2,047
13,052	(5,143)	6	-	13,452	13,458	(18,601)	(5,143)
204	228	-	-	-	-	228	228
25	2,285	-	-	-	-	2,285	2,285
1,115	917	5,080	-	-	5,080	(4,163)	917
-	18	-	-	-	-	18	18
4,542	(19,889)	-	1,748	21,513	23,261	(43,150)	(19,889)
690	(1,388)	-	-	3,261	3,261	(4,649)	(1,388)
1,298	12,232	-	-	1,994	1,994	10,238	12,232
-	4,475	-	-	-	-	4,475	4,475
-	461	-	-	-	-	461	461
-	7,108	-	-	-	-	7,108	7,108
2,878	(3,064)	-	-	957	957	(4,021)	(3,064)
1,833	2,441	-	-	-	-	2,441	2,441
54	5,104	-	-	-	-	5,104	5,104
184	(816)	-	-	1,947	1,947	(2,763)	(816)
-	111	-	-	-	-	111	111
128	268	-	-	-	-	268	268
933	587	-	-	1,047	1,047	(460)	587
-	73	-	-	-	-	73	73
\$ 56,175	\$ 201,619	\$ 52,336	\$ 14,618	\$ 344,314	\$ 411,268	\$ (209,649)	\$ 201,619

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Total Primary Government	Housing and Redevelopment Authority Component Unit
	<u> </u>	<u> </u>
Shared Revenue		
State		
Highway users tax	\$ 5,355,157	\$ -
County program aid	1,553,283	-
Market value credit	1,200,838	-
PERA rate reimbursement	73,608	-
Disparity reduction aid	20,586	-
Police aid	240,467	-
Enhanced 911	125,541	-
	<u>8,569,480</u>	<u>-</u>
Total shared revenue	\$ 8,569,480	\$ -
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 1,723,058	\$ -
	<u>1,723,058</u>	<u>-</u>
Payments		
Local		
Payments in lieu of taxes	\$ 186,526	\$ -
Local	286,548	-
	<u>473,074</u>	<u>-</u>
Total payments	\$ 473,074	\$ -
Grants		
State		
Minnesota Department/Board of		
Corrections	\$ 795,248	\$ -
Health	399,579	-
Natural Resources	112,586	-
Human Services	2,342,843	-
Veterans Affairs	10,000	-
Peace Officers Board	12,906	-
Water and Soil Resources	39,714	-
Pollution Control Agency	140,090	-
	<u>3,852,966</u>	<u>-</u>
Total state	\$ 3,852,966	\$ -

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Total Primary Government	Housing and Redevelopment Authority Component Unit
	<u> </u>	<u> </u>
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 635,864	\$ -
Commerce	30,526	-
Housing and Urban Development	-	1,333,952
Justice	17,615	-
Transportation	1,007,174	-
Health and Human Services	3,565,448	-
Homeland Security	34,752	-
	<u> </u>	<u> </u>
Total federal	\$ 5,291,379	\$ 1,333,952
	<u> </u>	<u> </u>
Total state and federal grants	\$ 9,144,345	\$ 1,333,952
	<u> </u>	<u> </u>
Total Intergovernmental Revenue	\$ 19,909,957	\$ 1,333,952
	<u> </u>	<u> </u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT D-4

