

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CHISAGO COUNTY
CENTER CITY, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

Year Ended December 31, 2011



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

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**CHISAGO COUNTY
CENTER CITY, 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	17
Statement of Activities	2	18
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	20
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	4	26
Statement of Revenues, Expenditures, and Changes in Fund Balances	5	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	31
Budgetary Comparisons		
General Fund	7	32
Road and Bridge Special Revenue Fund	8	35
Human Services Special Revenue Fund	9	36
Fiduciary Funds		
Statement of Fiduciary Net Assets	10	37
Notes to the Financial Statements		38
Required Supplementary Information		
Schedule of Funding Progress - Other Postemployment Benefits	A-1	93

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Combining and Individual Fund Statements and Schedules		
Nonmajor Governmental Funds		
Combining Balance Sheet	B-1	94
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	96
Budgetary Comparisons		
Parks Special Revenue Fund	B-3	97
Ditch Special Revenue Fund	B-4	98
Lake Improvement District Special Revenue Fund	B-5	99
Solid Waste Special Revenue Fund	B-6	100
Agency Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	102
Supporting Schedules		
Balance Sheet - By Ditch - Ditch Special Revenue Fund	D-1	106
Schedule of Intergovernmental Revenue	D-2	108
Schedule of Expenditures of Federal Awards	D-3	110
Notes to the Schedule of Expenditures of Federal Awards		112
Other Information Section		
Tax Capacity, Tax Rates, Levies, and Percentage of Collections	E-1	114
Management and Compliance Section		
Schedule of Findings and Questioned Costs		116
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</i> <i>Auditing Standards</i>		
		122
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		
		125

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**ORGANIZATION
2011**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Lora Walker ¹	January 2009	January 2013
2nd District	Rick Greene	January 2011	January 2015
3rd District	George McMahon	January 2009	January 2013
4th District	Ben Montzka	January 2011	January 2015
5th District	Mike Robinson	January 2009	January 2013
Officers			
Elected			
Attorney	Janet Reiter	January 2011	January 2015
Auditor	Dennis Freed	January 2011	January 2015
Sheriff	Todd Rivard	January 2011	January 2015
Treasurer	Lee Olson	January 2011	January 2015
Appointed			
Administrator	Bruce Messelt		Indefinite
Assessor	John Keefe	January 2009	December 2012
Medical Examiner	Lindsey C. Thomas	January 2011	December 2013
Health and Human Services			
Director	Nancy Dahlin		Indefinite
Highway Engineer	Joe Triplett	May 2009	April 2013
Probation Director	Steven Paquay		Indefinite
Recorder/Registrar of Titles	Lee Olson		Indefinite
Surveyor	Terry Johnson	January 2008	December 2011
Veterans Service Officer	Al Budde	January 2011	January 2015
Zoning Administrator	Mary Schmitz		Indefinite
Appointed by the State			
Court Administrator	Kathleen Karnowski		Indefinite

¹Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Chisago 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 Chisago County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chisago 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 Chisago County Housing and Redevelopment Authority Economic Development Authority (HRA-EDA), the discretely presented component unit. Those 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 Chisago County HRA-EDA, 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 the 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 Chisago County as of December 31, 2011, and the respective changes in financial position thereof and the respective budgetary comparisons for the General Fund, the Road and Bridge Special Revenue Fund, and the Human Services Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.9. to the financial statements, Chisago County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Chisago County's basic financial statements as a whole. The combining and individual fund statements and schedules, 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 combining and individual fund statements and schedules are the responsibility of management and were derived from and relate 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented 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 August 14, 2012, on our consideration of Chisago 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 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 Chisago County HRA-EDA, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 14, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)**

As management of Chisago County, we offer readers of the Chisago County financial statements this narrative overview and analysis of the financial activities of Chisago County for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

The assets of Chisago County exceeded its liabilities by approximately \$142.8 million at the close of 2011. Of this amount, \$12 million, or 8.4 percent, (unrestricted net assets) may be used to meet Chisago County's ongoing obligations to citizens and creditors.

Chisago County's total net assets increased by \$16.6 million to \$142.8 million, or 13.1 percent.

At the close of 2011, Chisago County's governmental funds reported combined ending fund balances of \$47.9 million, an increase of \$1.7 million from the previous year-end balance. Nonspendable and restricted fund balance was \$20.7 million, or 43.2 percent of total fund balance. These fund balances are not available for appropriation because of constraints placed on the use of these funds. The remaining fund balances of \$27.2 million, or 56.8 percent, are unrestricted and classified as committed, assigned, or unassigned.

At the close of 2011, unrestricted fund balance for the General Fund was \$12.4 million, or 56.0 percent of total General Fund expenditures. The unrestricted fund balance for the Human Services Special Revenue Fund was \$9.4 million, or 82.3 percent of Human Services Fund expenditures. The Minnesota Office of the State Auditor recommends that, at year-end, local governments maintain an unrestricted fund balance in their general fund and special revenue funds of approximately 35 to 50 percent of fund operating revenues, or no less than five months of operating expenditures. Both of these funds exceed the recommended unrestricted fund balance guidelines.

Chisago County's bonds and notes payable decreased by \$3.6 million, or 6.8 percent, during 2011 on scheduled debt retirements.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the County Building Special Revenue Fund and the Capital Equipment Special Revenue Fund are now reclassified as part of the General Fund. These reclassifications must be considered when comparing these financial statements with those of prior year reports.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Chisago County's basic financial statements. The County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains required supplementary information, which includes the Management's Discussion and Analysis and certain information on other postemployment benefits (OPEB), and other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Chisago County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of Chisago County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Chisago County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result only in cash flows in future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

The County's government-wide financial statements report functions of the County that are principally supported by taxes and intergovernmental revenues. The governmental activities of Chisago County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest.

Fund Level Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Chisago County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Chisago County can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, fund level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Chisago County reports nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Debt Service Fund, and County Capital Projects Fund, all of which are considered to be major funds. The other governmental funds are aggregated into a single aggregated presentation.

Fiduciary funds. Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Chisago County's fiduciary funds consist of nine agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the agency funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs.

Notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

Other information. In addition to the basic financial statements and notes, Chisago County also provides required supplementary information on the funding status of its other postemployment benefits; combining and individual fund statements and schedules for its nonmajor governmental funds; and support for its individual ditch balances, intergovernmental revenues, federal awards, and taxes.

Chisago County adopts annual budgets for its major funds, except for the Debt Service Fund and the County Capital Projects Fund. Budgetary comparison schedules have been provided for the County's budgeted major funds to demonstrate compliance with these budgets.

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the County's financial position. Chisago County's assets exceeded liabilities by \$142.8 million at the close of 2011. The largest portion of Chisago County's net assets (78.7 percent) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. However, it should be noted that these assets are not available for future spending.

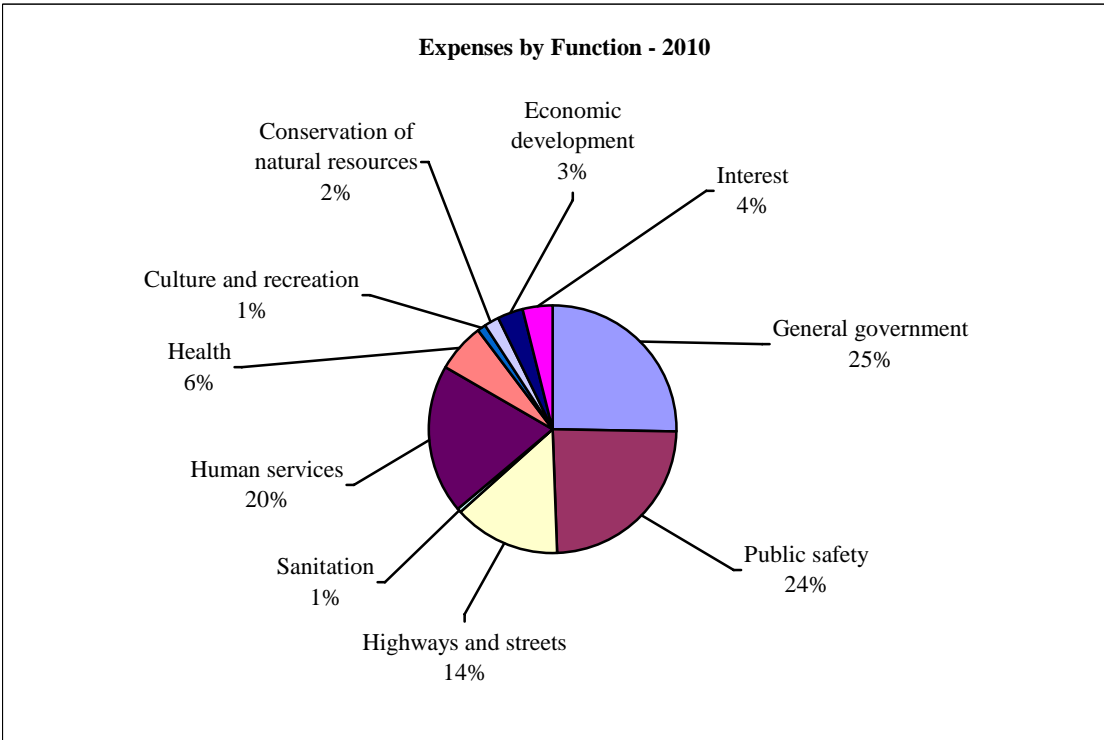
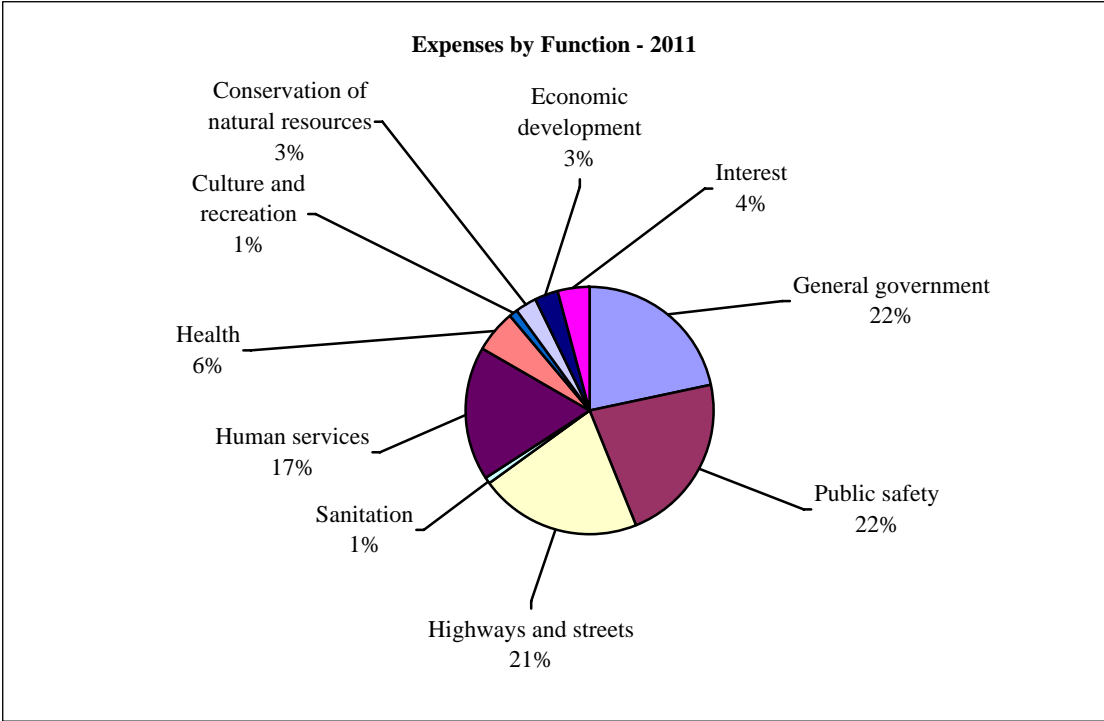
Governmental Net Assets

	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 54,019,757	\$ 52,034,898
Capital assets	<u>152,663,387</u>	<u>141,772,928</u>
Total Assets	<u>\$ 206,683,144</u>	<u>\$ 193,807,826</u>
Long-term liabilities outstanding	\$ 59,880,986	\$ 63,546,953
Other liabilities	<u>4,019,517</u>	<u>4,062,652</u>
Total Liabilities	<u>\$ 63,900,503</u>	<u>\$ 67,609,605</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 112,327,612	\$ 99,618,353
Restricted	18,449,046	20,106,691
Unrestricted	<u>12,005,983</u>	<u>6,473,177</u>
Total Net Assets	<u>\$ 142,782,641</u>	<u>\$ 126,198,221</u>

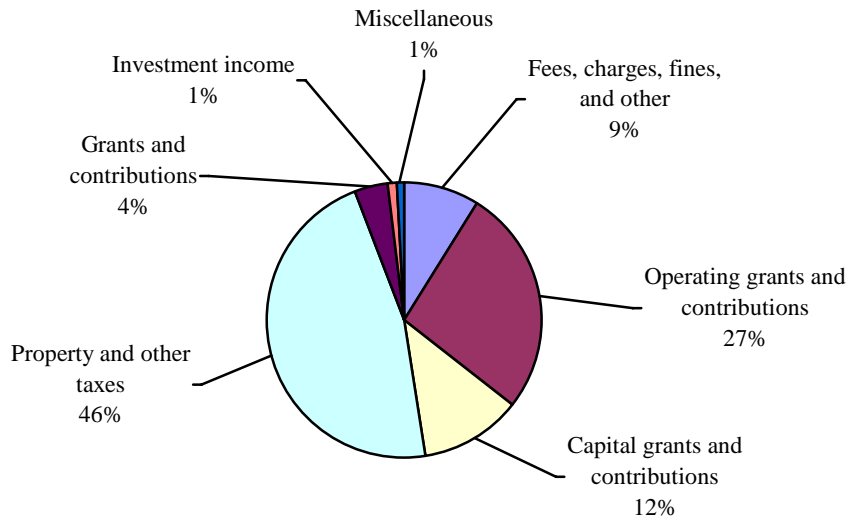
The restricted asset amount of \$18.5 million represents resources whose use is restricted by external requirements such as debt covenants and legislation. The restricted net assets decreased by \$1.7 million. The majority of the decrease is due to the restriction for the 800 Mghz radio tower project which continues to be spent down. The unrestricted net asset amount of \$12.0 million as of December 31, 2011, may be used to meet the County's ongoing obligations to citizens and creditors. Chisago County's activities increased net assets by \$16.6 million, or 13.1 percent, over the 2010 net assets.