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct		
Conservation Reserve Program	10.069	\$ 9,069
Passed Through Minnesota Department of Health		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	301,059
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) Cluster	10.561	314,623
State Administrative Matching Grants for the SNAP - ARRA	10.561	<u>11,113</u>
Total U.S. Department of Agriculture		<u>\$ 635,864</u>
U.S. Department of Commerce		
Passed through Central Minnesota Regional Radio Board		
Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 30,526</u>
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	<u>\$ 17,615</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction - ARRA	20.205	\$ 961,929
Passed Through Minnesota Department of Public Safety		
Highway Safety Cluster		
State and Community Highway Safety	20.600	16,095
Occupant Protection Incentive Grants	20.602	4,620
Safety Belt Performance Grants	20.609	16,532
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>7,998</u>
Total U.S. Department of Transportation		<u>\$ 1,007,174</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-4
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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	\$ 127,107
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	92,013
Universal Newborn Hearing Screening Immunization Cluster	93.251	275
Immunization Grants	93.268	2,320
Immunization - ARRA	93.712	7,172
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	37,658
Temporary Assistance for Needy Families (TANF)	93.558	43,588
Maternal and Child Health Services Block Grant to States	93.994	53,143
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	24,436
Temporary Assistance for Needy Families (TANF)	93.558	783,745
Child Support Enforcement Cluster		
Child Support Enforcement	93.563	774,398
Child Support Enforcement - ARRA	93.563	73,793
Refugee and Entrant Assistance - State-Administered Programs	93.566	430
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	31,696
Foster Care Title IV-E	93.658	227,806
Social Services Block Grant	93.667	326,495
Chafee Foster Care Independence Program	93.674	12,000
Children's Health Insurance Program	93.767	223
Medical Assistance Program	93.778	913,074
Block Grants for Community Mental Health Services	93.958	34,076
Total U.S. Department of Health and Human Services		\$ 3,565,448
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	29,627
Total U.S. Department of Homeland Security		\$ 34,752
Total Federal Awards		\$ 5,291,379

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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 \$1,378,081 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, 2010. 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, changes in net assets, or cash flows 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. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2010.

5. 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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**Other Information
Section**

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT E-1

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

	2009		2010		2011	
	Amount	Net Tax Capacity Rates (%)	Amount	Net Tax Capacity Rates (%)	Amount	Net Tax Capacity Rates (%)
Tax Capacity						
Real property	\$ 43,862,426		\$ 47,768,727		\$ 47,555,902	
Personal property	760,289		796,085		869,172	
Less: tax increment	(256,132)		(261,662)		(263,917)	
Net Tax Capacity	<u>\$ 44,366,583</u>		<u>\$ 48,303,150</u>		<u>\$ 48,161,157</u>	
Taxes Levied for County Purposes						
General	\$ 12,760,068	26.569	\$ 14,359,500	27.377	\$ 15,010,800	29.325
Road and Bridge	3,997,000	8.323	4,093,800	7.805	4,063,000	7.938
Human Services	6,114,700	12.732	5,825,700	11.107	5,791,700	11.315
Health and Human Services	288,700	0.602	598,100	1.141	691,900	1.352
County Building	1,210,500	2.521	360,000	0.687	360,000	0.704
County Library*	345,800	1.008	345,800	0.902	407,700	1.096
Building Bonds Sinking	1,425,600	2.950	1,423,100	2.947	1,428,300	2.966
ARMER Radio Bonds	624,400	1.292	555,200	1.150	557,100	1.157
Capital Equipment	896,984	1.868	600,000	1.144	600,000	1.173
Kandiyohi Area Transit	9,000	0.021	-	0.000	6,000	0.013
Total Levy for County Purposes	<u>\$ 27,672,752</u>	<u>57.886</u>	<u>\$ 28,161,200</u>	<u>54.260</u>	<u>\$ 28,916,500</u>	<u>57.039</u>
Less Aids Payable by State**	<u>(2,271,211)</u>		<u>(2,221,295)</u>		<u>(1,753,167)</u>	
Net Levy for County Purposes	<u>\$ 25,401,541</u>		<u>\$ 25,939,905</u>		<u>\$ 27,163,333</u>	
Tax Capacity - Light and Power						
Assessed at 43%	\$ 20,974		\$ 20,648		\$ 22,080	
Assessed at 5%	2,532		2,473		2,713	
Total Tax Capacity - Light and Power	<u>\$ 23,506</u>		<u>\$ 23,121</u>		<u>\$ 24,793</u>	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.42, as amended)						
Assessed at 43%	\$ 20,798	105.374	\$ 19,325	93.595	\$ 21,482	97.292
Assessed at 5%	2,510	105.374	2,314	93.595	2,639	97.292
Total Light and Power Tax Levies	<u>\$ 23,308</u>		<u>\$ 21,639</u>		<u>\$ 24,121</u>	

*Levies not applicable to properties within the City of Willmar.