Changes in Net Assets

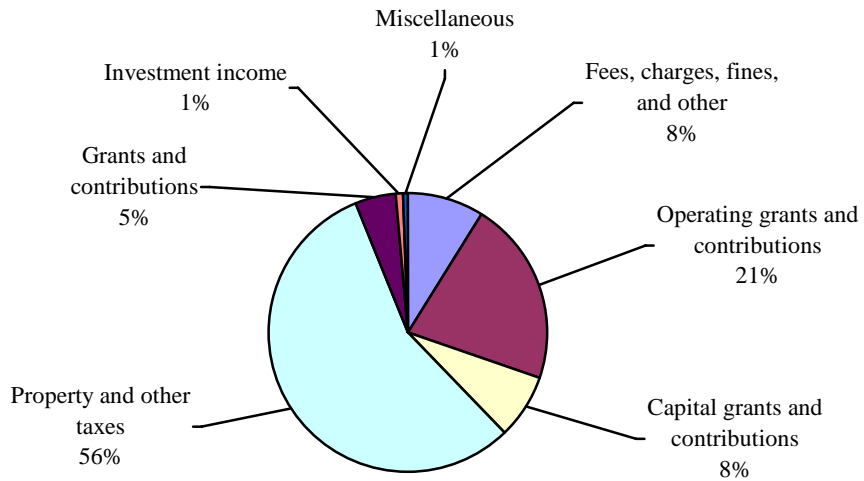
	2011	2010
Revenues		
Program revenues		
Charges for services	\$ 5,951,883	\$ 4,949,413
Operating grants and contributions	17,574,820	11,860,912
Capital grants and contributions	7,841,697	4,177,937
General revenues		
Property taxes	30,418,914	30,530,695
Other	4,190,416	4,014,150
Total Revenues	\$ 65,977,730	\$ 55,533,107
Expenses		
General government	\$ 10,695,966	\$ 11,664,214
Public safety	10,924,587	11,080,555
Highways and streets	10,509,001	6,432,904
Sanitation	327,024	309,618
Human services	8,679,096	8,950,239
Health	2,834,449	2,933,008
Culture and recreation	475,769	526,555
Conservation of natural resources	1,312,231	935,046
Economic development	1,581,637	1,538,651
Interest	2,053,550	1,750,764
Total Expenses	\$ 49,393,310	\$ 46,121,554
Increase in Net Assets	\$ 16,584,420	\$ 9,411,553
Net Assets, January 1	126,198,221	116,786,668
Net Assets, December 31	\$ 142,782,641	\$ 126,198,221

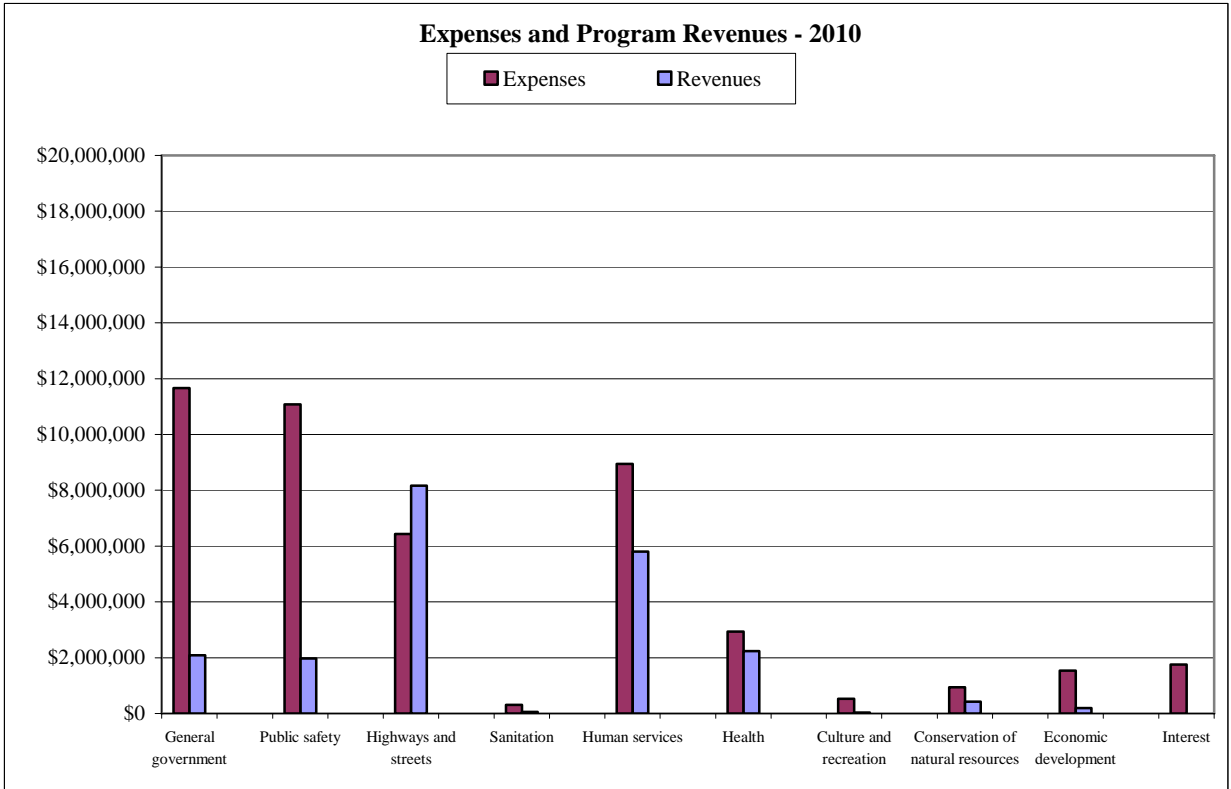
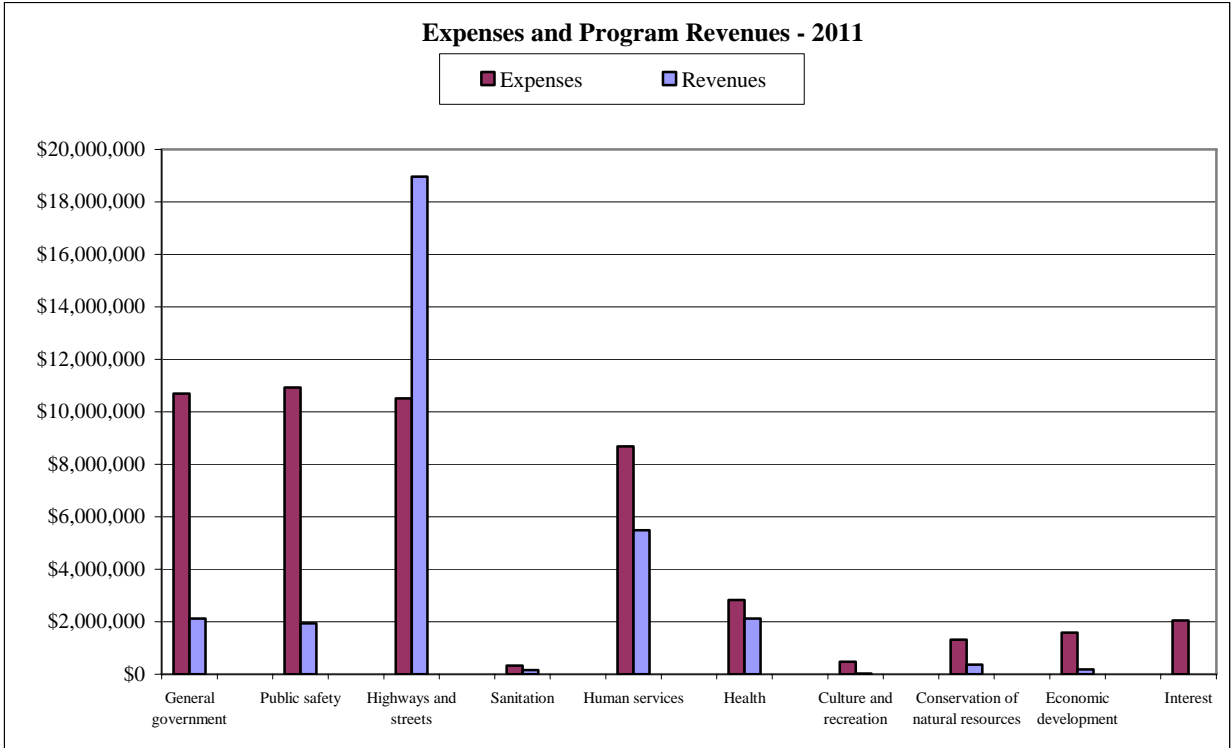


Revenues by Source - 2011



Revenues by Source - 2010





FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$47.9 million. This is an increase of \$1.7 million (3.6 percent) in comparison with the prior year. Primarily, this is the result of net revenues exceeding expenditures. Unrestricted fund balance of \$27.2 million is available for spending at the County's discretion and is 56.8 percent of the total fund balance. The remainder of fund balance is restricted to indicate that it is not available for new spending for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the chief operating fund of Chisago County. At the end of the current fiscal year, unrestricted fund balance of the General Fund was \$12.4 million. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures. Unrestricted fund balance represents 56.0 percent of total General Fund expenditures. In 2011, ending fund balance in the General Fund increased by \$1.2 million (8.6 percent). The largest drivers of this are unbudgeted Local Government Aid dollars received, more penalty and interest revenues than anticipated, unspent County Recorders' technology and compliance fees, and other expense favorability.

On September 7, 2011, the County Board approved the 2011/2012 Capital Plan, which resulted in various commitments of fund balance to affect future capital expenditures. These commitments are funded largely by excess fund balance as compared to the minimum fund balance guidelines recommended by the Office of the State Auditor. Transfers of excess fund balance were made between funds to affect this plan.

In addition to its ongoing operating costs, the County expended from its General Fund over \$1.0 million to purchase Phase 1 and 2 technology purchases, Sheriff's vehicles, and other capital expenditures. Most of these capital acquisitions were funded using committed fund balance.

The Human Services Special Revenue Fund's unrestricted fund balance of \$9.4 million at year-end represents 82.3 percent of Human Services expenditures. In 2011, the total fund balance decreased by \$200,000 (2.2 percent) from the prior year. As part of the 2011/2012 Capital Plan, \$1.5 million of excess fund balance was transferred to the County Capital Projects Fund and the General Fund. These transfers out were offset by \$1.3 million in expenditure favorability in social service programs versus budget and higher than expected revenues in income maintenance programs.

General Fund Budgetary Highlights

The difference between the General Fund's original expenditure budget and the final amended budget totaled a \$2.8 million net increase. This difference is largely due to a carryover of \$2.0 million of 2010 unexpended budgeted amounts and \$700,000 additional expenditures, mostly for Phase 1 and 2 technology costs as part of the 2011/2012 Capital Plan. Actual revenues were more than final budgeted revenues by \$1.5 million due to receiving \$800,000 of unbudgeted Local Government Aid and favorable interest income, penalties and interest, and various intergovernmental revenues. Actual expenditures were less than final budgeted expenditures by \$2.8 million due to \$1.7 million in unexpended 2010 carryovers from the prior year (Recorder's Office and Sheriff's Department reserves); unused contingency funds; and current year expenditure favorability in the MICS Department, Recorder's Office, and various public safety and general government areas.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2011, totaled \$152.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The County's investment in capital assets increased \$10.9 million, or 7.7 percent, from the previous year. The major events affecting this increase were the capitalization of infrastructure and new construction in progress for County road construction costs.

**Capital Assets
(Net of Depreciation)**

	2011	2010
Land	\$ 2,613,277	\$ 2,613,277
Construction in progress	16,727,846	9,566,514
Buildings	14,480,148	15,005,138
Machinery, furniture, and equipment	4,181,395	4,188,843
Infrastructure	114,660,721	110,399,156
Total	\$ 152,663,387	\$ 141,772,928

Long-Term Debt

At the end of the current fiscal year, the County had total bonds and notes outstanding of \$49.9 million, which was backed by the full faith and credit of the government.

	Outstanding Debt	
	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 49,130,000	\$ 52,585,000
Capital notes	<u>740,000</u>	<u>910,000</u>
Total Long-Term Debt	<u>\$ 49,870,000</u>	<u>\$ 53,495,000</u>

The County's debt related to general obligation bonds and notes decreased by \$3.6 million (6.8 percent) during the fiscal year due to scheduled debt retirements. There were no major debt-related transactions during the year other than scheduled retirements.

Minnesota statutes limit the amount of debt a county may levy to three percent of its total market value. At the end of 2011, Chisago County was well below the three-percent debt limit imposed by state statutes.

Other long-term obligations include capital leases, compensated absences, and an unfunded OPEB liability. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Per the Bureau of Labor Statistics, Chisago County's average unemployment rate was 7.7 percent for 2011, reflecting a 1.7 percent decrease from last year. The statewide average rate was 6.4 percent, and the national average rate was 8.9 percent.
- Chisago County's tax base has declined 5.2 percent (excluding the impact of the market value exclusion change) for the 2012 levy from 2011 as a result of the economic climate. The prior year showed an 8.2 percent decrease. Housing prices have been negatively impacted, and foreclosures continue to be an issue for 2011 with no improvement over 2010.
- At the end of 2011, Chisago County approved its 2012 revenue and expenditure budgets. For the third consecutive year, the property tax levy reflected a zero percent increase over the previous year due to current economic conditions and its impact on taxpayers. Also, with Local Government Aid (LGA) continuing to be cut by the state, the County Commissioners conservatively budgeted LGA at only \$20,000 to assist in funding the County partners.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Chisago County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chisago County Auditor, Chisago County Courthouse, 313 North Main, Center City, Minnesota 55012.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Primary Government Governmental Activities	HRA-EDA Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 45,850,907	\$ 3,278,525
Receivables - net	6,881,764	190,268
Inventories	862,298	-
Prepaid items	189,055	12,309
Deferred charges	235,733	156,860
Land held for resale	-	3,157,122
Capital lease receivable	-	4,923,718
Capital assets		
Non-depreciable capital assets	19,341,123	243,181
Depreciable capital assets - net of accumulated depreciation	133,322,264	5,227,353
	\$ 206,683,144	\$ 17,189,336
<u>Liabilities</u>		
Accounts payable	\$ 2,637,062	\$ 29,950
Accrued interest payable	810,093	113,384
Due to other governments	359,691	3,096
Security deposits	-	56,207
Customer deposits	158,995	-
Unearned revenue	53,676	-
Long-term liabilities		
Due within one year	4,322,525	320,291
Due in more than one year	55,558,461	12,671,912
	\$ 63,900,503	\$ 13,194,840
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 112,327,612	\$ 1,130,856
Restricted for		
General government	1,183,457	-
Public safety	479,057	-
Highways and streets	3,034,196	-
Sanitation	1,228,687	-
Culture and recreation	491,026	-
Conservation of natural resources	224,868	-
Capital projects	7,097,930	-
Debt service	4,586,981	-
Ditch maintenance	122,844	-
Unrestricted	12,005,983	2,863,640
	\$ 142,782,641	\$ 3,994,496

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

Page 17

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 10,695,966	\$ 2,070,335
Public safety	10,924,587	1,081,583
Highways and streets	10,509,001	557,199
Sanitation	327,024	157,936
Human services	8,679,096	616,791
Health	2,834,449	973,201
Culture and recreation	475,769	28,026
Conservation of natural resources	1,312,231	286,912
Economic development	1,581,637	179,900
Interest	2,053,550	-
Total Primary Government	\$ 49,393,310	\$ 5,951,883
Component Unit		
Housing and Redevelopment Authority - Economic Development Authority (HRA-EDA)	\$ 1,333,765	\$ 1,005,426
 General Revenues		
Property taxes		
Gravel taxes		
Mortgage registry and deed tax		
Payments in lieu of tax		
Grants and contributions not restricted to specific programs		
Investment income		
Gain on disposal of capital assets		
Insurance dividends		
Total general revenues		
Change in net assets		
Net Assets - Beginning		
Net Assets - Ending		