**2011 aids payable by state are estimated.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*EXHIBIT E-1
(Continued)*

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

	2009		2010		2011	
	Amount	Net Tax Capacity Rates (%)	Amount	Net Tax Capacity Rates (%)	Amount	Net Tax Capacity Rates (%)
Special Assessments						
Ditch liens and assessments	<u>\$ 74,778</u>		<u>\$ 63,959</u>		<u>\$ 70,857</u>	
Sewer systems liens and assessments	<u>\$ 1,664,848</u>		<u>\$ 1,890,269</u>		<u>\$ 2,054,113</u>	
Sanitary landfill liens and assessments	<u>\$ 909,112</u>		<u>\$ 918,489</u>		<u>\$ 1,174,162</u>	
Percentage of Collections for All Purposes		97.96%		98.19%		

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Kandiyohi County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Kandiyohi County and are reported in the "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*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Kandiyohi County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Kandiyohi County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
 - Special Supplemental Nutrition Program for Women,
Infants, and Children CFDA #10.557
 - Highway Planning and Construction - ARRA CFDA #20.205
 - Temporary Assistance for Needy Families CFDA #93.558
 - Child Support Enforcement Cluster
 - Child Support Enforcement CFDA #93.563
 - Child Support Enforcement - ARRA CFDA #93.563
 - Social Services Block Grant CFDA #93.667

- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Kandiyohi County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-8 Departmental Internal Accounting Control

Due to the limited number of office personnel within several County offices, segregation of 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 control point of view.

Control procedures should include management's determination that:

- employees are submitting financial reports currently,
- financial records are maintained currently, and
- financial reports to the County Auditor/Treasurer and other governmental units are being reviewed for reasonableness and that they agree with cash.

We recommend Kandiyohi County's management be aware of the lack of segregation of the accounting functions and implement oversight procedures and monitor those procedures and internal controls to determine that they are effective.

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

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

During our audit, we identified the following material audit adjustments:

- Deferred revenue - unearned was reduced, and various revenues were increased by \$69,878 (including federal revenue of \$37,516) in the General Fund.
- A reclassification of federal intergovernmental revenue in the amount of \$2,022 was made to specifically identify American Recovery and Reinvestment Act (ARRA) funded grants in the General Fund.
- A reclassification of intergovernmental revenue from federal to various revenues for \$31,725 was made in the General Fund.
- A reclassification of intergovernmental revenue from state to federal for \$9,526 was made in the General Fund.
- A reclassification of federal intergovernmental revenue from expenditures for \$46,806 was made in the General Fund.
- A reclassification of federal intergovernmental revenue to state for \$223,960 was made in the Road and Bridge Special Revenue Fund.
- An adjustment to increase ARRA-funded intergovernmental revenue for \$113,818 was made in the Road and Bridge Special Revenue Fund.
- A reclassification of federal intergovernmental revenue in the amount of \$84,906 was made to specifically identify ARRA-funded grants in the Human Services Special Revenue Fund.
- A reclassification of intergovernmental revenue from federal to state and various expenditures for approximately \$470,000 was made in the Human Services Special Revenue Fund.
- A reclassification of intergovernmental revenue from state to federal for approximately \$60,000 was made in the Human Services Special Revenue Fund.

- An adjustment was made to increase federal intergovernmental revenue and decrease liabilities for \$21,739 in the Human Services Special Revenue Fund.
- An adjustment was made to increase proceeds from sale of refunding bonds and corresponding discounts on bonds issued, bond issuance costs, and cash with escrow agent for \$4,216,354 in the Debt Service Fund.
- Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

Proposed audit adjustments were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend that the County establish internal controls for determining 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).

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 GAAP.

07-2 Journal Entries

Journal entries are made on the general ledger system by the County Auditor/Treasurer, the Assistant County Auditor, and the Human Services Fiscal Supervisor. The journal entries made by these employees are not reviewed or approved by anyone else.