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	HRA-EDA Discretely Presented Component Unit
\$ 54,080	\$ -	\$ (8,571,551)	
862,241	-	(8,980,763)	
10,558,480	7,841,697	8,448,375	
-	-	(169,088)	
4,868,315	-	(3,193,990)	
1,147,429	-	(713,819)	
-	-	(447,743)	
84,275	-	(941,044)	
-	-	(1,401,737)	
-	-	(2,053,550)	
\$ 17,574,820	\$ 7,841,697	\$ (18,024,910)	
\$ 59,662	\$ -		\$ (268,677)
		\$ 30,418,914	\$ 620,341
		42,168	-
		31,719	-
		313,442	-
		2,607,687	-
		626,469	7,126
		33,701	(33,768)
		535,230	-
		\$ 34,609,330	\$ 593,699
		\$ 16,584,420	\$ 325,022
		126,198,221	3,669,474
		\$ 142,782,641	\$ 3,994,496

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 13,786,717	\$ 6,703,983
Petty cash and change funds	2,150	-
Undistributed cash in agency funds	279,466	115,250
Departmental cash	8,962	-
Taxes receivable		
Prior	976,250	353,328
Special assessments receivable		
Prior	7,015	-
Noncurrent	-	-
Accounts receivable	12,231	278
Accrued interest receivable	145,867	-
Notes receivable	1,000,000	-
Due from other funds	24,544	-
Due from other governments	465,832	1,955,358
Loans receivable	220,927	-
Inventories	-	862,298
Prepaid items	126,618	313
	\$ 17,056,579	\$ 9,990,808
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 271,977	\$ 219,253
Salaries payable	201,182	38,428
Contracts payable	-	1,329,049
Customer deposits	158,995	-
Due to other funds	-	-
Due to other governments	94,697	8,202
Deferred revenue - unavailable	897,795	1,179,661
Deferred revenue - unearned	-	-
	\$ 1,624,646	\$ 2,774,593

EXHIBIT 3

Human Services	Debt Service	County Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 8,726,218	\$ 4,510,199	\$ 9,506,815	\$ 2,077,169	\$ 45,311,101
-	-	-	-	2,150
75,972	50,882	-	7,124	528,694
-	-	-	-	8,962
377,256	238,339	-	22,427	1,967,600
-	-	-	17,464	24,479
-	37,751	-	13,965	51,716
304,042	-	-	128	316,679
-	-	-	-	145,867
-	-	-	-	1,000,000
-	-	-	-	24,544
730,121	-	-	3,185	3,154,496
-	-	-	-	220,927
-	-	-	-	862,298
61,824	-	-	300	189,055
\$ 10,275,433	\$ 4,837,171	\$ 9,506,815	\$ 2,141,762	\$ 53,808,568
\$ 113,561	\$ -	\$ 249,603	\$ 16,089	\$ 870,483
109,751	-	-	2,163	351,524
-	-	86,006	-	1,415,055
-	-	-	-	158,995
24,544	-	-	-	24,544
249,802	-	5,000	1,990	359,691
338,584	212,439	-	38,357	2,666,836
-	37,751	-	15,925	53,676
\$ 836,242	\$ 250,190	\$ 340,609	\$ 74,524	\$ 5,900,804

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Nonspendable		
Septic loans receivable	\$ 220,927	\$ -
Notes receivable	1,000,000	-
Inventories	-	862,298
Prepays	126,618	313
Restricted for		
Attorney forfeiture funds	10,071	-
Recorder - compliance fees	620,816	-
Recorder - technology fees	620,488	-
Sheriff's forfeitures	23,772	-
Sheriff's reserve	4,312	-
Snowmobile safety education	7,684	-
Sheriff's contingent	13,451	-
Gun permits	158,927	-
Jail canteen account	80,748	-
Juvenile substance abuse court	15,170	-
Electronic monitoring	3,224	-
Caseload reduction grant	98	-
Emergency management	2,525	-
Water quality grant	46,072	-
2010 septic grant	53,563	-
DEA federal share program	393	-
Project lifesaver	1,200	-
Bond proceeds	-	279,872
Advance funding: state aid	-	2,464,760
Pit restoration reserve	-	289,564
Sanitation	-	-
Culture and recreation	-	-
Lake Improvement District	-	-
Ditch maintenance	-	-
Debt service	-	-
Capital projects: 800 mghz project	-	-

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Debt Service</u>	<u>County Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 220,927
-	-	-	-	1,000,000
-	-	-	-	862,298
61,824	-	-	300	189,055
-	-	-	-	10,071
-	-	-	-	620,816
-	-	-	-	620,488
-	-	-	-	23,772
-	-	-	-	4,312
-	-	-	-	7,684
-	-	-	-	13,451
-	-	-	-	158,927
-	-	-	-	80,748
-	-	-	-	15,170
-	-	-	-	3,224
-	-	-	-	98
-	-	-	-	2,525
-	-	-	-	46,072
-	-	-	-	53,563
-	-	-	-	393
-	-	-	-	1,200
-	-	-	-	279,872
-	-	-	-	2,464,760
-	-	-	-	289,564
-	-	-	1,228,687	1,228,687
-	-	-	491,026	491,026
-	-	-	224,868	224,868
-	-	-	122,844	122,844
-	4,586,981	-	-	4,586,981
-	-	7,097,930	-	7,097,930

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Fund Balances (Continued)		
Committed for		
Public health and north woods software IM	-	-
N.W. paging site	-	-
Subscriber radio costs	-	-
P.S.A.P. project	-	-
Ground improvement and repairs	350,000	-
Environmental services software	150,000	-
Payroll/HRIS software and CAMA software	500,000	-
Phase 1 and 2 technology equipment	58,623	-
Assigned for		
Wellness, Safety, Ergo, LMC	22,746	-
Elections	29,702	-
Capital equipment	1,376,258	-
Building improvements	374,380	-
Human services	-	-
Highways and streets	-	3,319,408
Auditor election equipment	65,166	-
Vehicle insurance payment	21,553	-
Dental insurance	23,658	-
Unassigned	9,449,788	-
	\$ 15,431,933	\$ 7,216,215
Total Fund Balances	\$ 15,431,933	\$ 7,216,215
 Total Liabilities and Fund Balances	\$ 17,056,579	\$ 9,990,808

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Debt Service</u>	<u>County Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
400,000	-	-	-	400,000
-	-	400,000	-	400,000
-	-	1,523,486	-	1,523,486
-	-	144,790	-	144,790
-	-	-	-	350,000
-	-	-	-	150,000
-	-	-	-	500,000
-	-	-	-	58,623
-	-	-	-	22,746
-	-	-	-	29,702
-	-	-	-	1,376,258
-	-	-	-	374,380
8,977,367	-	-	-	8,977,367
-	-	-	-	3,319,408
-	-	-	-	65,166
-	-	-	-	21,553
-	-	-	-	23,658
-	-	-	(487)	9,449,301
<u>\$ 9,439,191</u>	<u>\$ 4,586,981</u>	<u>\$ 9,166,206</u>	<u>\$ 2,067,238</u>	<u>\$ 47,907,764</u>
<u><u>\$ 10,275,433</u></u>	<u><u>\$ 4,837,171</u></u>	<u><u>\$ 9,506,815</u></u>	<u><u>\$ 2,141,762</u></u>	<u><u>\$ 53,808,568</u></u>

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Fund balance - total governmental funds		\$ 47,907,764
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>		152,663,387
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		2,666,836
<p>Long-term liabilities and related accrued interest payable and deferred debt issuance charges are not due and payable in the current period and, therefore, are not reported in the governmental funds.</p>		
<p> General obligation bonds - net of premiums and discounts</p>	\$ (49,062,713)	
Capital notes	(740,000)	
Capital leases	(4,979,817)	
Compensated absences	(3,861,134)	
Net OPEB liability	(1,237,322)	
Accrued interest	(810,093)	
Deferred debt issuance charges	235,733	
	(60,455,346)	(60,455,346)
Net Assets of Governmental Activities		\$ 142,782,641

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge
Revenues		
Taxes	\$ 15,848,985	\$ 5,370,262
Special assessments	-	-
Licenses and permits	439,768	6,595
Intergovernmental	3,628,127	16,870,429
Charges for services	2,467,549	478,108
Fines and forfeits	175,554	-
Gifts and contributions	9,092	-
Investment earnings	614,125	-
Miscellaneous	403,501	54,671
	\$ 23,586,701	\$ 22,780,065
Expenditures		
Current		
General government	\$ 9,425,754	\$ 112,655
Public safety	9,089,021	-
Highways and streets	-	20,441,149
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	265,340	-
Conservation of natural resources	814,089	-
Economic development	966,163	-
Intergovernmental	534,849	-
Capital outlay	1,073,696	33,766
Debt service		
Principal	-	-
Interest and fiscal charges	-	-
Administrative charges	-	-
	\$ 22,168,912	\$ 20,587,570
Excess of Revenues Over (Under) Expenditures	\$ 1,417,789	\$ 2,192,495

EXHIBIT 5

Human Services	Debt Service	County Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 5,333,734	\$ 3,702,029	\$ -	\$ 232,803	\$ 30,487,813
-	-	-	255,897	255,897
-	-	-	8,590	454,953
5,887,782	1,186,772	97,387	170,315	27,840,812
1,406,581	-	-	28,225	4,380,463
-	-	-	-	175,554
-	-	-	-	9,092
-	2,361	1,970	-	618,456
185,072	-	450,916	121,767	1,215,927
\$ 12,813,169	\$ 4,891,162	\$ 550,273	\$ 817,597	\$ 65,438,967
\$ 96,557	\$ -	\$ -	\$ -	\$ 9,634,966
-	-	-	-	9,089,021
-	-	-	-	20,441,149
-	-	-	301,234	301,234
8,503,515	-	-	-	8,503,515
2,811,044	-	-	-	2,811,044
-	-	-	-	265,340
-	-	-	489,477	1,303,566
-	-	-	-	966,163
-	-	-	-	534,849
64,643	-	2,977,489	160,585	4,310,179
-	3,932,797	-	-	3,932,797
-	1,878,555	-	-	1,878,555
-	9,524	-	-	9,524
\$ 11,475,759	\$ 5,820,876	\$ 2,977,489	\$ 951,296	\$ 63,981,902
\$ 1,337,410	\$ (929,714)	\$ (2,427,216)	\$ (133,699)	\$ 1,457,065

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge
Other Financing Sources (Uses)		
Transfers in	\$ 698,085	\$ 20,000
Transfers out	(903,723)	(7,409)
Proceeds from sale of capital assets	8,553	44,307
	\$ (197,085)	\$ 56,898
Net Change in Fund Balances	\$ 1,220,704	\$ 2,249,393
Fund Balances - January 1, as restated (Note 2.D.)	14,211,229	4,796,915
Increase (decrease) in inventories	-	169,907
	\$ 15,431,933	\$ 7,216,215
Fund Balances - December 31	\$ 15,431,933	\$ 7,216,215

EXHIBIT 5
(Continued)

Human Services	Debt Service	County Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 70,062 (1,628,556) -	\$ 475,156 - -	\$ 1,655,000 (230,000) -	\$ 7,505 (156,120) -	\$ 2,925,808 (2,925,808) 52,860
\$ (1,558,494)	\$ 475,156	\$ 1,425,000	\$ (148,615)	\$ 52,860
\$ (221,084)	\$ (454,558)	\$ (1,002,216)	\$ (282,314)	\$ 1,509,925
9,660,275 -	5,041,539 -	10,168,422 -	2,349,552 -	46,227,932 169,907
\$ 9,439,191	\$ 4,586,981	\$ 9,166,206	\$ 2,067,238	\$ 47,907,764

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Net change in fund balance - total governmental funds **\$ 1,509,925**

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 revenues between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 2,666,836	
Deferred revenue - January 1	<u>(2,167,141)</u>	499,695

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 capital assets is reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources.

Expenditures for capital assets	\$ 15,975,988	
Net book value of disposed assets	(484,999)	
Current year depreciation	<u>(4,600,530)</u>	10,890,459

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

Principal repayments		
Reported as debt service expenditures (bonds, notes, and capital leases)		3,932,797

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

Change in accrued interest payable	\$ (107,367)	
Amortization of bond discounts, premiums, and deferred issuance charges	(58,104)	
Change in compensated absences	(4,260)	
Change in net OPEB liability	(248,632)	
Change in inventories	<u>169,907</u>	<u>(248,456)</u>

Change in Net Assets of Governmental Activities **\$ 16,584,420**

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 16,549,760	\$ 16,549,760	\$ 15,848,985	\$ (700,775)
Licenses and permits	309,550	309,550	439,768	130,218
Intergovernmental	2,022,238	2,226,153	3,628,127	1,401,974
Charges for services	2,449,823	2,468,924	2,467,549	(1,375)
Fines and forfeits	168,500	168,500	175,554	7,054
Gifts and contributions	2,500	2,500	9,092	6,592
Investment earnings	300,000	300,000	614,125	314,125
Miscellaneous	50,000	50,000	403,501	353,501
Total Revenues	\$ 21,852,371	\$ 22,075,387	\$ 23,586,701	\$ 1,511,314
Expenditures				
Current				
General government				
Commissioners	\$ 297,034	\$ 297,034	\$ 279,633	\$ 17,401
Courts	197,099	197,099	228,510	(31,411)
Law library	41,445	18,519	26,112	(7,593)
County administrator	462,303	462,303	502,065	(39,762)
County auditor	441,542	441,542	436,633	4,909
County treasurer	286,101	286,101	282,085	4,016
County assessor	676,651	685,784	667,137	18,647
Elections	36,500	36,500	19,586	16,914
Data processing	3,244,258	3,262,000	2,957,878	304,122
Central services	93,250	93,250	108,243	(14,993)
Attorney	1,172,168	1,193,438	1,122,372	71,066
Recorder	475,196	1,726,013	328,413	1,397,600
Planning and zoning	660,446	677,446	619,851	57,595
Maintenance	397,447	397,447	366,743	30,704
Veterans service officer	84,589	84,589	33,430	51,159
Other general government	1,958,373	1,735,412	1,447,063	288,349
Total general government	\$ 10,524,402	\$ 11,594,477	\$ 9,425,754	\$ 2,168,723

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**EXHIBIT 7
(Continued)**

**BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 4,295,559	\$ 4,181,006	\$ 4,373,496	\$ (192,490)
Sheriff's contingent	-	10,899	5,464	5,435
Boat and water safety	35,700	51,780	48,053	3,727
Coroner	90,000	90,000	98,209	(8,209)
Enhanced 911 system	125,400	307,146	125,400	181,746
County jail	3,256,736	3,256,736	3,080,585	176,151
Caseload reduction	64,853	71,372	74,823	(3,451)
Jail canteen fund	-	61,271	41,778	19,493
Probation and parole	770,667	770,667	679,604	91,063
Sentenced to serve	56,992	56,992	57,413	(421)
Electronic monitoring	19,100	20,680	10,057	10,623
Juvenile substance abuse court	2,000	12,583	977	11,606
Emergency management	28,846	87,694	22,939	64,755
Other public safety	407,296	569,938	470,223	99,715
Total public safety	\$ 9,153,149	\$ 9,548,764	\$ 9,089,021	\$ 459,743
Culture and recreation				
Historical society	\$ 27,000	\$ 27,000	\$ 27,000	\$ -
Parks	223,240	223,240	185,444	37,796
Senior citizens	31,000	31,000	31,000	-
Other	22,178	22,178	21,896	282
Total culture and recreation	\$ 303,418	\$ 303,418	\$ 265,340	\$ 38,078
Conservation of natural resources				
Cooperative extension	\$ 60,150	\$ 112,825	\$ 115,983	\$ (3,158)
Soil and water conservation	42,000	224,961	448,121	(223,160)
Agricultural society/County fair	14,500	14,500	14,500	-
Water planning	87,400	166,119	100,704	65,415
Wetland challenge	95,017	95,017	94,877	140
Other	14,642	14,642	39,904	(25,262)
Total conservation of natural resources	\$ 313,709	\$ 628,064	\$ 814,089	\$ (186,025)