The ability to make journal entries on the general ledger system is a powerful function. It allows those employees with access to the journal entry function to make changes to general ledger accounts.

To prevent abuse of this function, we recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. There should be supporting documentation attached to the journal entry or sufficient explanation on the journal entry to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner which allows for their review should questions arise. A report should be generated that lists all journal entries made to the general ledger system,

and this report should be reviewed periodically by the person charged with review and approval of journal entries. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

Kandiyohi County will establish procedures to have journal entries reviewed and approved by more than one person.

07-4 Annual Adopted Budget and Budget Policy

The County Board adopts a summarized budget at the fund level. As a result, the detailed estimated revenue source by fund and the budgeted expenditure by fund, function, and departments are not always clearly documented. Some funds do not have an adopted budget. In 2010, the Board has adopted a budget policy for management's administration of the County budget.

We noted in our review that the Board-approved revenue and expenditure budgets did not agree with the recorded budget in the County's general ledger.

We recommend that the County Board adopt and record in its minutes fund budgets by major revenue source and expenditures by fund for each of the operational funds. After adoption, someone independent of the budget process should enter the original budget and budget amendments to the general ledger.

Client's Response:

Kandiyohi County's Administration will continue to work on budget policy and procedures spelling out which funds require budgets and procedures for monitoring the budget.

09-1 Segregation of Duties - Vendor Setup

During our review of the general disbursements process, we noted that several individuals have the ability to both process disbursements and set up new vendors. If at all possible, these duties should be segregated. Someone independent of the disbursements process should review, verify, and approve new vendors at least monthly.

We recommend management re-evaluate whether separation of duties between disbursements and vendor setup is possible. Formal written procedures should be developed to monitor new vendors entered into the system and should be included in the County's Accounting Policies and Procedures Manual.

Client's Response:

As noted in Finding 96-8, Departmental Internal Accounting Control, Kandiyohi County's management realizes that due to the limited number of office personnel within several County offices, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. To combat the lack of separation of duties between disbursements and vendor setup, a County Auditor staff member who is independent of the disbursement process will review and verify all vendors added on a monthly basis. IFS Menu 5020 is used to print an Added Vendors List by inputting a beginning and ending date.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Cash Overdrafts

At December 31, 2010, the Regional Treatment Center Special Revenue Fund had a cash overdraft of \$379,279. The Ditch Special Revenue Fund had a cash overdraft of \$165,434.

If cash balances in the funds are insufficient, Minn. Stat. §§ 385.31 and 385.32 provide that warrants are to be registered or funds borrowed from another fund with sufficient cash. We recommend the County not make disbursements that cause a cash overdraft in a fund. We further recommend that, if appropriate, the County avail itself of one of the options provided by Minnesota statutes to avoid cash overdrafts.

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 inter-fund transfer will be made in October of 2011.

96-3

Individual Ditch System Cash Deficits

On December 31, 2010, 48 of the 108 individual ditch systems had deficit cash balances totaling \$598,452. According to Minn. Stat. § 385.31, payment of expenditures is permitted provided there is money in that fund for that purpose. It also provides that warrants are to be registered if a specific fund has insufficient funds to pay for expenditures incurred against it. Loans are allowed to be made, per Minn. Stat. § 103E.655, subd. 2, from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures against it. Any such loans must be repaid with interest. Allowing any ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from funds of the County and, as such, is in noncompliance with Minnesota law.

We recommend the County eliminate these deficits in individual ditch systems by borrowing from an eligible fund with a surplus cash balance.

Client's Response:

In 2011, one-year ditch repair liens will be levied.

07-8

Prompt Payment of Invoices

The County is required by Minn. Stat. § 471.425 to make payment on vendor invoices according to the terms of the contract or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later. Two of 40 vouchers tested during our audit had invoices not paid within the 35-day time period required by the statute.

We recommend the County make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

Client's Response:

Kandiyohi County's policy on payment to vendors is to pay within the 35-day time period required by statute. Department Heads or anyone authorized to approve payment of invoices will be required to date stamp invoices when received.