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**EXHIBIT 7
(Continued)**

**BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 263,000	\$ 263,000	\$ 267,767	\$ (4,767)
Other	699,452	699,452	698,396	1,056
Total economic development	\$ 962,452	\$ 962,452	\$ 966,163	\$ (3,711)
Intergovernmental				
Library	\$ 560,000	\$ 560,000	\$ 534,849	\$ 25,151
Debt service	\$ 59,603	\$ 59,603	\$ -	\$ 59,603
Capital outlay				
General government	\$ 202,325	\$ 1,017,145	\$ 799,144	\$ 218,001
Public safety	40,621	170,069	171,197	(1,128)
Highways and streets	40,750	40,750	40,750	-
Culture and recreation	-	-	1,100	(1,100)
Economic development	-	66,505	61,505	5,000
Total capital outlay	\$ 283,696	\$ 1,294,469	\$ 1,073,696	\$ 220,773
Total Expenditures	\$ 22,160,429	\$ 24,951,247	\$ 22,168,912	\$ 2,782,335
Excess of Revenues Over (Under)				
Expenditures	\$ (308,058)	\$ (2,875,860)	\$ 1,417,789	\$ 4,293,649
Other Financing Sources (Uses)				
Transfers in	\$ 138,286	\$ 720,251	\$ 698,085	\$ (22,166)
Transfers out	(23,416)	(867,536)	(903,723)	(36,187)
Proceeds from sale of capital assets	-	-	8,553	8,553
Total Other Financing Sources (Uses)	\$ 114,870	\$ (147,285)	\$ (197,085)	\$ (49,800)
Net Change in Fund Balance	\$ (193,188)	\$ (3,023,145)	\$ 1,220,704	\$ 4,243,849
Fund Balance - January 1, as restated (Note 2.D.)	14,211,229	14,211,229	14,211,229	-
Fund Balance - December 31	\$ 14,018,041	\$ 11,188,084	\$ 15,431,933	\$ 4,243,849

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT 8

**BUDGETARY COMPARISON
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,671,369	\$ 5,671,369	\$ 5,370,262	\$ (301,107)
Licenses and permits	14,000	14,000	6,595	(7,405)
Intergovernmental	3,284,995	3,284,995	16,870,429	13,585,434
Charges for services	22,000	22,000	478,108	456,108
Miscellaneous	-	-	54,671	54,671
Total Revenues	\$ 8,992,364	\$ 8,992,364	\$ 22,780,065	\$ 13,787,701
Expenditures				
Current				
General government				
Surveyor	\$ 96,025	\$ 96,025	\$ 112,655	\$ (16,630)
Highways and streets				
Administration	\$ 820,806	\$ 820,806	\$ 1,220,802	\$ (399,996)
Engineering	1,280,987	1,280,987	1,937,864	(656,877)
Maintenance	4,026,012	4,026,012	3,734,111	291,901
Construction	6,500,000	6,500,000	12,707,176	(6,207,176)
Equipment, maintenance, and shop	896,851	941,158	841,196	99,962
Total highways and streets	\$ 13,524,656	\$ 13,568,963	\$ 20,441,149	\$ (6,872,186)
Capital outlay				
Highways and streets	\$ 33,766	\$ 33,766	\$ 33,766	\$ -
Total Expenditures	\$ 13,654,447	\$ 13,698,754	\$ 20,587,570	\$ (6,888,816)
Excess of Revenues Over (Under) Expenditures	\$ (4,662,083)	\$ (4,706,390)	\$ 2,192,495	\$ 6,898,885
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 20,000	\$ 20,000	\$ -
Transfers out	-	(7,408)	(7,409)	(1)
Proceeds from sale of assets	-	44,307	44,307	-
Total Other Financing Sources (Uses)	\$ -	\$ 56,899	\$ 56,898	\$ (1)
Net Change in Fund Balance	\$ (4,662,083)	\$ (4,649,491)	\$ 2,249,393	\$ 6,898,884
Fund Balance - January 1	4,796,915	4,796,915	4,796,915	-
Increase (decrease) in inventories	-	-	169,907	169,907
Fund Balance - December 31	\$ 134,832	\$ 147,424	\$ 7,216,215	\$ 7,068,791

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

Page 35

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT 9

**BUDGETARY COMPARISON
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,625,357	\$ 5,625,357	\$ 5,333,734	\$ (291,623)
Intergovernmental	6,086,875	6,086,875	5,887,782	(199,093)
Charges for services	936,079	936,079	1,406,581	470,502
Miscellaneous	141,673	141,673	185,072	43,399
Total Revenues	\$ 12,789,984	\$ 12,789,984	\$ 12,813,169	\$ 23,185
Expenditures				
Current				
General government				
Veterans services	\$ -	\$ -	\$ 96,557	\$ (96,557)
Human services				
Income maintenance	\$ 3,007,474	\$ 3,007,474	\$ 2,717,540	\$ 289,934
Social services	6,780,639	6,780,639	5,785,975	994,664
Total human services	\$ 9,788,113	\$ 9,788,113	\$ 8,503,515	\$ 1,284,598
Health				
Nursing service	\$ 2,157,397	\$ 2,157,397	\$ 2,060,873	\$ 96,524
Maternal and child health	876,871	876,871	750,171	126,700
Total health	\$ 3,034,268	\$ 3,034,268	\$ 2,811,044	\$ 223,224
Capital outlay				
Human services	\$ 61,209	\$ 61,209	\$ 61,209	\$ -
Health	3,434	3,434	3,434	-
Total capital outlay	\$ 64,643	\$ 64,643	\$ 64,643	\$ -
Total Expenditures	\$ 12,887,024	\$ 12,887,024	\$ 11,475,759	\$ 1,411,265
Excess of Revenues Over (Under) Expenditures	\$ (97,040)	\$ (97,040)	\$ 1,337,410	\$ 1,434,450
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 70,062	\$ 70,062	\$ -
Transfers out	-	(1,628,557)	(1,628,556)	1
Total Other Financing Sources (Uses)	\$ -	\$ (1,558,495)	\$ (1,558,494)	\$ 1
Net Change in Fund Balance	\$ (97,040)	\$ (1,655,535)	\$ (221,084)	\$ 1,434,451
Fund Balance - January 1	9,660,275	9,660,275	9,660,275	-
Fund Balance - December 31	\$ 9,563,235	\$ 8,004,740	\$ 9,439,191	\$ 1,434,451

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

Page 36

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FIDUCIARY FUNDS

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CHISAGO COUNTY
CENTER CITY, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2011

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,078,734</u>
<u>Liabilities</u>	
Accounts payable	\$ 3,258
Deferred benefits	40,205
Due to other governments	<u>1,035,271</u>
Total Liabilities	<u>\$ 1,078,734</u>

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

1. Summary of Significant Accounting Policies

Chisago County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2011. 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

Chisago County was established September 1, 1851, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, appointed by the Board for an indefinite term, serves as the clerk of the Board of Commissioners but has no vote.

As required by generally accepted accounting principles, these financial statements present Chisago County (the primary government) and its discretely presented component unit, the Chisago County Housing and Redevelopment Authority Economic Development Authority (HRA-EDA). Disclosures for the HRA-EDA are in Note 6.

A five-member Board appointed by the County Board governs the HRA-EDA. The HRA-EDA is reported in a separate column to emphasize that the HRA-EDA is legally separate from the County. The HRA-EDA is included because the County is financially accountable and is able to impose its will on the HRA-EDA. Separate financial statements for the HRA-EDA may be obtained at its office at 38883 - 7th Avenue, North Branch, Minnesota 55056.

Joint Ventures

The County participates in three joint ventures described in Note 5.C.

**CHISAGO COUNTY
CENTER CITY, 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.

In the government-wide statement of net assets, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net 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. Separate statements for each fund category--governmental and fiduciary (agency)--are presented. The emphasis of the governmental fund financial statements is on major individual funds, with each displayed as a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

**CHISAGO COUNTY
CENTER CITY, 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 accounted for in another fund.
- The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.
- The Human Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.
- The Debt Service Fund accounts for the accumulation of resources for the payment of principal and interest on the debt issued by the County for construction of various County buildings and roads.
- The County Capital Projects Fund accounts for financial resources committed for capital acquisition, construction, or improvement of capital facilities.

Additionally, the County reports the following fund type:

- Agency funds are used to account for assets held by the County as an agent for individuals, private organizations, and other governments. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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. Chisago County considers all revenues as available if collected within 60 days after the end of the current period. Property taxes are recognized as revenues in the year for which they are levied provided they are also available. Shared revenues are generally recognized in the period the appropriation goes into effect and the revenues are available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available.

Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, 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 2011 were \$614,125.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Chisago 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 satisfy the requirements of Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7), as amended. The investment in the pool is measured at the net asset value per share provided by the pool.

2. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not in spendable form.

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

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

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Public domain infrastructure	50 - 75
Furniture, equipment, and vehicles	5 - 10

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the 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.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Classification of Net Assets

Net assets in the government-wide financial statements are classified in the following categories:

- Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net assets - the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

9. Classification of Fund Balances

In 2011, the County implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Also, as part of the implementation of GASB Statement 54, the County Building and Capital Equipment Special Revenue Funds were reclassified to the General Fund, and the Forfeited Tax Sale Special Revenue Fund was reclassified as an agency fund.

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

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

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

- Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.
- Committed - the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.
- Assigned - amounts in the assigned fund balance classification are balances the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor, who has been delegated that authority by Board resolution.
- Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed.

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

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Minimum Fund Balance

Chisago County has adopted a minimum fund balance policy for the General Fund, the Road and Bridge Special Revenue Fund, and the Human Services Special Revenue Fund. All three funds rely heavily on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County Board has determined it needs to maintain a minimum unrestricted fund balance (committed, assigned, and unassigned) of 35 to 50 percent of operating revenues or no less than five months of operating expenditures. The Fund Balance Policy was adopted by the County Board on August 17, 2011 (revised December 21, 2011, for GASB Statement 54 definitions). At December 31, 2011, unrestricted fund balances for all three funds were at or above the minimum fund balance levels.

11. Use of Estimates

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

E. Revenues

For the fund financial statements, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of accounting is used for all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

1. Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on nongovernmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied, to the extent they are collected in the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes receivable but not available are reported as deferred revenue and will be recognized as revenue in the fiscal year that they become available. Fines and penalties and property forfeitures are recognized in the period received.

2. Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

Tax credits paid by the state are included in intergovernmental revenues and are recognized as revenue in the fiscal year that they become available. Subject to the availability criterion, state-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues (Continued)

3. Exchange Transactions

Exchange transactions are those in which each party receives and gives up essentially equal values. Special assessments levied against benefiting properties are recognized under the modified accrual basis when available to finance current expenditures. Other revenues, such as licenses and permits, charges for services, and investment income are recognized as revenue when earned.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all major and most nonmajor governmental funds. All appropriations lapse at year-end.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriation--is the departmental level. The Board made some supplemental budgetary appropriations throughout the year; however, none were material.

Early in June each year, the County Administrator meets with department heads to discuss the budget process and requests a priority-based budget assessment. These assessments are returned in mid-June to the Administrator. Next, the County Administrator, County Auditor, and County Treasurer meet and review budget options and set proposed budget appropriation targets for each department based on preliminary levy goals established by the County Board. These targets are then sent to the department heads in early July. As needed, department budget presentations are made to the County Board throughout July and August. Before August 31, the proposed budget is presented by the County Administrator to the County Board for review, and the Board will set a preliminary maximum levy by September 15. The County Board holds public hearings (truth in taxation) on the proposed budget in early December. A final operating budget is approved, and a final levy is set before December 31.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Deficit Fund Equity

Although the Ditch Special Revenue Fund had a positive fund balance of \$122,357 as of December 31, 2011, 3 of the 13 active ditch systems had deficit balances. These deficits will be eliminated with future special assessment levies against benefited properties. Following is a summary of the individual ditch systems:

Ditches with positive balances	\$ 122,844
Ditches with deficit balances	(487)
	\$ 122,357

C. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget at the department level for the year ended December 31, 2011.

	Expenditures	Final Budget	Excess
General Fund			
Current			
General government			
Courts	\$ 228,510	\$ 197,099	\$ 31,411
Law library	26,112	18,519	7,593
County administrator	502,065	462,303	39,762
Central services	108,243	93,250	14,993
Public safety			
Sheriff	4,373,496	4,181,006	192,490
Coroner	98,209	90,000	8,209
Caseload reduction	74,823	71,372	3,451
Sentenced to serve	57,413	56,992	421
Conservation of natural resources			
Cooperative extension	115,983	112,825	3,158
Soil and water conservation	448,121	224,961	223,160
Other	39,904	14,642	25,262
Economic development			
Community development	267,767	263,000	4,767
Capital outlay			
Public safety	171,197	170,069	1,128
Culture and recreation	1,100	-	1,100

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

2. Stewardship, Compliance, and Accountability

C. Excess of Expenditures Over Budget (Continued)

	Expenditures	Final Budget	Excess
Special Revenue Funds			
Road and Bridge			
Current			
General government			
Surveyor	112,655	96,025	16,630
Highways and streets			
Administration	1,220,802	820,806	399,996
Engineering	1,937,864	1,280,987	656,877
Construction	12,707,176	6,500,000	6,207,176
Human Services			
Current			
General government			
Veterans services	96,557	-	96,557
Lake Improvement District			
Current			
Conservation of natural resources			
Lake improvement district	489,477	224,580	264,897
Solid Waste			
Capital outlay	18,710	-	18,710

D. Reclassification/Restatement

The County Building and Capital Equipment Special Revenue Funds were reclassified to the General Fund. As a result, the January 1, 2011, fund balances of the General Fund and the other governmental funds have been restated. The reclassification/restatement is as follows:

	General Fund	Other Governmental Funds
Fund Balance - January 1, as previously reported	\$ 12,435,254	\$ 4,125,527
Reclassification		
County Building Fund	319,020	(319,020)
Capital Equipment Fund	1,456,955	(1,456,955)
Fund Balance - January 1, as restated	\$ 14,211,229	\$ 2,349,552

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 45,850,907
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,078,734</u>
 Total Cash and Investments	 <u>\$ 46,929,641</u>
Deposits	\$ 805,102
Petty cash and change funds	2,150
Departmental cash	8,962
Investments	<u>46,113,427</u>
 Total Deposits, Cash on Hand, and Investments	 <u>\$ 46,929,641</u>

a. Deposits

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

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

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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. However, the County complies with Minnesota statutes in establishing collateral for its deposits. At December 31, 2011, the County was not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (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

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

At December 31, 2011, the County had the following investments:

	Fair Value	Less Than 1 Year	1 - 5 Years	5+ Years
U.S. agency securities	\$ 21,364,077	\$ -	\$ -	\$ 21,364,077
MAGIC Fund	24,749,350	24,749,350	-	-
Total Investments	<u>\$ 46,113,427</u>	<u>\$ 24,749,350</u>	<u>\$ -</u>	<u>\$ 21,364,077</u>

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.

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. The County's exposure to credit risk at December 31, 2011, is as follows:

	S & P Rating	Fair Value
U.S. agency securities	AAA	\$ 21,364,077
MAGIC Fund	N/R	24,749,350
Total		<u>\$ 46,113,427</u>

N/R - Not rated

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. Investments in any one issuer that represent five percent or more of the County's investments are as follows:

<u>Issuer</u>	<u>Reported Amount</u>
FHLMC - Wells Fargo Advisors	\$ 10,769,199
FHLB - Wells Fargo Advisors	7,019,011
FNMA - Wells Fargo Advisors	3,575,867
MAGIC Fund	24,749,350

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 investments or collateral securities that are in the possession of an outside party. All securities purchased by the County are held in safekeeping by a third-party designated institution as agent for the County. As of December 31, 2011, the County's investments were not exposed to custodial credit risk.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 1,967,600	\$ -
Special assessments	76,195	51,716
Accounts	316,679	-
Accrued interest	145,867	-
Notes	1,000,000	1,000,000
Due from other governments	3,154,496	-
Loans	220,927	194,664
Total Governmental Activities	\$ 6,881,764	\$ 1,246,380

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,613,277	\$ -	\$ -	\$ 2,613,277
Construction in progress	9,566,514	14,076,392	6,915,060	16,727,846
Total capital assets not depreciated	\$ 12,179,791	\$ 14,076,392	\$ 6,915,060	\$ 19,341,123
Capital assets depreciated				
Buildings	\$ 22,699,122	\$ 44,782	\$ 4,188	\$ 22,739,716
Machinery, furniture, and equipment	13,538,435	1,532,593	527,579	14,543,449
Infrastructure	129,569,781	7,237,281	588,711	136,218,351
Total capital assets depreciated	\$ 165,807,338	\$ 8,814,656	\$ 1,120,478	\$ 173,501,516

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 7,693,984	\$ 567,887	\$ 2,303	\$ 8,259,568
Machinery, furniture, and equipment	9,349,592	1,527,896	515,434	10,362,054
Infrastructure	<u>19,170,625</u>	<u>2,504,747</u>	<u>117,742</u>	<u>21,557,630</u>
Total accumulated depreciation	<u>\$ 36,214,201</u>	<u>\$ 4,600,530</u>	<u>\$ 635,479</u>	<u>\$ 40,179,252</u>
Total capital assets depreciated, net	<u>\$ 129,593,137</u>	<u>\$ 4,214,126</u>	<u>\$ 484,999</u>	<u>\$ 133,322,264</u>
Capital Assets, Net	<u>\$ 141,772,928</u>	<u>\$ 18,290,518</u>	<u>\$ 7,400,059</u>	<u>\$ 152,663,387</u>

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

Governmental Activities	
General government	\$ 864,968
Public safety	419,798
Highways and streets, including depreciation of infrastructure assets	2,944,416
Sanitation	8,163
Health	81,827
Culture and recreation	221,967
Economic development	<u>59,391</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,600,530</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, is as follows:

1. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	<u>\$ 24,544</u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due From/To Other Funds (Continued)

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

	Transfers In	Description
Transfers to General Fund from		
Road and Bridge Fund	\$ 7,409	Retiree medical costs
Human Services Fund	54,556	Retiree medical costs
Human Services Fund	500,000	Payroll/HRIS and CAMA software
Lake Improvement Fund	51,250	Staff services
Solid Waste Fund	84,870	Solid waste fees
Total General Fund	\$ 698,085	
Transfers to Road and Bridge Fund from		
Lake Improvement Fund	\$ 20,000	Channel excavation work
Transfers to Human Services Fund from		
General Fund	\$ 70,062	Veterans services expenses
Transfers to Debt Service Fund from		
General Fund	\$ 59,603	Provide funds to repay debt
General Fund	185,553	Levy for 800 Mghz debt
County Capital Projects Fund	230,000	Capitalized interest from 800 Mghz bond proceeds required by bond
Total Debt Service Fund	\$ 475,156	
Transfers to County Capital Projects Fund from		
General Fund	\$ 181,000	E-911 funds to pay for PSAP project
General Fund	400,000	N.W. paging site
Human Services Fund	1,074,000	Subscriber radio costs
Total County Capital Projects Fund	\$ 1,655,000	
Transfers to other governmental funds from		
General Fund	\$ 7,505	MCIT insurance proceeds
Total Interfund Transfers	\$ 2,925,808	

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Accounts Payable

Accounts payable at December 31, 2011, were as follows:

	Governmental Activities
Accounts	\$ 870,483
Salaries	351,524
Contracts	1,415,055
Total Accounts Payable	\$ 2,637,062

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state grants that are not collected soon enough after year-end to pay liabilities of the current period, state and federal grants received but not yet earned, and highway allotments and other revenue sources either received but unearned or not received soon enough after year-end. Deferred revenue at December 31, 2011, is summarized below by fund:

	Taxes and Special Assessments	Highway Allotments and Other	Total
Major governmental funds			
General	\$ 836,817	\$ 60,978	\$ 897,795
Road and Bridge	315,520	864,141	1,179,661
Human Services	338,584	-	338,584
Debt Service	250,190	-	250,190
Other governmental funds			
Ditch	621	-	621
Lake Improvement District	36,818	-	36,818
Solid Waste	16,843	-	16,843
Total	\$ 1,795,393	\$ 925,119	\$ 2,720,512
Deferred revenue			
Unavailable	\$ 1,741,717	\$ 925,119	\$ 2,666,836
Unearned	53,676	-	53,676
Total	\$ 1,795,393	\$ 925,119	\$ 2,720,512

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Capital Leases

The County has entered into capital lease agreements for: (1) road and bridge equipment, and (2) financing the construction of various County buildings by the Chisago County HRA-EDA. These agreements qualify as capital leases for accounting purposes.

The building improvements and computer systems are recorded by the County as capital assets at the present value of the future minimum lease payments as of the inception of the leases.

Lease	Maturity	Installment	Payment Amount	Original	Balance
2007 Caterpillar wheel loader	2012	Annually	\$ 25,220	\$ 105,516	\$ 23,738
2007 Caterpillar wheel loader	2012	Annually	34,383	143,856	32,361
Buildings and libraries	2026	Annually	Various	10,720,000	4,923,718
Total Capital Leases					<u>\$ 4,979,817</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

Year Ending December 31	Governmental Activities
2012	\$ 590,188
2013	529,101
2014	531,733
2015	528,380
2016	529,158
2017 - 2021	2,653,881
2022 - 2026	2,415,293
Total minimum lease payments	\$ 7,777,734
Less	
Amount representing interest	(2,231,635)
Amount representing cash with escrow held by the Chisago County HRA-EDA	(566,282)
Present Value of Minimum Lease Payments	<u>\$ 4,979,817</u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

The County issues general obligation bonds and capital notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes are direct obligations and pledge the full faith and credit of the County. General obligation bonds and notes outstanding at December 31, 2011, are as follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Balance December 31, 2011
2003A Capital Improvement Bonds	2013	\$400,000 - 550,000	3.00 - 3.40	\$ 2,000,000	\$ 900,000
2003B Jail and Courthouse Bonds	2014	\$65,000 - 85,000	2.05 - 4.10	720,000	245,000
2004A State-Aid Road Bonds	2014	\$365,000 - 450,000	1.50 - 3.30	4,000,000	1,310,000
2005A Road Reconstruction Bonds	2017	\$590,000 - 835,000	3.50 - 4.00	7,000,000	4,520,000
2005B Capital Notes	2015	\$125,000 - 195,000	3.60 - 4.00	1,500,000	740,000
2006 Capital Improvement Bonds	2026	\$250,000 - 1,975,000	4.00 - 4.75	14,500,000	13,430,000
2007A State-Aid Road Bonds	2018	\$330,000 - 470,000	3.65 - 3.85	3,960,000	2,925,000
2009A Refunding Bonds	2018	\$85,000 - 510,000	2.00 - 3.00	3,315,000	2,580,000
2010A Temporary Jail Refinancing Bonds	2013	\$4,870,000	1.50	4,870,000	4,870,000
2010B Capital Improvement Bonds (Build America Bonds)	2026	\$340,000 - 605,000	1.70 - 4.85	7,000,000	7,000,000
2010C Capital Improvement Bonds (Build America Bonds)	2031	\$460,000 - 1,610,000	4.00 - 5.35	11,350,000	11,350,000
Total general obligation bonds and notes				<u>\$ 60,215,000</u>	\$ 49,870,000
Add: unamortized premium					133,024
Less: unamortized discount					<u>(200,311)</u>
Total Bonds and Notes, Net					<u>\$ 49,802,713</u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Service Requirements

Debt service requirements at December 31, 2011, were as follows:

Year Ending December 31	General Obligation Bonds		Capital Notes	
	Principal	Interest	Principal	Interest
2012	\$ 2,510,000	\$ 1,913,322	\$ 175,000	\$ 25,969
2013	7,340,000	1,794,613	180,000	19,000
2014	2,490,000	1,679,318	190,000	11,600
2015	2,105,000	1,608,529	195,000	3,900
2016	2,375,000	1,535,955	-	-
2017 - 2021	11,645,000	6,318,226	-	-
2022 - 2026	13,200,000	3,618,791	-	-
2027 - 2031	7,465,000	1,022,896	-	-
Total	\$ 49,130,000	\$ 19,491,650	\$ 740,000	\$ 60,469

As part of the American Recovery and Reinvestment Act of 2009 (ARRA), Chisago County issued \$7,000,000 of Taxable General Obligation Capital Improvement Bonds, Series 2010B, and \$11,350,000 of Taxable General Obligation Capital Improvement Plan Bonds, Series 2010C. Both bond issues are direct payment tax credit Build America Bonds (BAB), in which the County receives a 35 percent credit on bond interest paid. The County has complied with all ARRA requirements to be eligible for the BAB interest credit.

Taking into consideration the above BAB interest credit, as of December 31, 2011, the County's net annual debt service requirements to amortize all taxable general obligation bonds outstanding, including interest of \$15,522,534 on the governmental activities debt is as follows:

Year Ending December 31	Principal	Interest	Federal Subsidy	Net Interest	Total Payment
2012	\$ 2,510,000	\$ 1,913,322	\$ (290,216)	\$ 1,623,106	\$ 4,133,106
2013	7,340,000	1,794,613	(290,216)	1,504,397	8,844,397
2014	2,490,000	1,679,318	(289,204)	1,390,114	3,880,114
2015	2,105,000	1,608,529	(286,537)	1,321,992	3,426,992
2016	2,375,000	1,535,955	(282,015)	1,253,940	3,628,940
2017 - 2021	11,645,000	6,318,226	(1,264,107)	5,054,119	16,699,119
2022 - 2026	13,200,000	3,618,791	(908,807)	2,709,984	15,909,984
2027 - 2031	7,465,000	1,022,896	(358,014)	664,882	8,129,882
Total	\$ 49,130,000	\$ 19,491,650	\$ (3,969,116)	\$ 15,522,534	\$ 64,652,534

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and notes payable					
General obligation bonds	\$ 52,585,000	\$ -	\$ 3,455,000	\$ 49,130,000	\$ 2,510,000
Capital notes	910,000	-	170,000	740,000	175,000
Add: unamortized premium	150,883	-	17,859	133,024	-
Less: deferred amounts for issuance discounts	(232,108)	-	(31,797)	(200,311)	-
Total bonds and notes payable	\$ 53,413,775	\$ -	\$ 3,611,062	\$ 49,802,713	\$ 2,685,000
Capital leases	5,287,614	-	307,797	4,979,817	326,097
Compensated absences	3,856,874	1,813,581	1,809,321	3,861,134	1,311,428
Net OPEB liability	988,690	248,632	-	1,237,322	-
Long-Term Liabilities	\$ 63,546,953	\$ 2,062,213	\$ 5,728,180	\$ 59,880,986	\$ 4,322,525

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

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

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2011:

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

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 972,144	\$ 940,090	\$ 981,327
Public Employees Police and Fire Fund	397,754	383,047	390,297
Public Employees Correctional Fund	79,606	92,322	98,824

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

B. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 9,123	\$ 9,123
Percentage of covered payroll	5%	5%

Required contribution rates were 5.0 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Chisago County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical, dental, and life insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. A separate, audited GAAP-basis benefits plan report is not issued. The activity of the plan is reported in the government-wide financial statements.

The contribution requirements of the plan members and the County are established and may be amended by the Chisago County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2011, there were 387 participants in the plan, including 39 retirees and 6 retirees' spouses.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2011, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

ARC	\$	420,533
Interest on net OPEB obligation		44,491
Adjustment to ARC		(60,403)
		(60,403)
Annual OPEB cost (expense)	\$	404,621
Contributions made during the year		(155,989)
		(155,989)
Increase in net OPEB obligation	\$	248,632
Net OPEB Obligation - Beginning of Year		988,690
		988,690
Net OPEB Obligation - End of Year	\$	1,237,322

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2008 through 2011, were as follows:

Fiscal Year-End	Annual OPEB Cost	Employer Contribution	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2008	\$ 439,993	\$ 85,359	19.4%	\$ 354,634
December 31, 2009	439,993	122,272	27.8	672,355
December 31, 2010	404,804	88,469	21.6	988,690
December 31, 2011	404,621	155,989	38.6	1,237,322

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$2,713,711, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,713,711. The covered payroll (annual payroll of active employees covered by the plan) was \$16,326,167, and the ratio of the UAAL to the covered payroll was 16.6 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 trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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 investment expenses), which is Chisago County's implicit rate of return on the General Fund. The annual health care cost trend is 8.5 percent initially, reduced

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

by decrements to an ultimate rate of 5.0 percent over 7 years. Both rates included a 2.5 percent inflation assumption. The dental trend rate is 4.0 percent. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011 and \$460,000 per claim in 2012. 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.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

In 2001, Chisago County began to self-insure for employee dental coverage. The County contracts with Delta Dental to administer the County's self-insured dental benefit claims. Delta Dental processes all benefit claims and charges the County an administrative fee. The County maintains a self-insurance account within the General Fund and pays all claims as incurred. For 2011, the County collected premiums of \$301,811 from County departments. For 2010, claims and administrative costs paid were \$291,488.

Changes in the claims liability for the past two years are:

	Year Ended December 31	
	2011	2010
Asset (liability) at January 1	\$ (19,150)	\$ (10,403)
Current year premiums	301,811	283,273
Claims payments	(291,488)	(292,020)
Levy for prior year deficit	32,486	-
Asset (Liability) at December 31	\$ 23,659	\$ (19,150)

B. Contingent Liabilities

Amounts received or receivable from grantor 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 of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial. The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

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

C. Joint Ventures

Chisago Lakes Joint Sewage Treatment Commission

Chisago County and the cities of Lindstrom, Chisago City, and Center City entered into a joint powers agreement to create and operate the Chisago Lakes Joint Sewage Treatment Commission, pursuant to Minn. Stat. § 471.59. The Sewage Treatment Commission provides sewage treatment for the above communities. Chisago County's share of the Sewage Treatment Commission is 8.8 percent.

The Commission's annual financial report shows total net assets of \$9,075,275 as of December 31, 2011.

Complete financial statements of the Chisago Lakes Joint Sewage Treatment Commission can be obtained at Box 313, Center City, Minnesota 55012.

East Central Solid Waste Commission

The East Central Solid Waste Commission was established in March 1988 by a joint powers agreement among Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the powers, duties, and privileges granted joint powers by Minn. Stat. § 471.59. The Commission has five voting members, one from each county. At its annual meeting, the Board of County Commissioners of each county chooses a member and an alternate, both County Commissioners, as representatives of the county. Each county has one voting member and, in the absence of the voting member, the alternate votes.

Each county's proportionate share of the total operating costs is based on the most recent census data available and is to be adjusted upon the admission of additional counties or the withdrawal of present counties. The Commission will remain in existence so long as two or more of the counties remain as parties to the agreement. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

East Central Solid Waste Commission (Continued)

Each county's share of the Commission's assets, liabilities, and equities cannot be accurately determined since it will fluctuate with census data rather than ownership interest. Following is a summary of the financial information as of and for the year ended December 31, 2010 (most recent figures available):

Total Assets	\$ 13,756,816
Total Liabilities	<u>4,877,321</u>
Total Net Assets	<u>\$ 8,879,495</u>
Operating and nonoperating revenues	\$ 5,103,282
Operating and nonoperating expenses	<u>5,712,556</u>
Change in Net Assets	<u>\$ (609,274)</u>

Complete financial statements of the East Central Solid Waste Commission can be obtained at 1756 - 180th Avenue, Mora, Minnesota 55051.

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library's Board comprises 18 members--one County Board member and two appointees from each county. The Library's financial statements for the year ended December 31, 2010 (most recent figures available), show total assets of \$1,262,058, total liabilities of \$437,974, and total net assets of \$824,084. Chisago County's contribution for 2011 was \$534,899.

Complete financial statements of the East Central Regional Library can be obtained at 244 South Birch, Cambridge, Minnesota 55008.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

1. Reporting Entity

The Chisago County Housing and Redevelopment Authority was established in 1988 with the powers, duties, and privileges granted by Minn. Stat. ch. 469. In 2000, the Authority adopted economic development powers, as granted by Minn. Stat. ch. 469, and changed its name to the Chisago County Housing and Redevelopment Authority Economic Development Authority (HRA-EDA). The HRA-EDA is governed by a five-member Board of Commissioners (the Board) appointed by the Chisago County (the County) Board of Commissioners. The Treasurer of the HRA-EDA is appointed by the County Board of Commissioners for an indefinite term. The Executive Director of the HRA-EDA is appointed by the HRA-EDA Board for an indefinite term.

The HRA-EDA has considered all potential units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the HRA-EDA are such that exclusion would cause the HRA-EDA's financial statements to be misleading or incomplete. The 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 primary government to impose its will on that organization; or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the primary government. The HRA-EDA has no component units. However, the HRA-EDA is reported as a component unit in Chisago County's financial statements.

2. Measurement Focus, Basis of Accounting, and Basis of Presentation

The HRA-EDA is considered a single enterprise fund for financial reporting purposes. The activities of the HRA-EDA are recorded under various programs established for the administration of the HRA-EDA's programs. For the most part, the effect of inter-program activity has been removed from the statements of net assets and the statements of revenues, expenses, and changes in net assets. The HRA-EDA's basic financial statements have been prepared on the basis of the governmental proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through tenant rentals and user charges. The HRA-EDA's basic financial statements are presented on the accrual basis of accounting.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

2. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

The HRA-EDA applies all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB Statement 20, the HRA-EDA does not apply all FASB Statements and Interpretations issued after November 30, 1989.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the HRA-EDA receives value without directly giving equal value in return, include property taxes, grants, entitlement, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the HRA-EDA must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the HRA-EDA on a reimbursement basis.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of proprietary funds are tenant rent and HRA-EDA contributions. Operating expenses for proprietary funds include the cost of housing assistance payments,

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

2. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

utilities, sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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

3. Assets, Liabilities, and Net Assets

Deposits and Investments

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

The HRA-EDA may invest idle funds as authorized by Minnesota statutes as follows:

- 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 and receiving the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and having a final maturity of 13 months or less;
- c. general obligations of a state or local government with taxing powers rated "A" or better, and revenue obligations rated "AA" or better;
- d. general obligations of the Minnesota Housing Finance Agency rated "A" or better;
- e. bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System;

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

3. Assets, Liabilities, and Net Assets

Deposits and Investments (Continued)

- f. commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less;
- g. repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers; and
- h. guaranteed investment contracts (GICs) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments are stated at fair value.

Property Taxes

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

Taxes payable on homestead property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credit is paid to the HRA-EDA by the state in lieu of taxes levied against homestead property. The state remits this credit in October and December of each year.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

3. Assets, Liabilities, and Net Assets (Continued)

Accounts Receivable

Accounts receivable include amounts billed for services provided before year-end.

Prepaid Expenses

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

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the HRA-EDA as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40 - 50
Furniture, equipment, and machinery	3 - 10
Improvements	5 - 20

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

3. Assets, Liabilities, and Net Assets (Continued)

Long-Term Obligations

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.

Compensated Absences

The HRA-EDA reports all earned but unpaid compensated absences as a current and noncurrent liability on the statement of net assets. The HRA-EDA records an expense to reflect the change in compensated absences earned and used during the year.

Comparative Data/Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

B. Detailed Notes on All Funds

1. Deposits and Investments

Deposits

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

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Deposits and Investments

Deposits (Continued)

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

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, and Treasury bonds;
- issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- general obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- irrevocable standby letters of credit issued by Federal Home Loan Bank to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the government entity.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Deposits and Investments

Deposits (Continued)

At December 31, 2011, the HRA-EDA's carrying amount of deposits was \$982,893 and the bank balance was \$995,381, all of which was covered by federal depository insurance and by collateral held by the HRA-EDA's agent in the HRA-EDA's name.

Investments

As of December 31, 2011, the HRA-EDA had the following investments:

<u>Type of Investment</u>	<u>Credit Quality/ Rating¹</u>	<u>Segmented Time Distribution²</u>	<u>Fair Value and Carrying Amount</u>
Non-pooled investments			
First American Treasury Obligation Fund	Aaa	Less than 6 months	\$ 566,282
U.S. government agency securities	Aaa	6 to 12 months	16,187
U.S. government agency securities	Aaa	1 to 3 years	<u>1,713,096</u>
Total Investments			<u>\$ 2,295,565</u>

¹Ratings are provided by Moody's credit rating agency where applicable to indicate associated credit risk.

²Interest rate risk is disclosed using the segmented time distribution method.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Deposits and Investments

Investments (Continued)

A reconciliation of cash and temporary investments as shown on the statement of net assets as of December 31, 2011, for the HRA-EDA follows:

Carrying amount of deposits	\$	982,893
Investments		2,295,565
Cash on hand		67
Total	\$	3,278,525
Cash and investments		
Cash and temporary investments - unrestricted	\$	925,403
Cash and investments held with escrow agent		2,297,766
Cash - restricted for tenant security deposits		55,356
Total	\$	3,278,525

The investments are subject to the following risks:

- Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings provided by various credit rating agencies where applicable indicate associated credit risk. Minnesota statutes limit the HRA-EDA's investments to the list in Note 6.A.3.
- Custodial Credit Risk - 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 which are in the possession of an outside party.
- Concentration of Credit Risk - the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the HRA-EDA minimizes concentration of credit risk by making investments which shall suggest diversification.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

1. Deposits and Investments

Investments (Continued)

- Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment. Using the segmented time distribution method, the interest rate risk of the HRA-EDA's investments is less than six months.

2. Receivables

Loans Receivable

The HRA-EDA partnered with the City of Taylors Falls to assist with its redevelopment project located at the MNDOT facility. The City has purchased the property from MNDOT in exchange for a long-term lease of a new facility to be located on City Hall property to house state equipment and supplies. The HRA-EDA Board approved a \$175,000 no-interest loan to cover the costs of the new facility. The City will reimburse the HRA-EDA in \$5,000 increments for five years starting in 2011, with the final lump sum due by December 31, 2020. Since the HRA-EDA did not receive the 2011 payment until 2012, both years' payments are due in 2012. All net proceeds of subsequent sale of parcels of the redevelopment property shall be applied towards the loan. The HRA-EDA disbursed \$159,396 in 2010, and the remaining \$15,604 was disbursed in 2011. The following is a schedule of future loan receivable payments.

Year Ending December 31	Loan Receivable
2012	\$ 10,000
2013	5,000
2014	5,000
2015	5,000
2020	150,000
Total	\$ 175,000

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

2. Receivables (Continued)

Lease Receivable

The HRA-EDA entered into a capital lease agreement with the County for public projects. The lease receivable is based on the 2004A Public Project Revenue Bond. The receivable is reduced by the amount of cash with escrow agent. The following is a schedule of future lease receivable payments.

<u>Year Ending December 31</u>	<u>Lease Receivable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 270,000	\$ 260,585	\$ 530,585
2013	280,000	249,101	529,101
2014	295,000	236,733	531,733
2015	305,000	223,380	528,380
2016	320,000	209,158	529,158
2017 - 2021	1,865,000	788,881	2,653,881
2022 - 2026	2,155,000	260,293	2,415,293
Total	\$ 5,490,000	<u>\$ 2,228,131</u>	<u>\$ 7,718,131</u>
Less: cash with escrow agent	<u>(566,282)</u>		
Lease Receivable, December 31, 2011	<u>\$ 4,923,718</u>		

Accounts Receivable/Due from Other Governments

As of December 31, 2011, the HRA-EDA had \$10,237 due from other governments consisting of taxes due from Chisago County, and other local government entities. Accounts receivable at year-end were \$5,031.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 243,181	\$ -	\$ -	\$ 243,181
Capital assets depreciated				
Buildings	\$ 6,262,499	\$ 11,300	\$ -	\$ 6,273,799
Furniture, equipment, and machinery	24,468	-	-	24,468
Improvements	84,664	-	-	84,664
Total capital assets depreciated	\$ 6,371,631	\$ 11,300	\$ -	\$ 6,382,931
Less: accumulated depreciation for				
Buildings	\$ 946,573	\$ 135,216	\$ -	\$ 1,081,789
Furniture, equipment, and machinery	19,969	1,070	-	21,039
Improvements	41,452	11,298	-	52,750
Total accumulated depreciation	\$ 1,007,994	\$ 147,584	\$ -	\$ 1,155,578
Total capital assets depreciated, net	\$ 5,363,637	\$ (136,284)	\$ -	\$ 5,227,353
Total Capital Assets, Net	<u>\$ 5,606,818</u>	<u>\$ (136,284)</u>	<u>\$ -</u>	<u>\$ 5,470,534</u>

Depreciation expense was charged as follows:

Housing and Economic Development	<u>\$ 147,584</u>
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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds (Continued)

4. Long-Term Debt

General Obligation Bonds

General obligation bonds outstanding as of December 31, 2011, are as follows:

Description	Authorized and Issued	Interest Rate (%)	Issue Date	Maturity Date	Ending Balance
G.O. Housing Development Bonds, Series 2011A	\$ 1,285,000	1.10 - 3.75	12/29/2011	01/01/2033	\$ 1,285,000
G.O. Housing Development Bonds, Series 2005A	2,445,000	3.50 - 4.38	08/03/2005	01/01/2035	2,030,000
G.O. Public Project Revenue Bonds Library Lease Obligation, Series 2004A	6,740,000	4.13 - 5.15	08/01/2004	02/01/2026	5,490,000
G.O. Housing Development Bonds, Series 2003C	2,000,000	4.00 - 5.00	09/01/2003	01/01/2033	<u>1,765,000</u>
Total General Obligation Bonds					<u>\$ 10,570,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	G.O. Bonds Business-Type Activities		
	Principal	Interest	Total
2012	\$ 270,000	\$ 363,848	\$ 633,848
2013	410,000	452,678	862,678
2014	430,000	435,114	865,114
2015	510,000	415,760	925,760
2016	520,000	394,850	914,850
2017 - 2021	2,995,000	1,602,596	4,597,596
2022 - 2026	3,550,000	826,745	4,376,745
2027 - 2031	1,190,000	291,024	1,481,024
2032 - 2035	695,000	42,437	737,437
Total	<u>\$ 10,570,000</u>	<u>\$ 4,825,052</u>	<u>\$ 15,395,052</u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

4. Long-Term Debt (Continued)

Taxable Revenue Bonds

Taxable revenue bonds outstanding as of December 31, 2011, are as follows:

Description	Authorized and Issued	Interest Rate (%)	Issue Date	Maturity Date	Ending Balance
Taxable Revenue Bonds, Series 2006A	\$ 1,200,000	2.75	11/28/2006	01/01/2017	<u>\$ 1,041,016</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Taxable Revenue Bonds Business-Type Activities		
	Principal	Interest	Total
2012	\$ 24,801	\$ 14,474	\$ 39,275
2013	50,860	27,990	78,850
2014	51,980	26,570	78,550
2015	53,439	25,111	78,550
2016	859,936	23,673	883,609
Total	<u>\$ 1,041,016</u>	<u>\$ 117,818</u>	<u>\$ 1,158,834</u>

Note Payable

In 2006, the HRA-EDA entered into an interest-only loan with Chisago County. The note payable outstanding as of December 31, 2011, is as follows:

Description	Authorized and Issued	Interest Rate (%)	Issue Date	Maturity Date	Ending Balance
Chisago County Promissory Note	\$ 1,000,000	3.75	11/28/2006	11/28/2026	<u>\$ 1,000,000</u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

4. Long-Term Debt

Note Payable (Continued)

Annual debt service requirements to maturity for the note payable are as follows:

Year Ending December 31	Notes Payable Business-Type Activities		
	Principal	Interest	Total
2012	\$ -	\$ 37,500	\$ 37,500
2013	-	37,500	37,500
2014	-	37,500	37,500
2015	-	37,500	37,500
2016	-	37,500	37,500
2017 - 2021	-	187,500	187,500
2022 - 2026	1,000,000	187,500	1,187,500
Total	<u>\$ 1,000,000</u>	<u>\$ 562,500</u>	<u>\$ 1,562,500</u>

Mortgages Payable

In 2007, the HRA-EDA assumed three mortgages through the acquisition of Rush Estates I and Rush Estates II, payable to the United States Department of Agriculture, Rural Development. Principal and interest payments are determined based on the rental income and government subsidy received during the year. Information on the mortgages as of December 31, 2011, is as follows:

Description	Authorized and Issued	Interest Rate (%)	Issue Date	Maturity Date	Ending Balance
United States Department of Agriculture, Rural Development					
Mortgage 01	\$ 205,801	7.125	07/07/2000	07/07/2030	\$ 172,418
Mortgage 02	45,896	3.000	03/05/1968	03/05/2018	19,140
Mortgage 03	382,434	7.250	06/30/1993	06/30/2043	353,120
Total Mortgages Payable					<u>\$ 544,678</u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes on All Funds

4. Long-Term Debt

Mortgages Payable (Continued)

Annual estimated debt service requirements to maturity for the mortgages payable are as follows:

Year Ending December 31	Mortgages Payable Business-Type Activities		
	Principal	Interest	Total
2012	\$ 9,858	\$ 38,173	\$ 48,031
2013	11,133	37,520	48,653
2014	11,831	36,822	48,653
2015	12,577	128,719	141,296
2016	13,374	117,220	130,594
2017 - 2021	67,572	163,080	230,652
2022 - 2026	90,737	135,713	226,450
2027 - 2031	104,848	97,856	202,704
2032 - 2036	74,604	68,037	142,641
2037 - 2041	107,083	35,558	142,641
2042 - 2043	41,061	2,352	43,413
Total	<u>\$ 544,678</u>	<u>\$ 861,050</u>	<u>\$ 1,405,728</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 9,665,000	\$ 1,285,000	\$ 380,000	\$ 10,570,000	\$ 270,000
Taxable revenue bonds	1,094,752	-	53,736	1,041,016	24,801
Notes payable	1,000,000	-	-	1,000,000	-
Mortgages payable	554,545	-	9,867	544,678	9,858
Compensated absences	46,282	20,453	14,687	52,048	26,024
Less: discount	(225,931)	-	(10,392)	(215,539)	(10,392)
Total	<u>\$ 12,134,648</u>	<u>\$ 1,305,453</u>	<u>\$ 447,898</u>	<u>\$ 12,992,203</u>	<u>\$ 320,291</u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures (Continued)

C. Other Information

1. Risk Management

The HRA-EDA is exposed to various risks of loss including general liability, property damage, and employee bodily injury, and carries commercial insurance. The insurance coverage is considered to be adequate to cover unexpected claims against the HRA-EDA. There was no reduction in coverage from the prior year, and settlements have not exceeded insurance coverage in the past three years.

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

Conduit Debt

The HRA-EDA has issued Tax-Exempt Mortgage Revenue Refunding Bonds on behalf of Franconia Sculpture Park Project, a Minnesota non-profit corporation. The HRA-EDA is not obligated in any manner, as the bonds do not constitute a general obligation or indebtedness of the HRA-EDA and are payable solely from revenues pledged by Franconia Sculpture Park Project. At December 31, 2011, the aggregate principal amount of this conduit debt obligation outstanding amounted to \$500,000.

2. Retirement Plan

HRA-EDA employees participate in a Simplified Employee Pension plan, a defined contribution plan established under Section 408(k) of the Internal Revenue Code. The plan is administered by Union Bank and Trust Company.

The HRA-EDA establishes plan provisions and contribution requirements. Employees are eligible to participate when they have been employed for six months and are at least 18 years of age. The HRA-EDA is required to contribute five percent of each participant's salary, and the employee may elect to contribute up to five percent. HRA-EDA contributions fully vest after three years of employment. Benefits depend solely on amounts contributed plus related investment earnings.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

C. Other Information

2. Retirement Plan (Continued)

Total payroll for employees covered by the plan for the year ended December 31, 2011, was \$122,845. The HRA-EDA made contributions into the plan of \$6,142, \$6,378, and \$6,142 for the years ended December 31, 2011, 2010, and 2009, respectively.

As of December 31, 2011, the plan held no securities issued by the HRA-EDA or other related parties.

3. Commitments and Contingencies - Joint Agreements

Rush City Senior Townhome Agreement

The HRA-EDA partnered with the City of Rush City to build two additional townhomes (total of four units). These townhomes were completed, and three of the four units were sold in 2011 at an estimated loss of \$33,768. The HRA-EDA is financing the remaining unit to be reimbursed upon the sale. The City owns the lot, and will be reimbursed upon sale. There is a potential for a total of 18 townhomes on the site in Rush City.

Small Business Development Center

The HRA-EDA partnered with Central Lakes College to open a Small Business Development Center to provide services to County businesses. The Board approved the required financial contribution of \$4,000 per year plus in-kind contributions for a three-year period beginning in 2011. The Executive Director of the HRA-EDA will provide counseling services, and the HRA-EDA will be reimbursed at the rate of \$40 per hour.

4. Related Parties

The HRA-EDA multi-family apartment buildings are insured with Stein Insurance Agency, which is owned and operated by the Board Chair, James Stein. He has abstained from discussion and voting on any action related to the placement of insurance for the multi-family apartment buildings.

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

6. Component Unit Disclosures

C. Other Information

4. Related Parties (Continued)

The HRA-EDA maintains financial accounts and currently has bonds placed with Central Bank where Greg Hickcox, Board Director, is Vice President. He abstains from voting on any actions related to the bonds.

The HRA-EDA occasionally holds meetings and seminars at the AmericInn located in North Branch, Minnesota. Jack Juve, Board Director, has an interest in the hotel and will abstain from any action relating to conference space being leased at the hotel.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011

Other Postemployment Benefits Funding Status

Beginning in 2008, Chisago 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 is zero.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (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	\$ -	\$ 2,633,579	\$ 2,633,579	0.00%	\$ 16,882,667	15.6%
January 1, 2010	-	2,713,711	2,713,711	0.00	16,326,167	16.6

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

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**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Parks - to account for the accumulation of plat fees for future park land acquisition. Financing is provided by charges for services.

Ditch - to account for funds used to maintain County and judicial ditches. Financing is provided by special assessments against parcels of property benefited by ditch maintenance.

Lake Improvement District - to account for funds used for lake improvements. Financing is provided by bonds and special assessments against parcels of property benefited by the program.

Solid Waste - to account for funds used for recycling and solid waste activities. Financing is provided by user fees against benefiting parcels of property and taxes levied when needed.

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>Special Revenue Funds</u>				<u>Total</u>
	<u>Parks</u>	<u>Ditch</u>	<u>Lake Improvement District</u>	<u>Solid Waste</u>	
<u>Assets</u>					
Cash and pooled investments	\$ 491,026	\$ 122,268	\$ 233,598	\$ 1,230,277	\$ 2,077,169
Undistributed cash in agency funds	-	89	3,012	4,023	7,124
Taxes receivable					
Prior	-	-	22,427	-	22,427
Special assessments receivable					
Prior	-	621	-	16,843	17,464
Noncurrent	-	-	13,965	-	13,965
Accounts receivable	-	-	-	128	128
Due from other governments	-	-	-	3,185	3,185
Prepaid items	-	-	-	300	300
Total Assets	\$ 491,026	\$ 122,978	\$ 273,002	\$ 1,254,756	\$ 2,141,762
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 9,608	\$ 6,481	\$ 16,089
Salaries payable	-	-	239	1,924	2,163
Due to other governments	-	-	1,469	521	1,990
Deferred revenue - unavailable	-	621	20,893	16,843	38,357
Deferred revenue - unearned	-	-	15,925	-	15,925
Total Liabilities	\$ -	\$ 621	\$ 48,134	\$ 25,769	\$ 74,524
Fund Balances					
Nonspendable					
Prepays	\$ -	\$ -	\$ -	\$ 300	\$ 300
Restricted for					
Sanitation	-	-	-	1,228,687	1,228,687
Culture and recreation	491,026	-	-	-	491,026
Lake Improvement District	-	-	224,868	-	224,868
Ditch maintenance	-	122,844	-	-	122,844
Unassigned	-	(487)	-	-	(487)
Total Fund Balances	\$ 491,026	\$ 122,357	\$ 224,868	\$ 1,228,987	\$ 2,067,238
Total Liabilities and Fund Balances	\$ 491,026	\$ 122,978	\$ 273,002	\$ 1,254,756	\$ 2,141,762

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Special Revenue Funds</u>				<u>Total</u>
	<u>Parks</u>	<u>Ditch</u>	<u>Lake Improvement District</u>	<u>Solid Waste</u>	
Revenues					
Taxes	\$ -	\$ -	\$ 232,803	\$ -	\$ 232,803
Special assessments	-	9,092	-	246,805	255,897
Licenses and permits	-	-	-	8,590	8,590
Intergovernmental	-	-	12,315	158,000	170,315
Charges for services	9,655	-	-	18,570	28,225
Miscellaneous	-	-	4,998	116,769	121,767
Total Revenues	\$ 9,655	\$ 9,092	\$ 250,116	\$ 548,734	\$ 817,597
Expenditures					
Current					
Sanitation	\$ -	\$ -	\$ -	\$ 301,234	\$ 301,234
Conservation of natural resources	-	-	489,477	-	489,477
Capital outlay	141,875	-	-	18,710	160,585
Total Expenditures	\$ 141,875	\$ -	\$ 489,477	\$ 319,944	\$ 951,296
Excess of Revenues Over (Under) Expenditures	\$ (132,220)	\$ 9,092	\$ (239,361)	\$ 228,790	\$ (133,699)
Other Financing Sources (Uses)					
Transfers in	\$ 7,505	\$ -	\$ -	\$ -	\$ 7,505
Transfers out	-	-	(71,250)	(84,870)	(156,120)
Total Other Financing Sources (Uses)	\$ 7,505	\$ -	\$ (71,250)	\$ (84,870)	\$ (148,615)
Net Change in Fund Balance	\$ (124,715)	\$ 9,092	\$ (310,611)	\$ 143,920	\$ (282,314)
Fund Balance - January 1	615,741	113,265	535,479	1,085,067	2,349,552
Fund Balance - December 31	\$ 491,026	\$ 122,357	\$ 224,868	\$ 1,228,987	\$ 2,067,238

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON
PARKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 15,000	\$ 19,855	\$ 9,655	\$ (10,200)
Expenditures				
Capital outlay				
Culture and recreation	15,000	156,875	141,875	15,000
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (137,020)	\$ (132,220)	\$ 4,800
Other Financing Sources (Uses)				
Transfers in	-	7,505	7,505	-
Net Change in Fund Balance	\$ -	\$ (129,515)	\$ (124,715)	\$ 4,800
Fund Balance - January 1	615,741	615,741	615,741	-
Fund Balance - December 31	\$ 615,741	\$ 486,226	\$ 491,026	\$ 4,800

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 9,500	\$ 9,500	\$ 9,092	\$ (408)
Expenditures				
Current				
Conservation of natural resources				
Ditch	9,500	9,500	-	9,500
Net Change in Fund Balance	\$ -	\$ -	\$ 9,092	\$ 9,092
Fund Balance - January 1	113,265	113,265	113,265	-
Fund Balance - December 31	\$ 113,265	\$ 113,265	\$ 122,357	\$ 9,092

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON
LAKE IMPROVEMENT DISTRICT SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 243,573	\$ 243,573	\$ 232,803	\$ (10,770)
Intergovernmental	-	-	12,315	12,315
Miscellaneous	-	-	4,998	4,998
Total Revenues	\$ 243,573	\$ 243,573	\$ 250,116	\$ 6,543
Expenditures				
Current				
Conservation of natural resources				
Lake Improvement District	224,580	224,580	489,477	(264,897)
Excess of Revenues Over (Under)				
Expenditures	\$ 18,993	\$ 18,993	\$ (239,361)	\$ (258,354)
Other Financing Sources (Uses)				
Transfers out	(30,000)	(70,000)	(71,250)	(1,250)
Net Change in Fund Balance	\$ (11,007)	\$ (51,007)	\$ (310,611)	\$ (259,604)
Fund Balance - January 1	535,479	535,479	535,479	-
Fund Balance - December 31	\$ 524,472	\$ 484,472	\$ 224,868	\$ (259,604)

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 216,801	\$ 216,801	\$ 246,805	\$ 30,004
Licenses and permits	9,000	9,000	8,590	(410)
Intergovernmental	147,872	157,872	158,000	128
Charges for services	14,500	14,500	18,570	4,070
Miscellaneous	-	-	116,769	116,769
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 388,173	\$ 398,173	\$ 548,734	\$ 150,561
Expenditures				
Current				
Sanitation				
Recycling	\$ 164,277	\$ 164,277	\$ 132,891	\$ 31,386
Hazardous waste	188,331	193,331	168,343	24,988
Capital outlay	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	-	-	18,710	(18,710)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 352,608	\$ 357,608	\$ 319,944	\$ 37,664
Excess of Revenues Over (Under)				
Expenditures	\$ 35,565	\$ 40,565	\$ 228,790	\$ 188,225
Other Financing Sources (Uses)				
Transfers out	(84,870)	(84,870)	(84,870)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ (49,305)	\$ (44,305)	\$ 143,920	\$ 188,225
Fund Balance - January 1	1,085,067	1,085,067	1,085,067	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 1,035,762	\$ 1,040,762	\$ 1,228,987	\$ 188,225
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

AGENCY FUNDS

Employee Recognition - to account for vending machine collections to be used for various activities relating to employee recognition.

Flexible Benefits Plan - to account for employee deductions held for certain specific needs of the employees available through this program.

Region 7E - to account for collection and payment of tax monies levied for the Regional Development Commission.

School Districts - to account for collection and payment of taxes due to school districts.

Taxes and Penalties - to account for collection and payment of taxes and penalties to various taxing districts.

Forfeited Tax Sale - to account for all funds collected per state statute from sale of lands forfeited for unpaid taxes.

Towns and Cities - to account for collection and payment of taxes due to towns and cities.

Agency - to account for collection and payment of various fees and fines for other governments collected by the Recorder, Courts, and Planning and Zoning Departments.

Local Collaboratives - to account for activity of the Chisago County North Family Services Collaborative and the Chisago County South Family Services Collaborative.

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>EMPLOYEE RECOGNITION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 3,112	\$ 321	\$ 175	\$ 3,258
<u>Liabilities</u>				
Accounts payable	\$ 3,112	\$ 321	\$ 175	\$ 3,258
 <u>FLEXIBLE BENEFITS PLAN</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 39,056	\$ 91,720	\$ 90,571	\$ 40,205
<u>Liabilities</u>				
Deferred benefits	\$ 39,056	\$ 91,720	\$ 90,571	\$ 40,205
 <u>REGION 7E</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 81,624	\$ 81,624	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 81,624	\$ 81,624	\$ -

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 16,896,723	\$ 16,896,723	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 16,896,723	\$ 16,896,723	\$ -
 <u>TAX AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 548,854	\$ 75,335,820	\$ 75,266,186	\$ 618,488
<u>Liabilities</u>				
Unapportioned taxes	\$ -	\$ 478,055	\$ 478,055	\$ -
Unapportioned special assessments	-	4,596	4,596	-
Due to other governments	548,854	74,853,169	74,783,535	618,488
Total Liabilities	\$ 548,854	\$ 75,335,820	\$ 75,266,186	\$ 618,488
 <u>FORFEITED TAX SALE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 7,252	\$ 25	\$ 7,227
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 7,252	\$ 25	\$ 7,227

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**EXHIBIT C-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 25,270,842	\$ 25,270,842	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 25,270,842	\$ 25,270,842	\$ -
<u>AGENCY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 218,420	\$ 1,625,666	\$ 1,668,927	\$ 175,159
<u>Liabilities</u>				
Unapportioned taxes	\$ -	\$ 46,042	\$ 46,042	\$ -
Due to other governments	218,420	1,579,624	1,622,885	175,159
Total Liabilities	\$ 218,420	\$ 1,625,666	\$ 1,668,927	\$ 175,159
<u>LOCAL COLLABORATIVES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 137,176	\$ 133,496	\$ 36,275	\$ 234,397
<u>Liabilities</u>				
Due to other governments	\$ 137,176	\$ 133,496	\$ 36,275	\$ 234,397

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

***EXHIBIT C-1
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 946,618	\$ 119,443,464	\$ 119,311,348	\$ 1,078,734
<u>Liabilities</u>				
Accounts payable	\$ 3,112	\$ 321	\$ 175	\$ 3,258
Unapportioned taxes	-	524,097	524,097	-
Unapportioned special assessments	-	4,596	4,596	-
Deferred benefits	39,056	91,720	90,571	40,205
Due to other governments	904,450	118,822,730	118,691,909	1,035,271
Total Liabilities	\$ 946,618	\$ 119,443,464	\$ 119,311,348	\$ 1,078,734

SUPPORTING SCHEDULES

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2011**

	<u>Assets</u>			
	<u>Cash</u>	<u>Special Assessments Receivable</u>		<u>Total</u>
		<u>Unapportioned</u>	<u>Delinquent</u>	
Judicial Ditch				
2	\$ (33)	\$ -	\$ -	\$ (33)
County Ditches				
1	(395)	-	-	(395)
2	9,734	-	-	9,734
3	6,010	1	44	6,055
4	4,544	17	1	4,562
5	32,937	-	-	32,937
6	12,614	-	81	12,695
7	10,289	27	65	10,381
8	3,074	-	71	3,145
9	10,073	29	280	10,382
10	26,143	(24)	68	26,187
11	(59)	-	-	(59)
14	7,337	39	11	7,387
Total	<u>\$ 122,268</u>	<u>\$ 89</u>	<u>\$ 621</u>	<u>\$ 122,978</u>

EXHIBIT D-1

<u>Liabilities</u> <u>Deferred</u> <u>Revenue</u>	<u>Restricted</u>	<u>Fund Balances</u>		<u>Total</u>	<u>Total</u> <u>Liabilities and</u> <u>Fund Balances</u>
		<u>Unassigned</u>			
\$ -	\$ -	\$ (33)		\$ (33)	\$ (33)
-	-	(395)		(395)	(395)
-	9,734	-		9,734	9,734
44	6,011	-		6,011	6,055
1	4,561	-		4,561	4,562
-	32,937	-		32,937	32,937
81	12,614	-		12,614	12,695
65	10,316	-		10,316	10,381
71	3,074	-		3,074	3,145
280	10,102	-		10,102	10,382
68	26,119	-		26,119	26,187
-	-	(59)		(59)	(59)
11	7,376	-		7,376	7,387
<u>\$ 621</u>	<u>\$ 122,844</u>	<u>\$ (487)</u>		<u>\$ 122,357</u>	<u>\$ 122,978</u>

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared Revenue

State

Highway users tax	\$ 14,683,784
Market value credit	989,412
Market value credit - mobile home	21,378
PERA rate reimbursement	48,855
Disparity reduction aid	4,431
County program aid	1,543,611
Police aid	252,781
E-911	125,400
	<u>17,669,652</u>

Total shared revenue **\$ 17,669,652**

Reimbursement for Services

State

Minnesota Department of Trial Courts	\$ 50,163
Minnesota Department of Human Services	727,743
	<u>777,906</u>

Total reimbursement for services **\$ 777,906**

Payments

Local

Payments in lieu of taxes	\$ 313,442
	<u>313,442</u>

Grants

State

Minnesota Department/Board of	
Corrections	\$ 282,639
Public Safety	50,529
Transportation	271,455
Health	731,478
Natural Resources	39,269
Human Services	1,407,196
Soil and Water Resources Board	42,631
Peace Officer Standards and Training Board	13,255
Pollution Control Agency	158,000
	<u>2,996,452</u>

Total state **\$ 2,996,452**

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Grants (Continued)

Federal

Department of Agriculture	\$ 448,483
Justice	13,870
Transportation	2,959,696
Health and Human Services	2,542,844
Homeland Security	113,467
Environmental Protection Agency	5,000

Total federal **\$ 6,083,360**

Total state and federal grants **\$ 9,079,812**

Total Intergovernmental Revenue **\$ 27,840,812**

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 167,109
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>281,374</u>
Total U.S. Department of Agriculture		\$ 448,483
U.S. Department of Justice		
Direct State Criminal Alien Assistance Program	16.606	\$ 10,543
Passed Through Minnesota Department of Public Safety Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004	<u>3,327</u>
Total U.S. Department of Justice		\$ 13,870
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	\$ 756,960
Highway Planning and Construction - ARRA	20.205	2,028,588
Passed Through Isanti County, Minnesota Formula Grants for Other Than Urbanized Areas	20.509	171,648
State and Community Highway Safety	20.600	<u>2,500</u>
Total U.S. Department of Transportation		\$ 2,959,696
U.S. Environmental Protection Agency		
Passed Through Minnesota Pollution Control Agency Nonpoint Source Implementation Grant	66.460	\$ 5,000

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	\$ 1,729
Child Support Enforcement	93.563	844,969
Child Care and Development Block Grant	93.575	18,351
Public Health Emergency Preparedness	93.069	49,433
Stephanie Tubbs Jones Child Welfare Services Program	93.645	18,438
Child Abuse and Neglect - State Grants	93.669	2,165
Foster Care Title IV-E	93.658	66,778
Social Services Block Grant	93.667	237,794
Chafee Foster Care Independence Program	93.674	4,725
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	409,101
Emergency Contingency Fund for TANF State Program - ARRA	93.714	28,612
Medical Assistance Program	93.778	780,270
Block Grants for Community Mental Health Services	93.958	38,073
Children's Health Insurance Program	93.767	172
Passed Through Minnesota Department of Health		
Universal Newborn Hearing Screening	93.251	825
Immunization Cluster		
Immunization Grants	93.268	120
Immunization - ARRA	93.712	1,949
Maternal and Child Health Services Block Grant to the States	93.994	39,340
Total U.S. Department of Health and Human Services		\$ 2,542,844
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 16,080
Passed Through Washington County, Minnesota		
Interoperable Emergency Communications	97.055	34,443
Homeland Security Grant Program	97.067	62,944
Total U.S. Department of Homeland Security		\$ 113,467
Total Federal Awards		\$ 6,083,360

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Chisago County under programs of the federal government for the year ended December 31, 2011. 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 Chisago County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Chisago County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Highway Planning and Construction Cluster	\$ 2,785,548
Temporary Assistance for Needy Families Cluster	437,713
Immunization Cluster	2,069

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

5. Subrecipients

The County did not pass any federal money to subrecipients during the year ended December 31, 2011.

6. American Recovery and Reinvestment Act

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

**Other Information
Section**

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

EXHIBIT E-1

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

	Taxes Payable in Year					
	2010		2011		2012	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 53,186,963		\$ 48,624,515		\$ 42,469,052	
Personal property	818,933		959,908		1,044,465	
Total Tax Capacity	<u>\$ 54,005,896</u>		<u>\$ 49,584,423</u>		<u>\$ 43,513,517</u>	
Taxes Levied for County Purposes						
County Revenue	\$ 14,739,169	27.859	\$ 15,575,958	32.089	\$ 16,867,748	39.564
Road and Bridge	5,787,556	10.939	5,636,369	11.612	5,208,420	12.217
Road and Bridge Bonds	3,083,806	5.794	2,811,322	5.748	2,606,374	6.058
Human Services	6,010,004	11.359	5,625,357	11.589	4,664,086	10.940
Building Repair	80,000	0.151	80,000	0.165	80,000	0.188
Building Repair Bonds	89,200	0.168	94,211	0.193	90,977	0.211
Regional Library*	550,000	1.055	534,198	1.117	542,000	1.295
Library Bonds	531,706	1.020	526,447	1.101	530,585	1.268
Capital Equipment	59,603	0.113	59,603	0.123	59,603	0.140
Jail Capital Projects	169,000	0.317	94,043	0.192	76,703	0.178
Capital Equipment Notes	211,500	0.397	288,916	0.591	212,730	0.494
Highway Building Bonds	-	-	-	-	390,201	0.907
Health and Human Services Building Bonds	97,670	0.184	97,670	0.199	97,670	0.227
Total Levy for County Purposes	<u>\$ 31,409,214</u>	<u>59.356</u>	<u>\$ 31,424,094</u>	<u>64.719</u>	<u>\$ 31,427,097</u>	<u>73.687</u>
Less Credits Payable by State	<u>1,596,856</u>		<u>1,756,581</u>		<u>191,395</u>	
Net Levy for County Purposes	<u>\$ 29,812,358</u>		<u>\$ 29,667,513</u>		<u>\$ 31,235,702</u>	
Market Value - Light and Power						
Transmission lines	\$ 4,467,700		\$ 4,765,500		\$ 4,850,200	
Distribution lines	955,600		1,019,600		1,037,800	
Total Market Value - Light and Power	<u>\$ 5,423,300</u>		<u>\$ 5,785,100</u>		<u>\$ 5,888,000</u>	
Tax Capacity - Light and Power						
Transmission lines	\$ 89,354		\$ 95,310		\$ 97,004	
Distribution lines	19,112		20,392		20,756	
Total Tax Capacity - Light and Power	<u>\$ 108,466</u>		<u>\$ 115,702</u>		<u>\$ 117,760</u>	

*Levy applies to selected areas only.

(Unaudited)

Page 114

**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**EXHIBIT E-1
(Continued)**

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

	Taxes Payable in Year					
	2010		2011		2012	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.42, as amended)						
Transmission lines - market value	\$ 3,551	0.07948	\$ 4,191	0.08795	\$ 4,391	0.09053
Distribution lines - market value	760	0.07948	897	0.08795	940	0.09053
Transmission lines - tax capacity	106,969	119.713	124,548	130.677	144,966	149.444
Distribution lines - tax capacity	22,880	119.713	26,648	130.677	31,018	149.444
Total Light and Power Tax Levies	<u>\$ 134,160</u>		<u>\$ 156,284</u>		<u>\$ 181,315</u>	
Special Assessments						
Ditch liens, fees, and assessments	<u>\$ 268,515</u>		<u>\$ 271,620</u>		<u>\$ 271,397</u>	
Percentage of Tax Collections for All Purposes	95.60%		96.90%			

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**CHISAGO COUNTY
CENTER CITY, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

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

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-3 Segregation of Duties

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

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

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

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

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

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

Client's Response:

The County is aware of this concern and continues to work with organizational units which collect fees to address specific considerations, within limited staffing and resources constraints.

07-1 Assessing and Monitoring Internal Controls

Criteria: The County's management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition: A risk assessment of existing controls over significant functions of the accounting system used to produce financial information has not been completed.

Context: The risk assessment is intended to determine if the internal controls established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Effect: Weaknesses in internal control could go undetected, which could affect the County's ability to detect material misstatements in the financial statements.

Cause: The County has not had the staffing resources available to complete the risk assessment process.

Recommendation: We recommend that County management implement procedures to document the significant internal controls in its accounting system. We also recommend a formal plan be developed that calls for assessing and monitoring significant internal controls on a regular basis, no less than annually. The assessment of risks should be documented and procedures implemented to address those risks found. Monitoring procedures should be documented to show the results of the review, changes required, and who performed the work.

Client's Response:

The County is aware of the recommendation to conduct a risk assessment of existing controls over significant functions of the accounting system used to produce financial information. Currently undertaken informally and as time and resources allow, the County agrees with the Auditor's determination of cause as "the County has not had the staffing resources available to complete the risk assessment process."

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

11-1 Davis-Bacon Act

Program: Highway Planning and Construction (CFDA No. 20.205) and Highway Planning and Construction - ARRA (CFDA No. 20.205)

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

Condition: The County had no documented monitoring process for determining compliance with the Davis-Bacon Act, which requires the County to pay prevailing wage rates not less than those established by the U.S. Department of Labor on projects funded by federal dollars. Furthermore, the County provided no evidence that it had actually performed procedures to determine compliance with the Davis-Bacon Act.

Questioned Costs: None.

Context: The contractors hired by the County for work on projects funded with federal awards may be paying wages less than the prevailing wage rates established by the U.S. Department of Labor.

Effect: The County has no assurance that its contractors on projects funded with federal awards are in compliance with the Davis-Bacon Act requirements.

Cause: County staff were unaware of how to document compliance with this requirement.

Recommendation: We recommend the County develop written procedures for monitoring compliance with the Davis-Bacon Act. Documentation should exist to support the monitoring of and compliance with this requirement.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Bruce A. Messelt, Chisago County Administrator
313 North Main St., Room 174
Center City, MN 55012-9663*

Corrective Action Planned:

Based upon the identified findings, Chisago County plans to undertake the following correction action(s):

- Consult with State agencies and Minnesota counties on established compliance procedures.*
- Develop written procedures for monitoring compliance with the Davis-Bacon Act.*
- Develop documentation to support monitoring of and compliance with the Davis-Bacon Act.*
- Schedule training for County officials and staff responsible for Davis-Bacon compliance.*

Anticipated Completion Date:

December 31, 2012

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-1 Contracts

Criteria: The County is required by Minn. Stat. § 471.425, subd. 4a, in contracts between the County and a prime contractor, to state that the prime contractor must pay subcontractors within ten days of receipt of payment from the County or pay interest at the rate of one and one-half percent per month or any part of a month.

Condition: The County did not have this wording in its contracts.

Context: The County's bid specifications stated the contractor must follow the Minnesota Department of Transportation's Standard Specifications for Construction. Within this manual, section 1701 stated the contractor shall at all times observe and comply with all applicable laws, ordinances, regulations, orders, and decrees. Minn. Stat. § 471.425, subd. 4a, was not specifically mentioned in the County's bid specifications.

Effect: The County is not in compliance with Minn. Stat. § 471.425, subd. 4a.

Cause: County management feels it is sufficient to state in their bid documents that the contractor shall at all times observe and comply with all applicable laws, ordinances, regulations, orders, and decrees.

Recommendation: We recommend the County add the wording from Minn. Stat. § 471.425, subd. 4a, regarding payment of subcontractors to its bid specifications and contracts.

Client's Response:

Chisago County is developing a policy and associated contracts manual that will include standardized forms for use by County organizational units and staff. The standardized contracts will include the necessary statutory requirements contained in Minn. Stat. § 471.425, subd. 4a.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
Chisago 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 Chisago County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 14, 2012. 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 Chisago County Housing and Redevelopment Authority Economic Development Authority, the discretely presented component unit, as described in our report on Chisago County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of Chisago County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Chisago 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-3 and 07-1, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chisago 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 the County administers no tax increment financing districts.

The results of our tests indicate that for the items tested, Chisago County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 08-1.

Chisago County's written responses to the internal control and legal compliance 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 Chisago 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

August 14, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
Chisago County

Compliance

We have audited Chisago 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, 2011. Chisago 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.

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 Chisago 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 on the County's compliance with those requirements.

In our opinion, Chisago County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Chisago 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 11-1. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Chisago County's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Commissioners, management and 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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 14, 2012