Safe Driving Class

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

In 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).

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

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.

PREVIOUSLY REPORTED ITEM RESOLVED

Insufficient Collateral to Secure Deposits (09-3)

The County's deposits with Bremer Bank and North American State Bank exceeded the amount of federal deposit insurance and collateral pledged.

Resolution

The County's deposits did not exceed the amount of federal deposit insurance and collateral pledged for the depositories and dates during 2010 tested.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-11 Ditch Special Revenue Fund - Equity Balance Deficits

As of December 31, 2010, 49 of the 108 individual ditch systems had deficit unreserved, undesignated fund balances totaling \$639,393. The County may establish a repair fund for any ditch system, pursuant to Minn. Stat. § 103E.735, subd. 1, not to exceed 20 percent of the assessed benefits of the ditch system, or \$100,000, whichever is larger.

We recommend the County eliminate these deficits in individual ditch systems 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 2011, one-year ditch repair liens will be levied.

C. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Kandiyohi County for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

The County should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The County can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balances and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Board of County Commissioners intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in the new standard. The new definition for a special revenue fund could have significant impact on the County's current fund classifications.

GASB Statement 54 provides a new and clearer description of when it is appropriate to account for an activity using a special revenue fund. Special revenue funds are used to report specific revenue sources restricted or committed to specified purposes other than debt service and capital projects, where the restricted or committed revenue sources comprise a substantial portion of the fund's resources, and are expected to continue to do so in the future. The standard does not define substantial portion; however, most recommendations are generally that the restricted or committed revenues should comprise at least 35 to 50 percent of total fund revenues. Under this definition, it is possible that some current special revenue funds will no longer meet the requirements for special revenue fund treatment. Kandiyohi County's management should review the County's special revenue funds to ensure these funds continue to warrant treatment as special revenue funds.

The County's management should perform the following steps prior to December 31, 2011:

- prepare a list of the County's special revenue funds;
- determine the sources of revenues for each of those funds;
- identify whether any of those revenues are restricted or committed;
- determine if these restricted or committed revenues represent a substantial portion of the fund's revenues and are expected to continue to be a substantial source of revenues;
 - if yes, the fund may continue to be classified as a special revenue fund;
 - if not, determine whether the County will combine that fund with the general fund or with a similar purpose special revenue fund that meets the new definition;
- code revenues in the general ledger by source constraints--restricted, committed, assigned, or unassigned; and
- determine if there needs to be a restatement of beginning fund balances.

Additional implementation steps could include: informing any component units that they also will need to meet the requirements; deciding on how fund balance will be presented in the financials, such as detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at: http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf.



REBECCA OTTO
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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*

Board of County Commissioners
Kandiyohi County

We have audited the 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, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 28, 2011. Our report includes a reference to 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. Other auditors audited the financial statements of the Kandiyohi County Housing and Redevelopment Authority (HRA) for the year ended June 30, 2010, as described in our report on Kandiyohi County's financial statements. This report does not include the results of the 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, we considered Kandiyohi County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified 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, 07-2, 07-4, and 09-1 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories, except that we did not test for compliance in tax increment financing because Kandiyohi County has no tax increment financing districts.

The results of our tests indicate that, for the items tested, Kandiyohi County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-1, 96-3, 07-8, and 09-2.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe this recommendation and other information to be of benefit to Kandiyohi County, and they are reported for that purpose.

Kandiyohi County's written 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. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Kandiyohi County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 28, 2011

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REBECCA OTTO
STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Kandiyohi County

Compliance

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 its major federal programs for the year ended December 31, 2010. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Kandiyohi County's basic financial statements include the operations of the Kandiyohi County Housing and Redevelopment Authority (HRA), a component unit, which expended \$1,378,081 in federal awards during the year ended June 30, 2010, 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.

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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Kandiyohi County complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of Kandiyohi County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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

This report is intended solely for the information and use of the Board of County Commissioners, management, others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 28, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR