

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WINONA COUNTY
WINONA, 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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**WINONA COUNTY
WINONA, MINNESOTA**

Year Ended December 31, 2011



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

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

TABLE OF CONTENTS

| | <u>Exhibit</u> | <u>Page</u> |
|---|----------------|-------------|
| Introductory Section | | |
| Organization | | 1 |
| Financial Section | | |
| Independent Auditor's Report | | 3 |
| Management's Discussion and Analysis | | 5 |
| Basic Financial Statements | | |
| Government-Wide Financial Statements | | |
| Statement of Net Assets | 1 | 14 |
| Statement of Activities | 2 | 15 |
| Fund Financial Statements | | |
| Governmental Funds | | |
| Balance Sheet | 3 | 16 |
| Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities | 4 | 20 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | 5 | 21 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities | 6 | 23 |
| Fiduciary Funds | | |
| Statement of Fiduciary Net Assets | 7 | 24 |
| Statement of Changes in Fiduciary Net Assets | 8 | 25 |
| Notes to the Financial Statements | | 26 |
| Required Supplementary Information | | |
| Budgetary Comparison Schedules | | |
| General Fund | A-1 | 59 |
| Road and Bridge Special Revenue Fund | A-2 | 62 |
| Community Services Special Revenue Fund | A-3 | 63 |
| Schedule of Funding Progress - Other Postemployment Benefits | A-4 | 64 |
| Notes to the Required Supplementary Information | | 65 |

**WINONA COUNTY
WINONA, MINNESOTA**

TABLE OF CONTENTS

| | Exhibit | Page |
|---|---------|------|
| Financial Section (Continued) | | |
| Supplementary Information | | |
| Major Fund | B-1 | 66 |
| Budgetary Comparison Schedule- Capital Projects Fund | | |
| Nonmajor Governmental Funds | | 67 |
| Budgetary Comparison Schedule - Debt Service Fund | C-1 | 68 |
| Fiduciary Funds | | |
| Agency Funds | | 69 |
| Combining Statement of Changes in Assets and Liabilities | D-1 | 70 |
| Other Schedules | | |
| Schedule of Intergovernmental Revenue | E-1 | 73 |
| Schedule of Expenditures of Federal Awards | E-2 | 75 |
| Notes to the Schedule of Expenditures of Federal Awards | | 78 |
| Other Information Section | | |
| Tax Capacity, Tax Rates, Levies, and Percentage of Collections | F-1 | 80 |
| Management and Compliance Section | | |
| Schedule of Findings and Questioned Costs | | 81 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 92 |
| 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 | | 95 |

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2011**

| Office | Name | Term Expires |
|---|-------------------|---------------|
| Commissioners | | |
| First District | Jim Pomeroy | January 2015 |
| Second District | Wayne Valentine | January 2015 |
| Third District | Mena Kaehler | January 2013 |
| Fourth District | Greg Olson | January 2013 |
| Fifth District | Marcia Ward | January 2015 |
| Officers | | |
| Elected | | |
| Attorney | Karin Sonneman | January 2015 |
| Recorder | Robert Bambenek | January 2015 |
| Sheriff | Dave Brand | January 2015 |
| Auditor/Treasurer | Suzanne Rivers | January 2015 |
| Appointed | | |
| Administrator | Duane Hebert | Indefinite |
| Interim Community Health Director | Merrily Hazelton | Interim |
| County Assessor | Steven Hacken | December 2012 |
| Planning and Environmental Services Director | Jason Gilman | Indefinite |
| Building Superintendant | Michael Krage | Indefinite |
| Finance Director | Patrick Moga | Indefinite |
| Highway Engineer | David Kramer | May 2015 |
| Interim Human Services Director | Julie A. Thompson | Interim |
| Information Technology Director | Mark Anderson | Indefinite |
| Assistant County Administrator- Personnel Director | Maureen Holte | Indefinite |
| Veterans Service Officer | Steven Johnson | June 2011 |

**WINONA COUNTY
WINONA, MINNESOTA**

ORGANIZATION OF THE COUNTY

An elected Board of County Commissioners, officials appointed by the Board, and other elected officials manage Winona County. The Board of County Commissioners is elected by districts, while all other elected County officials are elected at large.

Elected officials are primarily responsible to the voters of Winona County and the State of Minnesota. They are also under certain jurisdiction of the County Board as defined in state statutes.

This page was left blank intentionally.



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
Winona County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Winona 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 Winona County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Winona County as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and 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 Winona County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2012, on our consideration of Winona County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

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

In the Management's Discussion and Analysis (MD&A), we will provide readers with a narrative overview and both a short-term and long-term analysis of the financial activities of Winona County, Minnesota, for the year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the basic financial statements, including the notes, to enhance their understanding of the County's financial activity and performance. All amounts are expressed in dollars, unless specifically noted.

FINANCIAL HIGHLIGHTS

- At the end of 2011, Winona County's assets exceeded liabilities by \$106.4 million (net assets). Of that amount, \$3.7 million is restricted; \$30.8 million is unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors. The remaining \$71.9 million is invested in capital assets.
- At the close of the current year, the ending fund balances for all governmental funds were \$32.9 million. This is a decrease of \$0.7 million from the previous year. Of the combined ending fund balances, \$9.1 million is unassigned fund balance available for spending by the County.
- At the end of the year, the General Fund's unassigned fund balance was \$9,128,502. The County is not able to assign for cash flow and compensated absences due to GASB 54. The County will pay for compensated absences and for cash flow from the unassigned cash balance.
- Total bonded debt decreased by \$701,651, or 8.1 percent, during the year. The decrease was due to reduction in principal.

OVERVIEW OF THE FINANCIAL STATEMENTS

The three main sections of this report are: introductory, financial, and supplementary. The introductory section contains the County's organizational structure and principal officials. The financial section includes the MD&A and is intended to serve as a roadmap of the basic financial statements. The basic financial statements have three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The required supplementary information section contains the budget to actual presentation for the

County's major special revenue funds. Other supplementary information is included to enhance reader understanding of the County's financial activity. An example is information about federal grant programs.

The government-wide financial statements are designed to provide the reader with a long-term and broad overview of the County's finances as a whole in a manner similar to a private-sector business. To accomplish this goal, transactions are valued on a full accrual basis.

The Statement of Net Assets presents information on all County assets (what we own) and liabilities (what we owe). The difference between assets and liabilities is reported as net assets. Over time, changes in net assets may be an indication of an improving or deteriorating County financial position.

The Statement of Activities presents information on the change in net assets for the most recent year. Said changes are reported as soon as a financial event results in a change, regardless of the timing of related cash flows. Therefore, results reported will result in cash flows in a future period (for example, uncollected property taxes and earned, but unused, vacation leave).

The principal support for governmental activities for Winona County is property taxes and intergovernmental revenue. Governmental activities include:

- general government,
- public safety,
- highways and streets,
- human services, and
- health services.

General government includes services such as general administration, courts, property assessment, records management, and tax collections. Additional information is included in the notes to the financial statements.

Budgetary comparisons--Winona County adopts an annual budget for the General Fund and all special revenue funds, except for the Flood Special Revenue Fund and the EDA Loan Special Revenue Fund. A budgetary comparison statement has been provided for the General Fund and budgeted special revenue funds. The EDA Loan Special Revenue Fund was created in 2008. The Flood Special Revenue Fund has been closed as of December 31, 2011.

Notes to the financial statements--The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A useful tool for analyzing financial statements is comparative information from previous years. Net assets may be a useful indicator of a government's financial position over time. As of December 31, 2011, assets exceeded liabilities by \$106.4 million. The following table provides a summary of Winona County's governmental net assets.

| | <u>2011</u> | <u>2010</u> | <u>Percent Change (%)</u> |
|---|-----------------------|-----------------------|-----------------------------------|
| Assets | | | |
| Current and other assets | \$ 40,823,039 | \$ 42,276,625 | (3) |
| Capital assets | <u>80,384,295</u> | <u>72,027,963</u> | 12 |
| Total Assets | <u>\$ 121,207,334</u> | <u>\$ 114,304,588</u> | 6 |
| Liabilities | | | |
| Current and other liabilities | \$ 3,913,791 | \$ 5,205,375 | (25) |
| Long-term liabilities | <u>10,935,762</u> | <u>11,479,036</u> | (5) |
| Total Liabilities | <u>\$ 14,849,553</u> | <u>\$ 16,684,411</u> | (11) |
| Net Assets | | | |
| Invested in capital assets, net of related debt | \$ 71,882,304 | \$ 63,135,185 | 14 |
| Restricted | 3,675,183 | 5,112,202 | (28) |
| Unrestricted | <u>30,800,294</u> | <u>29,372,790</u> | 5 |
| Total Net Assets | <u>\$ 106,357,781</u> | <u>\$ 97,620,177</u> | 9 |

The largest portion of Winona County's net assets, 67.6 percent, or \$71.9 million, represents investments in capital assets, less any related debt used to acquire those assets. Capital assets are investments in land, buildings, machinery and equipment, and roads and bridges. These assets are used to provide services and utilities to County citizens and, consequently, are not available for future spending. Capital assets are reported net of related debt. However, resources needed to repay the debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

An additional \$3.7 million of the County's net assets, or 3.5 percent, represents resources that are subject to external restrictions on how they may be used. Included in this category are items such as land acquisition and public safety projects.

The remaining \$30.8 million of net assets, or 29.0 percent, represents unrestricted net assets that may be used to meet ongoing obligations to citizens and creditors.

At the end of 2011, Winona County had positive balances in all categories of net assets.

Change in net assets--In 2011, government-wide revenue exceeded expenses by \$8.7 million, thereby increasing net assets. Net assets changed as follows:

| | <u>2011</u> | <u>2010</u> | <u>Percent Change (%)</u> |
|------------------------------------|-----------------------|----------------------|-----------------------------------|
| Revenues | | | |
| Program revenues | | | |
| Charges for services | \$ 4,633,958 | \$ 5,540,117 | (16) |
| Operating grants and contributions | 18,435,246 | 17,816,267 | 3 |
| Capital grants and contributions | 295 | 356 | (17) |
| General revenues | | | |
| Property taxes | 16,249,482 | 16,322,553 | (1) |
| Unrestricted grants | 3,867,214 | 3,908,911 | (1) |
| Investment income | 243,790 | 237,557 | 3 |
| Other | 811,146 | 701,534 | 16 |
| Total Revenues | \$ 44,241,131 | \$ 44,527,295 | (1) |
| Expenses | | | |
| General government | \$ 7,904,905 | \$ 6,470,442 | 22 |
| Public safety | 7,203,251 | 7,182,487 | - |
| Highways and streets | 4,899,066 | 6,336,138 | (23) |
| Sanitation | 960,392 | 1,071,386 | (10) |
| Human services | 10,103,387 | 9,828,406 | 3 |
| Health | 3,095,977 | 3,455,316 | (10) |
| Interest on long-term debt | 256,309 | 286,718 | (11) |
| Other | 1,080,240 | 1,203,053 | (10) |
| Total Expenses | \$ 35,503,527 | \$ 35,833,946 | (1) |
| Increase in Net Assets | \$ 8,737,604 | \$ 8,693,349 | 1 |
| Net Assets - January 1 | 97,620,177 | 88,926,828 | 10 |
| Net Assets - December 31 | \$ 106,357,781 | \$ 97,620,177 | 9 |

The following three statements depict relationships:

- Program revenues indicate the proportion of program revenue available to fund expenses. Program revenues derive from the program itself or outside the government's taxpayers or citizenry and help reduce the cost of the program.
- General revenue by source indicates the proportion of revenue obtained from various unrestricted sources. Most notable is the fact that property taxes supply only 37 percent of the total revenue for the County.
- Expense by function depicts the relationship between governmental activities functions. Property taxes of \$16.2 million are leveraged to provide \$35.5 million in services.

Governmental activities increased Winona County's net assets by \$8.7 million, which is 20 percent of current year revenues, 25 percent of current expenses, or 9 percent of beginning net assets. Following are the major components of this portion of the growth:

- property taxes decreased 1 percent;
- expenses for highways and streets, sanitation, health, interest on long-term debt, and other departments decreased from 2010 to 2011;
- unrestricted grants decreased by 1 percent and operating grants increased by 3 percent.

FUND LEVEL FINANCIAL ANALYSIS

The fund financial statements provide more detailed information than the government-wide statements. Using separate funds provides a way to ensure and demonstrate compliance with finance-related legal requirements.

The funds are separated into two categories: (1) governmental funds and (2) fiduciary funds.

Governmental funds are used to account for the same functions or programs reported as governmental activities in the government-wide financial statements, such as general government or human services. However, the governmental fund financial statements differ from the government-wide statements.

The focus of Winona County's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Therefore, the timing of cash flows is taken into account on the governmental fund financial statements, while it is disregarded in the government-wide statements. This information may be useful in evaluating a government's near-term financing requirements as well as the available resources. Reconciliations of governmental funds to government-wide governmental activities appear in Exhibits 4 and 6.

For the year ended December 31, 2011, the combined ending fund balances of governmental funds were \$32.9 million. Approximately 87 percent, or \$29.0 million, of the combined ending fund balances consists of unassigned and assigned fund balances. Unassigned fund balances are available as working capital and for current spending consistent with the purposes of each of the specific funds. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending because it is restricted or in nonspendable form for the following purposes:

- inventories,
- acquisition of assets,
- debt service,

- forfeited property,
- donations,
- loans receivable, and
- restricted for specific purposes.

Winona County has six major governmental funds. These funds are: (1) General Fund, (2) Road and Bridge Special Revenue Fund, (3) Community Services Special Revenue Fund, (4) Flood Special Revenue Fund, (5) EDA Loan Special Revenue Fund, and (6) Capital Projects Fund.

- (1) The General Fund is the primary operating fund of the Winona County government. The General Fund's fund balance was \$12.7 million at the end of 2011. Of that amount, \$1.6 million is restricted for acquisition of assets, forfeited property, and donations. Nonspendable cash of \$150 thousand is for loans receivable. In addition, the Board of Commissioners has assigned \$1.9 million for recycling, capital improvements, employee wellness, and tobacco settlement. The comparison of fund balance to expenditures is useful for two purposes. The first purpose is to measure liquidity. Unassigned fund balance is \$9,128,502, or 60 percent of 2011 expenditures, while total fund balance is 84 percent of the same amount. The County is not able to assign fund balance for compensated absences and cash flow due to GASB 54. The unassigned amount in the past also included cash flow and compensated absences. Winona County will use the unassigned amount to cover compensated absences and cash flow. A listing of compensated absences can be obtained in Note 3.C. (Compensated Absences). The second purpose is to compare the unassigned fund balance percentages to the recommended percentage given by the Office of the State Auditor. The recommendations are 35 to 50 percent of operating revenues, or no less than five months of expenditures. Winona County's General Fund unrestricted fund balance is sufficient to cover seven months of expenditures.

When compared to 2010, the ending fund balance of the General Fund increased \$1,894,405.

- (2) The Road and Bridge Special Revenue Fund accounts for maintenance and improvements to the infrastructure of the County. The fund had a \$3.7 million fund balance at the end of 2011 that represented a \$272 thousand, or 7 percent, decrease from 2010. The decrease was due to Capital Projects.
- (3) The Community Services Special Revenue Fund exists to account for resources expended to operate income maintenance and social services and health programs supported by federal, state, and local taxpayer dollars. The fund had a \$7.1 million fund balance at the end of 2011 that represented a \$0.7 million, or 9 percent, decrease from the 2010 fund balance. The Health Service Fund was combined with the Social Services Fund; it is now called Community Services Fund.

- (4) The Flood Special Revenue Fund exists to account for resources expended to repair for damages incurred during the 2007 flood. The fund balance at the end of 2011 was \$0. This fund was closed as all the work is completed for the 2007 flood.
- (5) The EDA Loan Special Revenue Fund exists to provide grants and loans to businesses affected by the 2007 flood. Repayment of these loans will be used to fund other loans. The fund balance at the end of 2011 was \$1,279,771.
- (6) The Capital Projects Fund exists to account for construction and capital purchases. The fund balance at the end of 2011 was \$7,002,292. The fund balance increased by \$3,033,263. The Flood Fund was transferred into the Capital Projects Fund.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Since the resources of those funds are not available to support the County’s programs, these funds are not included in the government-wide financial statements. Winona County has fiduciary funds for a private-purpose trust and seven agency funds. Agency funds are custodial in nature and do not involve measurement of the results of operations.

The basic fiduciary funds financial statements are Exhibits 7 and 8 of this report.

General Fund Budgetary Highlights

The Winona County Board of Commissioners approves the budget for all governmental funds for the next year during a December Board meeting. There was no budget set up for the Flood Special Revenue Fund, which was a new fund for 2007. Also, there was no budget set up for the EDA Loan Special Revenue Fund. Approval is done by resolution. The most significant budgeted fund is the General Fund.

For 2011, the Board of Commissioners adopted the following budget:

| <u>General Fund</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Other Sources</u> |
|---------------------|-----------------|---------------------|----------------------|
| Board-adopted | \$ 17,120,945 | \$ 17,363,506 | \$ 191,932 |

The adopted General Fund budget anticipated using \$50,629 of fund balance. The approved budget adjustments increased expenditures for the General Fund by \$23,725 during the year. General Fund actual revenues were \$94,188 below final budget, and actual expenditures were \$2,181,083 below budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Winona County’s investment in capital assets for its governmental activities as of December 31, 2011, was \$80.4 million (net of accumulated depreciation). The investment in capital assets includes land, buildings, furniture and equipment, infrastructure, and construction in progress.

Additional information about capital assets can be found in Note 3.A.3.

| | Capital Assets | | Percent Change (%) |
|--|----------------|---------------|--------------------------|
| | 2011 | 2010 | |
| Capital assets not depreciated | | | |
| Land | | | |
| General | \$ 2,518,160 | \$ 2,518,160 | - |
| Highways | 50,085 | 50,085 | - |
| Highway right-of-way | 3,263,933 | 3,150,724 | 4 |
| Construction in progress | 14,090,317 | 12,252,781 | 15 |
| Total capital assets not depreciated | \$ 19,922,495 | \$ 17,971,750 | 11 |
| Capital assets depreciated | | | |
| Buildings | \$ 24,898,695 | \$ 19,102,008 | 30 |
| Improvements other than buildings | 460,826 | 460,826 | - |
| Machinery, furniture, and equipment | 9,544,927 | 8,866,584 | 8 |
| Infrastructure | 48,746,145 | 46,982,809 | 4 |
| Total capital assets depreciated | \$ 83,650,593 | \$ 75,412,227 | 11 |
| Less: accumulated depreciation for | | | |
| Buildings | \$ 3,165,262 | \$ 2,954,201 | 7 |
| Improvements other than buildings | 190,011 | 177,380 | 7 |
| Machinery, furniture, and equipment | 5,292,969 | 4,571,736 | 16 |
| Infrastructure | 14,540,551 | 13,652,697 | 7 |
| Total accumulated depreciation | \$ 23,188,793 | \$ 21,356,014 | 9 |
| Total capital assets depreciated, net | \$ 60,461,800 | \$ 54,056,213 | 12 |
| Governmental Activities Capital Assets, Net | \$ 80,384,295 | \$ 72,027,963 | 12 |

Capital Lease Agreement and Outstanding Bonds

At the end of the current year, Winona County had three general obligation bond issues and a project note.

Outstanding Long-Term Debt

| | Governmental Activities | |
|--------------------------|-------------------------|--------------|
| | 2011 | 2010 |
| Notes | \$ 62,210 | \$ 68,861 |
| General obligation bonds | 7,865,000 | 8,560,000 |
| Total | \$ 7,927,210 | \$ 8,628,861 |

The outstanding debt listed above for Winona County decreased \$701,651 due to principal reduction for 2011 payment.

The most recent bond rating the County has received is AA.

Additional information about Winona County's long-term debt can be found in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Unemployment

The 12-month average for unemployment in 2011 for the U.S., Minnesota, and Winona County was 8.9 percent, 6.4 percent, and 6.0 percent, respectively. This compared to 2010 averages of 9.6 percent, 7.3 percent, and 6.8 percent.

New Construction

New construction for all of Winona County was valued at \$20.0 million in 2011. A decrease of 13 percent was experienced from the previous year.

State Financial Position

For the first time in five years, counties are not facing cuts in the current year. At the present time, counties do not have levy limits. The state will be faced with a \$2.1 million budget deficit for FY 2014-15. The state approved a bonding bill for 2012. There have been no significant mandate reliefs for counties. If the voter ID is approved, this will create new administrative burdens.

Budgeting Approach

The Winona County Board of Commissioners continues to use a three-prong approach to budgeting. The budget is balanced using an approach to reduce expenditures where possible, increase revenue sources, and use cash reserves.

All of these factors are being considered in preparing the Winona County budget for 2012.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Winona County's finances for those with an interest in the government's financial activities. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Patrick Moga, Finance Director, 177 Main Street, Winona, Minnesota 55987. The telephone number is 507-457-8820.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT 1

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

Assets

| | | |
|---|-----------|--------------------|
| Cash and pooled investments | \$ | 31,549,153 |
| Petty cash and change funds | | 2,870 |
| Investments | | 874,093 |
| Taxes receivable | | |
| Current | | 235,655 |
| Prior | | 162,627 |
| Special assessments receivable | | |
| Current | | 8,093 |
| Prior | | 8,655 |
| Accounts receivable - net | | 2,012,935 |
| Accrued interest receivable | | 57,601 |
| Loan receivable | | 2,594,805 |
| Due from other governments | | 3,082,420 |
| Inventories | | 234,132 |
| Capital assets | | |
| Non-depreciable | | 19,922,495 |
| Depreciable - net of accumulated depreciation | | 60,461,800 |
| | | 60,461,800 |
| Total Assets | \$ | 121,207,334 |

Liabilities

| | | |
|---------------------------|-----------|-------------------|
| Accounts payable | \$ | 423,622 |
| Salaries payable | | 311,715 |
| Contracts payable | | 1,160,529 |
| Due to other governments | | 250,435 |
| Accrued interest payable | | 105,273 |
| Unearned revenue | | 1,662,217 |
| Long-term liabilities | | |
| Due within one year | | 1,137,667 |
| Due in more than one year | | 9,798,095 |
| | | 9,798,095 |
| Total Liabilities | \$ | 14,849,553 |

Net Assets

| | | |
|--|-----------|--------------------|
| Invested in capital assets - net of related debt | \$ | 71,882,304 |
| Restricted for | | |
| General government | | 694,564 |
| Public safety | | 848,421 |
| Highways and streets | | 454,789 |
| Culture and recreation | | 14,642 |
| Debt service | | 1,138,907 |
| Economic development | | 496,860 |
| Health | | 27,000 |
| Unrestricted | | 30,800,294 |
| | | 30,800,294 |
| Total Net Assets | \$ | 106,357,781 |

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

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT 2

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

| | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | |
|--|----------------------|--|---|--|---|
| | | <u>Fees, Charges, Fines, and Other</u> | <u>Operating Grants and Contributions</u> | | <u>Capital Grants and Contributions</u> |
| <u>Functions/Programs</u> | | | | | |
| Primary government | | | | | |
| Governmental activities | | | | | |
| General government | \$ 7,904,905 | \$ 1,166,728 | \$ 366,876 | \$ - | \$ (6,371,301) |
| Public safety | 7,203,251 | 333,261 | 1,511,507 | - | (5,358,483) |
| Highways and streets | 4,899,066 | 20,878 | 9,218,107 | - | 4,339,919 |
| Sanitation | 960,392 | 941,109 | 14,098 | - | (5,185) |
| Human services | 10,103,387 | 655,898 | 6,046,941 | - | (3,400,548) |
| Health | 3,095,977 | 1,467,579 | 944,965 | - | (683,433) |
| Culture and recreation | 292,372 | 3,642 | 50 | 295 | (288,385) |
| Conservation of natural resources | 524,836 | 24,071 | 173,323 | - | (327,442) |
| Economic development | 263,032 | 20,792 | 159,379 | - | (82,861) |
| Interest | 256,309 | - | - | - | (256,309) |
| Total Governmental Activities | \$ 35,503,527 | \$ 4,633,958 | \$ 18,435,246 | \$ 295 | \$ (12,434,028) |
| General Revenues | | | | | |
| Property taxes | | | | \$ 16,249,482 | |
| Mortgage registry and deed tax | | | | 26,136 | |
| Payments in lieu of tax | | | | 304,529 | |
| Grants and contributions not restricted to specific programs | | | | 3,867,214 | |
| Unrestricted investment earnings | | | | 243,790 | |
| Miscellaneous | | | | 475,833 | |
| Gain on sale of capital assets | | | | 4,648 | |
| Total general revenues | | | | \$ 21,171,632 | |
| Change in net assets | | | | \$ 8,737,604 | |
| Net Assets - Beginning | | | | 97,620,177 | |
| Net Assets - Ending | | | | \$ 106,357,781 | |

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

**WINONA COUNTY
WINONA, MINNESOTA**

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

| | General | Road and Bridge |
|---|----------------------|----------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 12,971,804 | \$ 3,881,973 |
| Petty cash and change funds | 2,820 | - |
| Investments | - | - |
| Taxes receivable | | |
| Current | 139,920 | 27,505 |
| Prior | 89,647 | 20,158 |
| Special assessments | | |
| Current | 8,093 | - |
| Prior | 8,655 | - |
| Accounts receivable | 10,583 | 2,701 |
| Accrued interest receivable | 55,569 | - |
| Loans receivable | 149,677 | - |
| Due from other funds | 5,254 | - |
| Due from other governments | 281,237 | 1,059,154 |
| Inventories | - | 234,132 |
| | \$ 13,723,259 | \$ 5,225,623 |
| <u>Liabilities and Fund Balances</u> | | |
| Liabilities | | |
| Accounts payable | \$ 318,162 | \$ 8,586 |
| Salaries payable | 170,378 | 30,636 |
| Contracts payable | - | 656,734 |
| Due to other funds | - | - |
| Due to other governments | 168,989 | 10,234 |
| Deferred revenue - unavailable | 336,922 | 823,949 |
| Deferred revenue - unearned | - | - |
| | \$ 994,451 | \$ 1,530,139 |

EXHIBIT 3

| Special Revenue Funds | | | | |
|------------------------------|---------------------|-------------------------|-----------------------------------|----------------------|
| Community Services | EDA Loan | Capital Projects | Nonmajor Fund Debt Service | Total |
| \$ 6,465,438 | \$ 496,860 | \$ 6,600,855 | \$ 1,132,223 | \$ 31,549,153 |
| 50 | - | - | - | 2,870 |
| - | - | 874,093 | - | 874,093 |
| 42,214 | - | 12,039 | 13,977 | 235,655 |
| 41,953 | - | 3,095 | 7,774 | 162,627 |
| - | - | - | - | 8,093 |
| - | - | - | - | 8,655 |
| 1,999,651 | - | - | - | 2,012,935 |
| - | - | 2,032 | - | 57,601 |
| - | 2,445,128 | - | - | 2,594,805 |
| - | - | - | - | 5,254 |
| 942,331 | - | 799,698 | - | 3,082,420 |
| - | - | - | - | 234,132 |
| \$ 9,491,637 | \$ 2,941,988 | \$ 8,291,812 | \$ 1,153,974 | \$ 40,828,293 |
| \$ 96,874 | \$ - | \$ - | \$ - | \$ 423,622 |
| 110,701 | - | - | - | 311,715 |
| - | - | 503,795 | - | 1,160,529 |
| 5,254 | - | - | - | 5,254 |
| 71,212 | - | - | - | 250,435 |
| 2,121,530 | - | 785,725 | 15,067 | 4,083,193 |
| - | 1,662,217 | - | - | 1,662,217 |
| \$ 2,405,571 | \$ 1,662,217 | \$ 1,289,520 | \$ 15,067 | \$ 7,896,965 |

**WINONA COUNTY
WINONA, MINNESOTA**

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

| <u>Liabilities and Fund Balances</u> (Continued) | <u>General</u> | <u>Road and Bridge</u> |
|---|----------------------|----------------------------|
| Fund Balances | | |
| Nonspendable | | |
| Inventories | \$ - | \$ 234,132 |
| Loans receivable | 149,677 | - |
| Restricted for | | |
| Debt service | - | - |
| Apple Blossom Drive | 14,642 | - |
| Well decontamination | 27,000 | - |
| Recorder's compliance | 375,912 | - |
| Recorder's equipment purchases | 244,069 | - |
| Enhanced 911 | 737,951 | - |
| Sheriff's contingency | 5,000 | - |
| DARE | 17,074 | - |
| Sheriff's forfeited property | 8,472 | - |
| Attorney's forfeited property | 74,251 | - |
| Explorer post | 332 | - |
| Police dog donations | 4,847 | - |
| Permits to carry | 75,077 | - |
| Economic development | - | - |
| Assigned for | | |
| Highways and streets | - | 3,461,352 |
| Capital improvements | 1,110,265 | - |
| Health and human services | - | - |
| Recycling | 665,942 | - |
| Employee wellness | 18,296 | - |
| Tobacco settlement | 71,499 | - |
| Unassigned | 9,128,502 | - |
| Total Fund Balances | \$ 12,728,808 | \$ 3,695,484 |
| Total Liabilities and Fund Balances | \$ 13,723,259 | \$ 5,225,623 |

EXHIBIT 3
(Continued)

| <u>Special Revenue Funds</u> | | | | |
|------------------------------|---------------------|-------------------------|-----------------------------------|----------------------|
| <u>Community Services</u> | <u>EDA Loan</u> | <u>Capital Projects</u> | <u>Nonmajor Fund Debt Service</u> | <u>Total</u> |
| \$ - | \$ - | \$ - | \$ - | \$ 234,132 |
| - | 782,911 | - | - | 932,588 |
| - | - | - | 1,138,907 | 1,138,907 |
| - | - | - | - | 14,642 |
| - | - | - | - | 27,000 |
| - | - | - | - | 375,912 |
| - | - | - | - | 244,069 |
| - | - | - | - | 737,951 |
| - | - | - | - | 5,000 |
| - | - | - | - | 17,074 |
| - | - | - | - | 8,472 |
| - | - | - | - | 74,251 |
| - | - | - | - | 332 |
| - | - | - | - | 4,847 |
| - | - | - | - | 75,077 |
| - | 496,860 | - | - | 496,860 |
| - | - | - | - | 3,461,352 |
| - | - | 7,002,292 | - | 8,112,557 |
| 7,086,066 | - | - | - | 7,086,066 |
| - | - | - | - | 665,942 |
| - | - | - | - | 18,296 |
| - | - | - | - | 71,499 |
| - | - | - | - | 9,128,502 |
| <u>\$ 7,086,066</u> | <u>\$ 1,279,771</u> | <u>\$ 7,002,292</u> | <u>\$ 1,138,907</u> | <u>\$ 32,931,328</u> |
| <u>\$ 9,491,637</u> | <u>\$ 2,941,988</u> | <u>\$ 8,291,812</u> | <u>\$ 1,153,974</u> | <u>\$ 40,828,293</u> |

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT 4

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

| | | |
|--|----------------|---------------------------|
| Fund balances - total governmental funds (Exhibit 3) | \$ | 32,931,328 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. | | 80,384,295 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | 4,083,193 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| General obligation bonds | \$ (7,865,000) | |
| Notes payable | (62,210) | |
| Bond discount | 5,892 | |
| Bond premium | (43,716) | |
| Net pension obligation | (797,409) | |
| Accrued interest payable | (105,273) | |
| Compensated absences | (2,173,319) | |
| | (11,041,035) | |
| Net Assets of Governmental Activities (Exhibit 1) | \$ | <u>106,357,781</u> |

**WINONA COUNTY
WINONA, MINNESOTA**

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

| | <u>General</u> | <u>Road and Bridge</u> | <u>Special Community Services</u> |
|--|----------------------|----------------------------|---|
| Revenues | | | |
| Taxes | \$ 9,738,334 | \$ 1,882,855 | \$ 2,903,191 |
| Special assessments | 292,505 | - | - |
| Licenses and permits | 220,488 | - | 31,825 |
| Intergovernmental | 4,185,962 | 10,322,614 | 7,776,103 |
| Charges for services | 1,986,280 | 20,435 | 1,327,243 |
| Fines and forfeits | 34,617 | - | 375 |
| Gifts and contributions | 12,268 | - | - |
| Investment earnings | 230,706 | - | - |
| Miscellaneous | 325,597 | 230,956 | 292,020 |
| Total Revenues | \$ 17,026,757 | \$ 12,456,860 | \$ 12,330,757 |
| Expenditures | | | |
| Current | | | |
| General government | \$ 6,732,393 | \$ 220,688 | \$ - |
| Public safety | 6,209,738 | - | - |
| Highways and streets | - | 12,534,551 | - |
| Sanitation | 977,784 | - | - |
| Human services | - | - | 10,128,786 |
| Health | 226,281 | - | 2,865,546 |
| Culture and recreation | 292,372 | - | - |
| Conservation of natural resources | 504,548 | - | - |
| Economic development | 263,032 | - | - |
| Debt service | | | |
| Principal | - | - | - |
| Interest | - | - | - |
| Administrative (fiscal) charges | - | - | - |
| Total Expenditures | \$ 15,206,148 | \$ 12,755,239 | \$ 12,994,332 |
| Excess of Revenues Over (Under) Expenditures | \$ 1,820,609 | \$ (298,379) | \$ (663,575) |
| Other Financing Sources (Uses) | | | |
| Transfers in | \$ 67,119 | \$ - | \$ - |
| Transfers out | - | - | (67,119) |
| Proceeds from sale of capital assets | 6,677 | - | - |
| Total Other Financing Sources (Uses) | \$ 73,796 | \$ - | \$ (67,119) |
| Change in Fund Balance | \$ 1,894,405 | \$ (298,379) | \$ (730,694) |
| Fund Balance - January 1, as restated (Note 1.E.) | 10,834,403 | 3,967,819 | 7,816,760 |
| Increase (decrease) in inventories | - | 26,044 | - |
| Fund Balance - December 31 | \$ 12,728,808 | \$ 3,695,484 | \$ 7,086,066 |

EXHIBIT 5

| Revenue Funds | | | | |
|-----------------------|---------------------|-------------------------|-----------------------------------|----------------------|
| Flood | EDA Loan | Capital Projects | Nonmajor Fund Debt Service | Total |
| \$ - | \$ - | \$ 818,724 | \$ 959,142 | \$ 16,302,246 |
| - | - | - | 9,178 | 301,683 |
| - | - | - | - | 252,313 |
| - | - | 92,177 | 79,128 | 22,455,984 |
| - | - | - | - | 3,333,958 |
| - | - | - | - | 34,992 |
| - | - | - | - | 12,268 |
| - | 9,164 | 13,084 | - | 252,954 |
| - | 110 | 88,395 | - | 937,078 |
| \$ - | \$ 9,274 | \$ 1,012,380 | \$ 1,047,448 | \$ 43,883,476 |
| \$ - | \$ - | \$ 1,188,663 | \$ - | \$ 8,141,744 |
| - | - | 1,421,769 | - | 7,631,507 |
| - | - | 6,873 | - | 12,541,424 |
| - | - | - | - | 977,784 |
| - | - | - | - | 10,128,786 |
| - | - | - | - | 3,091,827 |
| - | - | - | - | 292,372 |
| - | - | - | - | 504,548 |
| - | - | - | - | 263,032 |
| - | - | - | 701,651 | 701,651 |
| - | - | - | 281,842 | 281,842 |
| - | - | - | 4,681 | 4,681 |
| \$ - | \$ - | \$ 2,617,305 | \$ 988,174 | \$ 44,561,198 |
| \$ - | \$ 9,274 | \$ (1,604,925) | \$ 59,274 | \$ (677,722) |
| \$ - | \$ - | \$ 4,638,188 | \$ - | \$ 4,705,307 |
| (4,638,188) | - | - | - | (4,705,307) |
| - | - | - | - | 6,677 |
| \$ (4,638,188) | \$ - | \$ 4,638,188 | \$ - | \$ 6,677 |
| \$ (4,638,188) | \$ 9,274 | \$ 3,033,263 | \$ 59,274 | \$ (671,045) |
| 4,638,188 | 1,270,497 | 3,969,029 | 1,079,633 | 33,576,329 |
| - | - | - | - | 26,044 |
| \$ - | \$ 1,279,771 | \$ 7,002,292 | \$ 1,138,907 | \$ 32,931,328 |

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT 6

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

Net change in fund balance - total governmental funds (Exhibit 5) \$ (671,045)

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

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

| | | |
|--------------------------------|--------------|---------|
| Deferred revenue - December 31 | \$ 4,083,193 | |
| Deferred revenue - January 1 | (3,624,105) | 459,088 |
| | | |

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. In the statement of activities, the gain or loss on the disposal of assets is reported; in the governmental funds, proceeds from the sale increase financial resources. The difference is the net book value of the assets sold.

| | | |
|--|---------------|-----------|
| Expenditures for general capital assets and infrastructure | \$ 10,245,630 | |
| Net book value of assets disposed of | (7,158) | |
| Current depreciation | (1,882,140) | 8,356,332 |
| | | |

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets.

| | | |
|--------------------------|------------|---------|
| Principal repayments | | |
| General obligation bonds | \$ 695,000 | |
| Premiums (discounts) | 6,303 | |
| Note | 6,651 | 707,954 |
| | | |

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

| | | |
|------------------------------------|--------------|-----------|
| Change in OPEB obligation | \$ (111,980) | |
| Change in accrued interest payable | 23,911 | |
| Change in compensated absences | (52,700) | |
| Change in inventories | 26,044 | (114,725) |
| | | |

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 8,737,604

FIDUCIARY FUNDS

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT 7

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

| | HC Garvin Private-Purpose Trust | Agency Funds |
|-----------------------------|--|-------------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ - | \$ 1,682,745 |
| Investments | 47,715 | - |
| Accrued interest receivable | 117 | - |
| Total Assets | \$ 47,832 | \$ 1,682,745 |
| <u>Liabilities</u> | | |
| Accounts payable | \$ 117 | \$ 929,727 |
| Due to other governments | - | 753,018 |
| Total Liabilities | \$ 117 | \$ 1,682,745 |
| <u>Net Assets</u> | | |
| Net assets, held in trust | \$ 47,715 | |

WINONA COUNTY
WINONA, MINNESOTA

EXHIBIT 8

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

| | <u>HC Garvin Private-Purpose Trust</u> |
|--|--|
| <u>Additions</u> | |
| Interest on investments | \$ 507 |
| <u>Deductions</u> | |
| Payments in accordance with trust agreements | <u>532</u> |
| Change in net assets | \$ (25) |
| Net Assets - January 1 | <u>47,740</u> |
| Net Assets - December 31 | <u><u>\$ 47,715</u></u> |

**WINONA COUNTY
WINONA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) 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

Winona County was established February 22, 1854, when Fillmore County was divided, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Winona County. 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 County Board, serves as the clerk of the Board of Commissioners but has no vote.

Component Units

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

| <u>Component Unit</u> | <u>Component Unit Included in Reporting Entity Because</u> | <u>Separate Financial Statements</u> |
|--|--|---|
| The Regional Railroad Authority (RRA) was created to monitor the preservation and improvement of rail transportation within the County per Minn. Stat. ch. 398A. | The County Commissioners are the members of the RRA Board. | Separate financial statements are not prepared. RRA activities are insignificant to the County's operation. |

**WINONA COUNTY
WINONA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Component Units (Continued)

| <u>Component Unit</u> | <u>Component Unit Included in Reporting Entity Because</u> | <u>Separate Financial Statements</u> |
|---|--|---|
| Winona County Economic Development Authority (EDA) provides for development within the County pursuant to Minn. Stat. § 469.1082. | The County appoints the EDA Board members and provides services almost entirely to the County. | Separate financial statements are not prepared. |

Joint Ventures

The County participates in joint ventures described in Note 5.C. The County also participates in jointly-governed organizations and a related organization described in Note 5.D. and Note 5.E., respectively.

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. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are activities normally supported by taxes and intergovernmental revenues. The County has no business-type activities to report on.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

**WINONA COUNTY
WINONA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

Winona County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those requiring a separate fund.

The Road and Bridge Special Revenue Fund is used to account for restricted revenues from the federal and state government, as well as property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

**WINONA COUNTY
WINONA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Community Services Special Revenue Fund is used to account for restricted revenue resources from the federal, state, and other oversight agencies, as well as property tax revenues used for economic assistance and community social services programs.

The Flood Special Revenue Fund is used to account for restricted revenue resources from the federal and state government for expenditures related to the flood that happened in 2007. This fund was closed as of December 31, 2011.

The EDA Loan Special Revenue Fund is used to account for restricted revenue resources from federal agencies to provide assistance, in the form of loans, with flood-related expenditures after the 2007 flood.

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

Additionally, the County reports the following fund types:

The Debt Service Fund is used to account for all financial resources restricted for payment of principal, interest, and related costs of long-term bonded debt.

Private-purpose trust funds are used to account for resources legally held in trust for others.

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

**WINONA COUNTY
WINONA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Winona County considers all revenues to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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 \$230,706.

**WINONA COUNTY
WINONA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Winona County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

Activity between funds that is 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 fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

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

3. Inventories

All inventories are valued at cost using an average cost 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.

**WINONA COUNTY
WINONA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

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

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

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

| <u>Capital Asset Category</u> | <u>Useful Life (Years)</u> |
|------------------------------------|--------------------------------|
| Land improvements | 40 - 50 |
| Building and building improvements | 40 - 100 |
| Machinery and equipment | 5 - 15 |
| Computer equipment | 5 - 12 |
| Maintenance equipment | 5 |
| Transportation equipment | 5 - 40 |
| Vehicles | 5 - 15 |
| Boats and trailers | 20 - 40 |
| Heavy construction equipment | 15 - 30 |
| Furniture and fixtures | 20 - 40 |
| Infrastructure | |
| Roads | 50 |
| Bridges | 75 |
| Intangible assets | 5 - 20 |

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

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest 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.

**WINONA COUNTY
WINONA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Classification of Fund Balances

Beginning in 2011, Winona County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund balance 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.

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 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 Administrator who has been delegated that authority by Board resolution.

**WINONA COUNTY
WINONA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Classification of Fund Balances (Continued)

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.

Minimum Fund Balance Policy

Winona County has adopted a Minimum Fund Balance Policy. Therefore, Winona County shall maintain a minimum fund balance for cash flow of not less than 50 percent, nor more than 75 percent of the sum of the most recent budget year's property tax levy, the previous year's (or projected) County Program Aid, the previous year's (or projected) County Social Services Aid (CSSA), and other state aids received by Winona County from the State of Minnesota, or not less than 40 percent of the most recent budget year's operating expenditures.

9. 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.

**WINONA COUNTY
WINONA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Change in Reporting Entity

Because of restructuring, the County has integrated the Social Services Special Revenue and Health Service Special Revenue Funds into one Community Services Fund. The following is a summary of the change in fund balance for the funds.

| | Social Services Special Revenue Fund | Health Service Special Revenue Fund | Community Services Special Revenue Fund |
|--|--|---|---|
| Fund Balance - January 1, as previously reported | \$ 6,383,405 | \$ 1,433,355 | \$ - |
| Restatement due to merger of funds | (6,383,405) | (1,433,355) | 7,816,760 |
| Fund Balance - January 1, as restated | \$ - | \$ - | \$ 7,816,760 |

2. Stewardship, Compliance and Accountability

Excess of Expenditures Over Budget

The Capital Projects Fund expenditures of \$2,617,305 exceeded the final budget of \$2,449,000 by \$168,305.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

| | |
|---|---------------|
| Government-wide statement of net assets | |
| Governmental activities | |
| Cash and pooled investments | \$ 31,549,153 |
| Petty cash and change funds | 2,870 |
| Investments | 874,093 |
| Statement of fiduciary net assets | |
| Private-purpose trust | |
| Investments | 47,715 |
| Agency | 1,682,745 |
| Total Cash and Investments | \$ 34,156,576 |

**WINONA COUNTY
WINONA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

| | |
|---|---------------|
| Deposits | \$ 8,777,909 |
| Petty cash and change funds | \$ 2,870 |
| Investments | |
| U.S. Treasuries | \$ 1,299,379 |
| Commercial paper | 7,994,140 |
| Negotiable securities | 11,684,000 |
| Mutual funds | 4,398,278 |
| Total investments | \$ 25,375,797 |
| Total Deposits, Cash on Hand, and Investments | \$ 34,156,576 |

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County follows state law which requires that all deposits be insured or collateralized. As of December 31, 2011, the County's deposits were not exposed to custodial credit risk.

**WINONA COUNTY
WINONA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

**WINONA COUNTY
WINONA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County's investment policy is to invest in both short-term and long-term investments to limit exposure to interest rate risk. The investment maturities are limited as follows:

| Maturity | Maximum Investment |
|-----------------------|-----------------------|
| Less than three years | 100% |

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

| Investment Type | Fair Value | Less Than 1 Year | 1 to 3 Years |
|--|---------------|---------------------|--------------|
| U.S. Treasuries | \$ 1,299,379 | \$ - | \$ 1,299,379 |
| Commercial paper | 7,994,140 | 7,994,140 | - |
| Negotiable certificates | 11,684,000 | 5,631,000 | 6,053,000 |
| Investments subject to interest rate risk | \$ 20,977,519 | \$ 13,625,140 | \$ 7,352,379 |
| Investments not subject to interest rate risk | 4,398,278 | | |
| Total Investments | \$ 25,375,797 | | |

**WINONA COUNTY
WINONA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirements set by state statute.

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

| <u>Standard & Poor's Rating</u> | <u>Fair Value</u> |
|-------------------------------------|----------------------|
| AAA | \$ 1,299,379 |
| A-1+/P-1 | 7,994,140 |
| AAAm | 402,033 |
| Not rated | 3,996,245 |
| Not applicable | <u>11,684,000</u> |
| Total | <u>\$ 25,375,797</u> |

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy limits the dollar amount of repurchase agreements to no more than ten percent at any time during the year.

**WINONA COUNTY
WINONA, 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. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities, may be held without limit. FCAR Owner Trust and University of California each have eight percent of the County's total.

2. Receivables

Receivables as of December 31, 2011, for Winona County's governmental activities, including the applicable allowances for uncollectible (Community Services Special Revenue Fund) accounts, are as follows:

| | |
|-----------------------------------|---------------------|
| Accounts receivable | \$ 6,396,494 |
| Less: allowance for uncollectible | <u>(4,383,559)</u> |
| Net Accounts Receivable | <u>\$ 2,012,935</u> |

The loans receivable of \$2,445,128 in the EDA Special Revenue Fund were made with funding through the State of Minnesota to help qualified businesses directly and adversely affected by the 2007 flood. Part of the loans may be written off if the business meets qualifications for a period of time, and part of the loans will be paid back by the businesses at a rate of one percent. The loans receivable balance includes \$1,483,330 not scheduled for collection in the subsequent year.

Wind Turbine Project

The Winona County EDA began work on the Winona County wind project in 2005 with County Board authorization. Site selection and preliminary studies were completed. During 2009, special legislation was enacted by the State of Minnesota

**WINONA COUNTY
WINONA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables

Wind Turbine Project (Continued)

allowing the Winona County EDA to create a Limited Liability Company and negotiate a power purchase agreement. Progress in 2010 included the transfer of ownership in Winona County Wind LLC to Winona Wind Holdings LLC, a privately owned corporation, for the sum of \$99,800. The EDA, a blended component unit of the County, receives the funds which are deposited into the County's General Fund. The first and second payments of \$5,000 and \$10,000 have been received, and the EDA holds a note for the remainder of \$84,800. Construction on the project began in 2010. The project is still in the process of finalizing terms with the turbine vendor but otherwise, the project has gone with Commercial Operations. The EDA has an exclusive option to purchase Winona County Wind LLC after the tax benefits to the private investors have expired, approximately six to seven years from the commencement of operations.

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 | | | | |
| General | \$ 2,518,160 | \$ - | \$ - | \$ 2,518,160 |
| Highway | 50,085 | - | - | 50,085 |
| Highway right-of-way | 3,150,724 | 113,209 | - | 3,263,933 |
| Construction in progress | | | | |
| General | 5,206,277 | 1,064,707 | 6,270,984 | - |
| Highway | 7,046,504 | 8,744,970 | 1,701,157 | 14,090,317 |
| Total capital assets not depreciated | <u>\$ 17,971,750</u> | <u>\$ 9,922,886</u> | <u>\$ 7,972,141</u> | <u>\$ 19,922,495</u> |
| Capital assets depreciated | | | | |
| Buildings | \$ 19,102,008 | \$ 5,796,687 | \$ - | \$ 24,898,695 |
| Improvements other than buildings | 460,826 | - | - | 460,826 |
| Machinery, furniture, and equipment | 8,866,584 | 734,862 | 56,519 | 9,544,927 |
| Infrastructure | 46,982,809 | 1,763,336 | - | 48,746,145 |
| Total capital assets depreciated | <u>\$ 75,412,227</u> | <u>\$ 8,294,885</u> | <u>\$ 56,519</u> | <u>\$ 83,650,593</u> |

**WINONA COUNTY
WINONA, 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 | \$ 2,954,201 | \$ 211,061 | \$ - | \$ 3,165,262 |
| Improvements other than buildings | 177,380 | 12,631 | - | 190,011 |
| Machinery, furniture, and equipment | 4,571,736 | 770,594 | 49,361 | 5,292,969 |
| Infrastructure | 13,652,697 | 887,854 | - | 14,540,551 |
| | <u>\$ 21,356,014</u> | <u>\$ 1,882,140</u> | <u>\$ 49,361</u> | <u>\$ 23,188,793</u> |
| Total accumulated depreciation | | | | |
| Total capital assets depreciated, net | \$ 54,056,213 | \$ 6,412,745 | \$ 7,158 | \$ 60,461,800 |
| | | | | |
| Governmental Activities | | | | |
| Capital Assets, Net | <u>\$ 72,027,963</u> | <u>\$ 16,335,631</u> | <u>\$ 7,979,299</u> | <u>\$ 80,384,295</u> |

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

| | |
|---|---------------------|
| Governmental Activities | |
| General government | \$ 328,204 |
| Public safety | 262,612 |
| Highways and streets, including depreciation of infrastructure assets | 1,280,190 |
| Human services | 2,259 |
| Health | 3,955 |
| Sanitation | 1,849 |
| Conservation of natural resources | 3,071 |
| | <u>1,882,140</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 1,882,140</u> |

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

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

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|-----------------|
| General | Community Services | <u>\$ 5,254</u> |

These balances reflect the interfund goods and services provided and not paid at year-end but expected to be paid in the subsequent year.

**WINONA COUNTY
WINONA, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Interfund Transfers

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

| <u>Fund From</u> | <u>Fund To</u> | <u>Amount</u> | |
|-------------------------|-----------------------|---------------------|------------------------------------|
| Community Services Fund | General Fund | \$ 67,119 | Transfer retiree insurance |
| Flood Fund | Capital Projects Fund | 4,638,188 | Transfer for building construction |
| | | <u>\$ 4,705,307</u> | |
| Total Transfers | | | |

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2011. The projects include the following:

| | <u>Spent-to-Date</u> | <u>Remaining Commitment</u> |
|-------------------------|----------------------|---------------------------------|
| Governmental Activities | | |
| Roads and bridges | \$ 9,717,685 | \$ 1,170,136 |
| 800 mhz project | 1,716,808 | 915,962 |

2. Compensated Absences

Employees have the option to take a cash payout or to opt for the other postemployment benefits option. Employees who leave in good standing with more than ten years of service and who have a minimum accumulation of 920 hours of unused sick leave may opt for a cash option. Department heads have the cash option with a minimum of 800 hours. This option does not apply to the Professionals Union, and nonunion employees do not qualify.

The value of the compensated absences cash payout option for eligible employees at the end of 2011 is \$1,032,724.

**WINONA COUNTY
WINONA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Bonded Debt

| Type of Indebtedness | Final Maturity | Installment Amounts | Interest Rate (%) | Original Issue Amount | Outstanding Balance December 31, 2011 |
|---|-------------------|--------------------------|-------------------------|-----------------------------|--|
| General obligation bonds and notes | | | | | |
| 2010 G.O. Capital Improvement Plan Bonds | 2021 | \$225,000 - \$265,000 | 2.00 - 4.00 | \$ 2,400,000 | \$ 2,400,000 |
| 2009A G.O. Capital Improvement Plan Bonds | 2024 | \$25,000 - \$445,000 | 2.00 - 4.00 | 3,735,000 | 3,020,000 |
| 2007A G.O. Capital Improvement Plan Refunding Bonds | 2017 | \$350,000 - \$460,000 | 1.70 - 2.30 | <u>3,435,000</u> | <u>2,445,000</u> |
| Total general obligation bonds | | | | \$ 9,570,000 | \$ 7,865,000 |
| Note payable | | | | | |
| South Branch Whitewater River Watershed Bacteria Reduction Project Note Payable | 2018 | | 2.00 | <u>69,472</u> | <u>62,210</u> |
| Total General Obligation Bonds and Notes | | | | <u>\$ 9,639,472</u> | <u>\$ 7,927,210</u> |

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

| Year Ending December 31 | General Obligation Bonds | |
|----------------------------|--------------------------|---------------------|
| | Principal | Interest |
| 2012 | \$ 955,000 | \$ 241,588 |
| 2013 | 980,000 | 213,938 |
| 2014 | 1,005,000 | 184,512 |
| 2015 | 1,055,000 | 152,212 |
| 2016 | 1,090,000 | 116,313 |
| 2017 - 2021 | 2,680,000 | 186,231 |
| 2022 - 2024 | <u>100,000</u> | <u>6,200</u> |
| Total | <u>\$ 7,865,000</u> | <u>\$ 1,100,994</u> |

**WINONA COUNTY
WINONA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. 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 payable | | | | | |
| General obligation bonds | \$ 8,560,000 | \$ - | \$ 695,000 | \$ 7,865,000 | \$ 955,000 |
| Premium on bonds | 51,002 | - | 7,286 | 43,716 | - |
| Discounts on bonds | (6,875) | - | (983) | (5,892) | - |
| Total bonds payable | \$ 8,604,127 | \$ - | \$ 701,303 | \$ 7,902,824 | \$ 955,000 |
| Note | 68,861 | - | 6,651 | 62,210 | 6,785 |
| Compensated absences | 2,120,619 | 1,651,315 | 1,598,615 | 2,173,319 | 175,882 |
| OPEB liability | 685,429 | 386,319 | 274,339 | 797,409 | - |
| Governmental Activities Long-Term Liabilities | \$ 11,479,036 | \$ 2,037,634 | \$ 2,580,908 | \$ 10,935,762 | \$ 1,137,667 |

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description

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

**WINONA COUNTY
WINONA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

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 highest average yearly salary for any 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 for each year of service.

**WINONA COUNTY
WINONA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

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, St. 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.

**WINONA COUNTY
WINONA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

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 | \$ 716,191 | \$ 743,065 | \$ 702,679 |
| Public Employees Police and Fire Fund | 120,525 | 120,124 | 106,178 |
| Public Employees Correctional Fund | 69,579 | 71,523 | 67,675 |

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

B. Defined Contribution Plan

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

**WINONA COUNTY
WINONA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

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

| | <u>Employee</u> | <u>Employer</u> |
|-------------------------------|-----------------|-----------------|
| Contribution amount | \$ 5,276 | \$ 5,276 |
| Percentage of covered payroll | 5% | 5% |

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

The County provides health insurance benefits for qualifying retired employees under a single-employer self-insured plan, financed and administered by Winona County and the Southeast Service Cooperative. Blue Cross and Blue Shield of Minnesota, under contract with the Southeast Service Cooperative, is the claims administrator. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees, who retire from the County when eligible to receive a retirement benefit from PERA (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program.

**WINONA COUNTY
WINONA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Retirees are required to pay 100 percent of the total group rate. The premium is a blended rate determined on the entire active and retiree population. The retirees, whose cost is statistically higher than the group average, are receiving an implicit rate “subsidy.” As of January 1, 2011, 11 retirees were receiving health benefits from the County’s health plan. As of year-end, the County has 15 participants. Some employees who leave in good standing with more than ten years of service and who have a minimum accumulation of 100 days of unused sick leave may convert it to paid-up health insurance for the employee only, according to the following schedule:

- Each ten days of unused sick leave equals one month’s paid-up insurance for employees only.

The County is offering a Phased Retirement Incentive Program (PRIP). The Winona County PRIP is designed to provide employees who wish to retire/resign an option to do so by offering some extra financial incentive. The program is intended to aid the County in responding in part to the current budget challenges by offering a phased retirement program contingent upon retirement/resignation with the intent of not filling either the vacated position or another position within the organization as well as recognizing other significant savings. The ultimate goal of the program is to reduce expenditures by working with employees to find system efficiencies within the organization and therefore reducing the local tax burden to the citizens.

Elected Officials

After completing two full terms as an elected County Commissioner and being at least 50 years of age, a Commissioner may receive one year of single health insurance. This benefit is provided pursuant to County Board Resolution 95-27. The County had no participants in 2011.

Annual OPEB Cost and Net OPEB Obligations

The County’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding, if paid on an ongoing basis, that is projected to cover normal costs each year and amortize any

**WINONA COUNTY
WINONA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligations (Continued)

unfunded actuarial accrued liabilities or (funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2011, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

| | | |
|--|--------|--------------------|
| ARC | \$ | 397,498 |
| Interest on net OPEB obligations | | 30,844 |
| Adjustment to ARC | | <u>(42,023)</u> |
| Annual OPEB cost | \$ | 386,319 |
| Contribution during the year | | <u>(274,339)</u> |
| Increase (Decrease) in net OPEB obligation | \$ | 111,980 |
| Net OPEB - Beginning of Year | | <u>685,429</u> |
| Net OPEB - End of Year | \$ | <u>797,409</u> |

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

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Employer Contribution</u> | <u>Percentage Contributed (%)</u> | <u>Net OPEB Obligation</u> |
|------------------------------|-----------------------------|----------------------------------|---|--------------------------------|
| December 31, 2009 | \$ 347,589 | \$ 129,937 | 37.38 | \$ 535,473 |
| December 31, 2010 | 343,999 | 194,043 | 56.40 | 685,429 |
| December 31, 2011 | 386,319 | 274,339 | 71.01 | 797,409 |

**WINONA COUNTY
WINONA, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

The County finances the plan on a pay-as-you-go basis.

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|--------------------------------|--|---|--|--------------------------|---------------------------|---|
| January 1, 2007 | \$ - | \$ 3,297,719 | \$ 3,297,719 | 0.00% | \$ 13,239,417 | 24.91% |
| January 1, 2009 | - | 2,875,818 | 2,875,818 | 0.00 | 13,866,076 | 20.70 |
| January 1, 2011 | - | 3,786,238 | 3,786,238 | 0.00 | 14,065,939 | 26.90 |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and 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.

Actuarial Methods and Assumptions

Projection 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 benefit costs 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, 2011, actuarial valuation, the Projected Unit Credit Actuarial Method was used. The actuarial assumptions included a 4.5 percent discount rate (net of expenses), including inflation assumption of 2.5 percent and an annual health care cost rate of 8.0 percent initially, and reduced incrementally to an ultimate rate of 5.0 percent after 6 years. The initial unfunded actuarial accrued liability is being amortized as a level dollar amount over a closed period (not to exceed 30 years) beginning in 2008.

**WINONA COUNTY
WINONA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County 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. If any insurance and self-insurance is exhausted, the shares of all remaining insurance and self-insurance will be equal until the loss is paid.

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.

Premiums are paid by the fund receiving the benefits.

The Southeast Service Cooperative provides financial risk management services that embody the concept of pooling risks for the purpose of stabilizing and/or reducing costs. Group employee benefits shall include, but not be limited to, health benefits coverage. Other employee benefits for life insurance, disability insurance, and flexible spending programs are administered by the County's Personnel Department through separate vendors. The County also administers a dental program for employees. The County's responsibility is limited to collecting the premiums and disbursing enrolled employee premiums.

**WINONA COUNTY
WINONA, MINNESOTA**

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Southeastern Minnesota Multi-County HRA

Winona County is a member of the Southeastern Minnesota Multi-County Housing and Redevelopment Authority (HRA) that provides housing and redevelopment services to the County. Each member county appoints members to the governing body that consists of a Board of Commissioners. The HRA approves its own budget. Winona County did not contribute to the operations of the HRA in 2011. However, the Board of County Commissioners approves the levy for the HRA each year.

Complete financial statements for the HRA can be obtained at 730 West Sixth Street, Wabasha, Minnesota 55981.

Family Service Collaborative

Winona County has created the Winona Family Service Collaborative pursuant to an interagency agreement and Minn. Stat. § 124D.23. The Collaborative is represented by the following: Winona County; the City of Winona; Independent School Districts 861, 857, and 858; Department of Economic Security Workforce Center; SEMCAC; Hiawatha Valley Mental Health Center; and Hiawatha Valley Education District. The Collaborative Board consists of 21 members, of which Winona County appoints two.

**WINONA COUNTY
WINONA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Family Service Collaborative (Continued)

The Collaborative was established to support and nurture individuals and families through prevention and intervention so as to ensure success for every child. The Winona Area Public Schools became the fiscal agent for the Collaborative in 2011. The Collaborative had \$238,636 of expenditures in 2011, which includes a transfer of the remaining funds to the Winona Area Public Schools. The amount of the transfer was \$89,196.

D. Jointly-Governed Organizations

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

Southeast Minnesota Water Resources Board

The Southeast Minnesota Water Resources Board provides regional water quality services to several counties. During the year, the County paid \$4,000 to the Southeast Minnesota Water Resources Board.

Southeast Minnesota Emergency Management Services

Southeast Minnesota Emergency Management Services provides various health services to several counties. During the year, the County did not make any disbursements to this organization.

Southeast Minnesota Regional Radio Board

The Southeast Minnesota Regional Radio Board serves to provide regional administration of enhancement to the allied Radio Matrix for Emergency Response (ARMER) system owned and operated by the State of Minnesota and enhance and improve interoperable public safety communications. During the year, the County paid \$1,000 to the Southeast Minnesota Regional Radio Board.

**WINONA COUNTY
WINONA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force provides drug investigation services for member organizations. During the year, Winona County paid \$6,000 to the Task Force.

Southeastern Libraries Cooperative

The Southeastern Libraries Cooperative provides library services within the County. During the year, the County paid \$10,984 to the Southeastern Libraries Cooperative.

Southeastern Community Action Council

The Southeastern Community Action Council provides services for various social programs. During the year, Winona County did not make any payments to the Council.

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Winona County expended \$93,567 to the Cooperative.

Whitewater Joint Powers Board

The Whitewater Joint Powers Board is composed of three counties and three county soil and water conservation boards. It provides soil and water conservation services to its members. During the year, Winona County made a \$7,907 payment to the Joint Powers Board.

Southeastern Minnesota Recyclers' Exchange

The Southeastern Minnesota Recyclers' Exchange (SEMREX) provides recycling services. During the year, Winona County did not make any payments to SEMREX.

**WINONA COUNTY
WINONA, MINNESOTA**

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

E. Related Organization

Winona County appoints Board members to Watershed Number One. The County has no other control over this Board. During 2011, the County settled with the Watershed for property taxes collected in the amount of \$3,510.

This page was left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
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 | \$ 9,799,422 | \$ 9,799,422 | \$ 9,738,334 | \$ (61,088) |
| Special assessments | 281,000 | 281,000 | 292,505 | 11,505 |
| Licenses and permits | 195,952 | 195,952 | 220,488 | 24,536 |
| Intergovernmental | 3,953,884 | 3,953,884 | 4,185,962 | 232,078 |
| Charges for services | 2,323,144 | 2,323,144 | 1,986,280 | (336,864) |
| Fines and forfeits | 24,200 | 24,200 | 34,617 | 10,417 |
| Gifts and contributions | 7,300 | 7,300 | 12,268 | 4,968 |
| Investment earnings | 375,300 | 375,300 | 230,706 | (144,594) |
| Miscellaneous | 160,743 | 160,743 | 325,597 | 164,854 |
| Total Revenues | \$ 17,120,945 | \$ 17,120,945 | \$ 17,026,757 | \$ (94,188) |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Commissioners | \$ 203,293 | \$ 203,293 | \$ 190,258 | \$ 13,035 |
| Courts | 104,000 | 104,000 | 161,535 | (57,535) |
| Law library | 46,500 | 46,500 | 31,846 | 14,654 |
| County administration | 345,087 | 345,087 | 339,689 | 5,398 |
| County auditor/treasurer | 337,558 | 337,558 | 294,745 | 42,813 |
| License bureau | 249,388 | 249,388 | 251,340 | (1,952) |
| County assessor | 507,010 | 507,010 | 493,661 | 13,349 |
| Elections | 4,680 | 4,680 | 4,878 | (198) |
| Accounting and auditing | 290,502 | 290,502 | 299,508 | (9,006) |
| Data processing | 820,107 | 820,107 | 655,586 | 164,521 |
| Personnel | 412,893 | 412,893 | 402,306 | 10,587 |
| Attorney | 1,165,828 | 1,165,828 | 1,195,561 | (29,733) |
| Recorder | 420,007 | 420,007 | 423,020 | (3,013) |
| Planning and zoning | 390,792 | 390,792 | 379,773 | 11,019 |
| Maintenance | 1,093,333 | 1,093,333 | 817,075 | 276,258 |
| Veterans service officer | 168,717 | 168,717 | 158,891 | 9,826 |
| Other general government | 1,591,559 | 1,591,559 | 632,721 | 958,838 |
| Total general government | \$ 8,151,254 | \$ 8,151,254 | \$ 6,732,393 | \$ 1,418,861 |

**WINONA COUNTY
WINONA, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
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 | \$ 2,128,624 | \$ 2,152,349 | \$ 2,240,393 | \$ (88,044) |
| Boat and water safety | 25,066 | 25,066 | 25,218 | (152) |
| Emergency services | 227,276 | 227,276 | 102,683 | 124,593 |
| E-911 system | 203,600 | 203,600 | 22,251 | 181,349 |
| County jail | 2,366,271 | 2,366,271 | 2,133,037 | 233,234 |
| Law enforcement center | 1,127,154 | 1,127,154 | 942,938 | 184,216 |
| Probation and parole | 812,250 | 812,250 | 740,840 | 71,410 |
| DARE program | 5,000 | 5,000 | 2,378 | 2,622 |
| Total public safety | \$ 6,895,241 | \$ 6,918,966 | \$ 6,209,738 | \$ 709,228 |
| Sanitation | | | | |
| Recycling | \$ 1,145,100 | \$ 1,145,100 | \$ 977,784 | \$ 167,316 |
| Health | | | | |
| Environmental health | \$ 239,492 | \$ 239,492 | \$ 226,281 | \$ 13,211 |
| Culture and recreation | | | | |
| Historical society | \$ 49,950 | \$ 49,950 | \$ 49,950 | \$ - |
| Parks | 22,640 | 22,640 | 22,788 | (148) |
| Regional library | 219,684 | 219,684 | 219,634 | 50 |
| Total culture and recreation | \$ 292,274 | \$ 292,274 | \$ 292,372 | \$ (98) |
| Conservation of natural resources | | | | |
| County extension | \$ 136,091 | \$ 136,091 | \$ 130,463 | \$ 5,628 |
| Soil and water conservation | - | - | 4,491 | (4,491) |
| Feedlot | 121,503 | 121,503 | 123,219 | (1,716) |
| Agricultural inspection | 5,871 | 5,871 | 5,341 | 530 |
| Wetland challenge | 50,018 | 50,018 | 41,338 | 8,680 |
| Other | 194,939 | 194,939 | 161,146 | 33,793 |
| Agricultural society/County fair | 38,550 | 38,550 | 38,550 | - |
| Total conservation of natural resources | \$ 546,972 | \$ 546,972 | \$ 504,548 | \$ 42,424 |
| Economic development | | | | |
| Other | \$ 93,173 | \$ 93,173 | \$ 263,032 | \$ (169,859) |
| Total Expenditures | \$ 17,363,506 | \$ 17,387,231 | \$ 15,206,148 | \$ 2,181,083 |

**WINONA COUNTY
WINONA, MINNESOTA**

***EXHIBIT A-1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
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> | | |
| Excess of Revenues Over (Under) Expenditures | \$ (242,561) | \$ (266,286) | \$ 1,820,609 | \$ 2,086,895 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 181,932 | \$ 205,657 | \$ 67,119 | \$ (138,538) |
| Proceeds from sale of capital assets | 10,000 | 10,000 | 6,677 | (3,323) |
| Total Other Financing Sources (Uses) | \$ 191,932 | \$ 215,657 | \$ 73,796 | \$ (141,861) |
| Change in Fund Balance | \$ (50,629) | \$ (50,629) | \$ 1,894,405 | \$ 1,945,034 |
| Fund Balance - January 1 | 10,834,403 | 10,834,403 | 10,834,403 | - |
| Fund Balance - December 31 | \$ 10,783,774 | \$ 10,783,774 | \$ 12,728,808 | \$ 1,945,034 |

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
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 | \$ 1,917,515 | \$ 1,917,515 | \$ 1,882,855 | \$ (34,660) |
| Intergovernmental | 10,575,127 | 10,575,127 | 10,322,614 | (252,513) |
| Charges for services | 2,500 | 2,500 | 20,435 | 17,935 |
| Miscellaneous | 407,338 | 407,338 | 230,956 | (176,382) |
| Total Revenues | <u>\$ 12,902,480</u> | <u>\$ 12,902,480</u> | <u>\$ 12,456,860</u> | <u>\$ (445,620)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | | | | |
| Surveyor | \$ 241,423 | \$ 241,423 | \$ 220,688 | \$ 20,735 |
| Highways and streets | | | | |
| Administration | \$ 471,416 | \$ 471,416 | \$ 437,692 | \$ 33,724 |
| Maintenance | 1,946,713 | 1,946,713 | 1,838,413 | 108,300 |
| Construction | 9,185,996 | 9,185,996 | 9,309,060 | (123,064) |
| Equipment maintenance and shop | 534,167 | 534,167 | 493,456 | 40,711 |
| Materials and services for resale | 537,765 | 537,765 | 455,930 | 81,835 |
| Total highways and streets | <u>\$ 12,676,057</u> | <u>\$ 12,676,057</u> | <u>\$ 12,534,551</u> | <u>\$ 141,506</u> |
| Total Expenditures | <u>\$ 12,917,480</u> | <u>\$ 12,917,480</u> | <u>\$ 12,755,239</u> | <u>\$ 162,241</u> |
| Excess of Revenues Over (Under) Expenditures | \$ (15,000) | \$ (15,000) | \$ (298,379) | \$ (283,379) |
| Other Financing Sources (Uses) | | | | |
| Proceeds from sale of capital assets | 15,000 | 15,000 | - | (15,000) |
| Change in Fund Balance | \$ - | \$ - | \$ (298,379) | \$ (298,379) |
| Fund Balance - January 1 | 3,967,819 | 3,967,819 | 3,967,819 | - |
| Increase (decrease) in inventories | - | - | 26,044 | 26,044 |
| Fund Balance - December 31 | <u>\$ 3,967,819</u> | <u>\$ 3,967,819</u> | <u>\$ 3,695,484</u> | <u>\$ (272,335)</u> |

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY 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 | \$ 2,942,808 | \$ 2,942,808 | \$ 2,903,191 | \$ (39,617) |
| Licenses and permits | 36,150 | 36,150 | 31,825 | (4,325) |
| Intergovernmental | 8,994,883 | 8,994,883 | 7,776,103 | (1,218,780) |
| Charges for services | 2,294,057 | 2,294,057 | 1,327,243 | (966,814) |
| Fines and forfeitures | 300 | 300 | 375 | 75 |
| Miscellaneous | 434,229 | 434,229 | 292,020 | (142,209) |
| Total Revenues | \$ 14,702,427 | \$ 14,702,427 | \$ 12,330,757 | \$ (2,371,670) |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Income maintenance | \$ 3,252,637 | \$ 3,252,637 | \$ 3,333,348 | \$ (80,711) |
| Social services | 7,739,154 | 7,739,154 | 6,658,056 | 1,081,098 |
| Care grant | 196,441 | 196,441 | 137,382 | 59,059 |
| Total human services | \$ 11,188,232 | \$ 11,188,232 | \$ 10,128,786 | \$ 1,059,446 |
| Health | | | | |
| Nurses Services | \$ 1,733,807 | \$ 1,733,807 | \$ 588,135 | \$ 1,145,672 |
| Maternal Child Health | 450,139 | 450,139 | 483,542 | (33,403) |
| County Health Officer | 349,436 | 349,436 | 360,431 | (10,995) |
| Health Center | 1,559,904 | 1,559,904 | 1,433,438 | 126,466 |
| Total health | \$ 4,093,286 | \$ 4,093,286 | \$ 2,865,546 | \$ 1,227,740 |
| Total Expenditures | \$ 15,281,518 | \$ 15,281,518 | \$ 12,994,332 | \$ 2,287,186 |
| Excess of Revenues Over (Under) Expenditures | \$ (579,091) | \$ (579,091) | \$ (663,575) | \$ (84,484) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | \$ 579,091 | \$ - | \$ - | \$ - |
| Transfers out | - | - | (67,119) | (67,119) |
| Total Other Financing Sources (Uses) | \$ 579,091 | \$ - | \$ (67,119) | \$ (67,119) |
| Change in Fund Balance | \$ - | \$ (579,091) | \$ (730,694) | \$ (151,603) |
| Fund Balance - January 1, restated | 7,816,760 | 7,816,760 | 7,816,760 | - |
| Fund Balance - December 31 | \$ 7,816,760 | \$ 7,237,669 | \$ 7,086,066 | \$ (151,603) |

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT A-4

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|--------------------------------|--|---|--|--------------------------|---------------------------|---|
| January 1, 2007 | \$ - | \$ 3,297,719 | \$ 3,297,719 | 0.00% | \$ 13,239,417 | 24.91% |
| January 1, 2009 | - | 2,875,818 | 2,875,818 | 0.00 | 13,866,076 | 20.70 |
| January 1, 2011 | - | 3,786,238 | 3,786,238 | 0.00 | 14,065,939 | 26.90 |

**WINONA COUNTY
WINONA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except for the Flood Special Revenue Fund and the EDA Loan Special Revenue Fund, which are not budgeted. All annual appropriations lapse at fiscal year-end.

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

The appropriated budget is prepared by fund, function, and department. The County Administrator may make changes of appropriations within a department. The County Administrator has been given authority by the Board to make line-item adjustments that have a zero effect on the budget in total. Adjustments to the budget that increase the budget require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made supplemental budgetary appropriations for the General Fund.

Encumbrance accounting is employed in governmental funds. Encumbrances (for example, purchase orders or contracts) outstanding at year-end are reported as assignments of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Other Postemployment Benefits

The employer contributions of \$274,339 represent the current amount paid by the County for the current year cost of the benefits, which were entirely paid out or on behalf of retirees. Accordingly, as disclosed on the Schedule of Funding Progress - Other Postemployment Benefits, no assets have been placed in an irrevocable trust to advance fund the employer's obligation.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

MAJOR FUND

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS 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 | \$ 837,519 | \$ 837,519 | \$ 818,724 | \$ (18,795) |
| Intergovernmental | 216,481 | 216,481 | 92,177 | (124,304) |
| Investment earnings | - | - | 13,084 | 13,084 |
| Miscellaneous | - | - | 88,395 | 88,395 |
| Total Revenues | \$ 1,054,000 | \$ 1,054,000 | \$ 1,012,380 | \$ (41,620) |
| Expenditures | | | | |
| Current | | | | |
| General government | \$ 165,000 | \$ 165,000 | \$ 1,188,663 | \$ (1,023,663) |
| Public safety | 1,905,000 | 1,905,000 | 1,421,769 | 483,231 |
| Highways and streets | 379,000 | 379,000 | 6,873 | 372,127 |
| Total Expenditures | \$ 2,449,000 | \$ 2,449,000 | \$ 2,617,305 | \$ (168,305) |
| Excess of Revenues Over (Under) Expenditures | \$ (1,395,000) | \$ (1,395,000) | \$ (1,604,925) | \$ (209,925) |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 1,395,000 | 1,395,000 | 4,638,188 | 3,243,188 |
| Change in Fund Balance | \$ - | \$ - | \$ 3,033,263 | \$ 3,033,263 |
| Fund Balance - January 1 | 3,969,029 | 3,969,029 | 3,969,029 | - |
| Fund Balance - December 31 | \$ 3,969,029 | \$ 3,969,029 | \$ 7,002,292 | \$ 3,033,263 |

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUND

The Debt Service Fund is used to account for financial resources for the repayment of bonds.

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT C-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE 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 | \$ 976,409 | \$ 976,409 | \$ 959,142 | \$ (17,267) |
| Special assessments | - | - | 9,178 | 9,178 |
| Intergovernmental | 78,519 | 78,519 | 79,128 | 609 |
| Total Revenues | <u>\$ 1,054,928</u> | <u>\$ 1,054,928</u> | <u>\$ 1,047,448</u> | <u>\$ (7,480)</u> |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | \$ 695,000 | \$ 695,000 | \$ 701,651 | \$ (6,651) |
| Administrative (fiscal) charges | 18,450 | 18,450 | 4,681 | 13,769 |
| Interest | 290,849 | 290,849 | 281,842 | 9,007 |
| Total Expenditures | <u>\$ 1,004,299</u> | <u>\$ 1,004,299</u> | <u>\$ 988,174</u> | <u>\$ 16,125</u> |
| Excess of Revenues Over (Under) Expenditures | <u>\$ 50,629</u> | <u>\$ 50,629</u> | <u>\$ 59,274</u> | <u>\$ 8,645</u> |
| Fund Balance - January 1 | <u>1,079,633</u> | <u>1,079,633</u> | <u>1,079,633</u> | <u>-</u> |
| Fund Balance - December 31 | <u><u>\$ 1,130,262</u></u> | <u><u>\$ 1,130,262</u></u> | <u><u>\$ 1,138,907</u></u> | <u><u>\$ 8,645</u></u> |

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

AGENCY FUNDS

The Employee Benefit Plans Fund accounts for an Internal Revenue Service § 125 health benefit plan.

The Employee Benefit Plans - Liabilities Fund accounts for employee payroll liabilities due as of the end of the year but not disbursed until the following year.

The Winona County Family Collaborative Fund accounts for the Collaborative's funds on deposit with the County.

The Settlement Fund accounts for the collection and distribution of property taxes (current and delinquent).

The State Revenue Fund accounts for the money received from and due to the state.

The Taxes and Penalties Fund accounts for the collection and distribution of prepaid taxes and proceeds from the sale of property for unpaid taxes.

The Southeast Minnesota Statewide Health Improvement Plan Project (SHIP) Fund is a collaboration between nine counties in Southeastern Minnesota. Programs and services are targeted to individuals to teach behavioral skills to reduce tobacco use and exposure, increase physical activity, and improve nutrition. Winona County is the fiscal agent for the nine counties.

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT D-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 BENEFIT PLANS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ <u>119,203</u> | \$ <u>826,574</u> | \$ <u>776,446</u> | \$ <u>169,331</u> |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ <u>119,203</u> | \$ <u>826,574</u> | \$ <u>776,446</u> | \$ <u>169,331</u> |
| <u>EMPLOYEE BENEFIT PLANS - LIABILITIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ <u>362,269</u> | \$ <u>760,396</u> | \$ <u>362,269</u> | \$ <u>760,396</u> |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ <u>362,269</u> | \$ <u>760,396</u> | \$ <u>362,269</u> | \$ <u>760,396</u> |
| <u>WINONA COUNTY FAMILY COLLABORATIVE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ <u>57,531</u> | \$ <u>206,764</u> | \$ <u>264,295</u> | \$ <u>-</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ <u>57,531</u> | \$ <u>206,764</u> | \$ <u>264,295</u> | \$ <u>-</u> |

**WINONA COUNTY
WINONA, MINNESOTA**

*EXHIBIT D-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>SETTLEMENT</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ <u>393,638</u> | \$ <u>50,087,969</u> | \$ <u>49,860,529</u> | \$ <u>621,078</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ <u>393,638</u> | \$ <u>50,087,969</u> | \$ <u>49,860,529</u> | \$ <u>621,078</u> |
| <u>STATE REVENUE</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ <u>145,914</u> | \$ <u>1,111,446</u> | \$ <u>1,147,541</u> | \$ <u>109,819</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ <u>145,914</u> | \$ <u>1,111,446</u> | \$ <u>1,147,541</u> | \$ <u>109,819</u> |
| <u>TAXES AND PENALTIES</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ <u>37,878</u> | \$ <u>60,094</u> | \$ <u>76,431</u> | \$ <u>21,541</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ <u>37,878</u> | \$ <u>60,094</u> | \$ <u>76,431</u> | \$ <u>21,541</u> |

**WINONA COUNTY
WINONA, MINNESOTA**

*EXHIBIT D-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>SHIP</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ <u>673,896</u> | \$ <u>747,387</u> | \$ <u>1,420,703</u> | \$ <u>580</u> |
| <u>Liabilities</u> | | | | |
| Due to other governments | \$ <u>673,896</u> | \$ <u>747,387</u> | \$ <u>1,420,703</u> | \$ <u>580</u> |
| <u>TOTAL ALL AGENCY FUNDS</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and pooled investments | \$ <u>1,790,329</u> | \$ <u>53,800,630</u> | \$ <u>53,908,214</u> | \$ <u>1,682,745</u> |
| <u>Liabilities</u> | | | | |
| Accounts payable | \$ 481,472 | \$ 1,586,970 | \$ 1,138,715 | \$ 929,727 |
| Due to other governments | <u>1,308,857</u> | <u>52,213,660</u> | <u>52,769,499</u> | <u>753,018</u> |
| Total Liabilities | \$ <u>1,790,329</u> | \$ <u>53,800,630</u> | \$ <u>53,908,214</u> | \$ <u>1,682,745</u> |

This page was left blank intentionally.

OTHER SCHEDULES

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT E-1

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

Shared Revenue

State

| | |
|----------------------------------|--------------|
| Highway users tax | \$ 5,687,951 |
| PERA rate reimbursement | 54,309 |
| Disparity reduction aid | 40,728 |
| Police aid | 133,043 |
| County program aid | 2,483,290 |
| Agricultural conservation credit | 38,207 |
| Market value credit | 1,243,475 |
| Enhanced 911 | 137,737 |
| Performance aid credit | 7,205 |

Total shared revenue **\$ 9,825,945**

Reimbursement for Services

State

| | |
|--|--------------------------|
| Minnesota Department of Human Services | <u>\$ 858,648</u> |
|--|--------------------------|

Payments

Local

| | |
|---------------------------|-----------|
| Local contributions | \$ 10,000 |
| Payments in lieu of taxes | 304,529 |

Total payments **\$ 314,529**

Grants

State

| | |
|--|-----------|
| Minnesota Department/Board of | |
| Public Safety | \$ 51,974 |
| Health | 465,865 |
| Natural Resources | 110,320 |
| Human Services | 2,437,233 |
| Corrections | 118,776 |
| Transportation | 4,082,447 |
| Water and Soil Resources | 37,941 |
| Veterans Affairs | 7,640 |
| Peace Officer Standards and Training Board | 7,574 |
| Pollution Control Agency | 148,597 |

Total state **\$ 7,468,367**

**WINONA COUNTY
WINONA, MINNESOTA**

***EXHIBIT E-1
(Continued)***

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

Grants (Continued)

Federal

Department of

Agriculture

\$ 433,391

Commerce

49,743

Housing and Urban Development

159,379

Justice

363,114

Transportation

45,628

Health and Human Services

2,812,173

Homeland Security

114,152

Education

10,915

Total federal

\$ 3,988,495

Total state and federal grants

\$ 11,456,862

Total Intergovernmental Revenue

\$ 22,455,984

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT E-2

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

| Federal Grantor Pass-Through Agency Grant Program Title | State Pass-Through Grantor's Number | Federal CFDA Number | Expenditures |
|--|--|------------------------------------|--------------------------|
| U.S. Department of Agriculture | | | |
| Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children | 12-700-00102 | 10.557 | \$ 153,928 |
| Passed Through Minnesota Department of Human Services State Administrative Matching Grants for SNAP | N/A | 10.561 | <u>292,857</u> |
| Total U.S. Department of Agriculture | | | <u>\$ 446,785</u> |
| U.S. Department of Commerce | | | |
| Passed Through Minnesota Department of Public Safety Public Safety Interoperable Communications Grant Program | N/A | 11.555 | \$ 16,232 |
| Passed Through Southeastern Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program | N/A | 11.555 | <u>33,511</u> |
| Total U.S. Department of Commerce | | | <u>\$ 49,743</u> |
| U.S. Department of Housing and Urban Development | | | |
| Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii | CDAP-09-0087-0-FY10 | 14.228 | <u>\$ 159,379</u> |
| U.S. Department of Justice | | | |
| Direct | | | |
| State Criminal Alien Assistance Program | N/A | 16.606 | \$ 6,986 |
| Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program - ARRA | N/A | 16.810 | 139,344 |
| Passed Through City of Winona Enforcing Underage Drinking Laws Program | N/A | 16.727 | 670 |
| Passed Through Minnesota Department of Public Safety Violence Against Women Formula Grants | N/A | 16.588 | 63,710 |
| JAG Program Cluster | | | |
| Edward Byrne Memorial Justice Assistance Grant (JAG) Program | N/A | 16.738 | 50,321 |
| Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA | N/A | 16.803 | <u>139,225</u> |
| Total U.S. Department of Justice | | | <u>\$ 400,256</u> |

**WINONA COUNTY
WINONA, MINNESOTA**

**EXHIBIT E-2
(Continued)**

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

| Federal Grantor Pass-Through Agency Grant Program Title | State Pass-Through Grantor's Number | Federal CFDA Number | Expenditures |
|--|--|------------------------------------|-------------------------|
| U.S. Department of Transportation | | | |
| Passed Through Minnesota Department of Transportation Highway Planning and Construction | N/A | 20.205 | \$ 6,719 |
| Passed Through Minnesota Department of Public Safety | | | |
| Highway Safety Cluster | | | |
| State and Community Highway Safety | N/A | 20.600 | 20,250 |
| Alcohol-Impaired Driving Countermeasures Incentive Grants | N/A | 20.601 | 12,506 |
| Occupant Protection Incentive Grant | N/A | 20.602 | 3,080 |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | N/A | 20.608 | <u>10,355</u> |
| Total U.S. Department of Transportation | | | \$ <u>52,910</u> |
| U.S. Department of Education | | | |
| Passed Through the Hiawatha Valley Education District Special Education - Grants for Infants and Families | 12-700-00102 | 84.181 | \$ <u>10,915</u> |
| U.S. Department of Health and Human Services | | | |
| Passed Through the National Association of County and City Health Officials | | | |
| Medical Reserve Corps Small Grant Program | 12-700-0102 | 93.008 | \$ 5,000 |
| Passed Through Minnesota Department of Health | | | |
| Public Health Emergency Preparedness | 12-700-00102 | 93.069 | 41,537 |
| Immunization Grants | 12-700-00102 | 93.268 | 750 |
| Temporary Assistance to Needy Families (TANF) Cluster | | | |
| Temporary Assistance for Needy Families | N/A | 93.558 | 57,638 |
| Maternal and Child Health Services Block Grant to the States | 12-700-00102 | 93.994 | 51,134 |

**WINONA COUNTY
WINONA, MINNESOTA**

**EXHIBIT E-2
(Continued)**

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

| Federal Grantor Pass-Through Agency Grant Program Title | State Pass-Through Grantor's Number | Federal CFDA Number | Expenditures |
|--|--|------------------------------------|---------------------|
| U.S. Department of Health and Human Services (Continued) | | | |
| Passed Through Minnesota Department of Human Services | | | |
| Promoting Safe and Stable Families | N/A | 93.556 | 9,844 |
| Temporary Assistance for Needy Families (TANF) Cluster | | | |
| Temporary Assistance for Needy Families (TANF) | N/A | 93.558 | 372,091 |
| Emergency Contingency Fund for TANF State Programs - ARRA | N/A | 93.714 | 37,337 |
| Child Support Enforcement | N/A | 93.563 | 759,222 |
| Child Care and Development Fund Cluster | | | |
| Child Care and Development Block Grant | N/A | 93.575 | 13,163 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | N/A | 93.596 | 11,605 |
| Stephanie Tubbs Jones Child Welfare Services Program | N/A | 93.645 | 18,451 |
| Foster Care Title IV-E Cluster | | | |
| Foster Care Title IV-E - ARRA | N/A | 93.658 | 1,055 |
| Foster Care Title IV-E | N/A | 93.658 | 187,769 |
| Social Services Block Grant | N/A | 93.667 | 266,129 |
| Child Abuse and Neglect State Grants | N/A | 93.669 | 2,289 |
| Chafee Foster Care Independence Program | N/A | 93.674 | 4,623 |
| Children's Health Insurance Program | N/A | 93.767 | 214 |
| Medical Assistance Program | N/A | 93.778 | 887,089 |
| Block Grants for Community Mental Health Services | N/A | 93.958 | 37,596 |
| Total U.S. Department of Health and Human Services | | | \$ 2,764,536 |
| U.S. Department of Homeland Security | | | |
| Passed Through Minnesota Department of Natural Resources | | | |
| Boating Safety Financial Assistance | N/A | 97.012 | \$ 13,995 |
| Passed Through Minnesota Department of Public Safety | | | |
| Hazard Mitigation Grant | N/A | 97.039 | 12,834 |
| Pre-Disaster Mitigation | N/A | 97.047 | 4,098 |
| Homeland Security Grant Program | N/A | 97.067 | 4,166 |
| Passed Through Region One - Southeast Minnesota of Homeland Security and Emergency Management Organization | | | |
| Homeland Security Grant Program | N/A | 97.067 | 26,120 |
| Passed Through Southeastern Minnesota Regional Radio Board | | | |
| Interoperable Emergency Communications | N/A | 97.055 | 2,739 |
| Total U.S. Department of Homeland Security | | | \$ 63,952 |
| Total Federal Awards | | | \$ 3,948,476 |

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

This page was left blank intentionally.

**WINONA COUNTY
WINONA, 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 Winona County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Winona County considers all revenues to be available if they are collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Reconciliation to Schedule of Intergovernmental Revenue

| | |
|---|--------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 3,988,495 |
| Deferred in 2010, recognized as revenue in 2011 | |
| Special Supplemental Nutrition Program for Women, Infants, and Children Grant (CFDA #10.557) | (1) |
| Child Support Enforcement (CFDA #93.563) | (31,058) |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA #93.596) | (4,983) |
| Foster Care Title IV-E (CFDA #93.658) | (6,008) |
| Medical Assistance Program (CFDA #93.778) | (22,644) |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036) | (50,200) |
| Grants received more than 60 days after year-end, deferred in 2011 | |
| Medical Assistance Program (CFDA #93.778) | 5,128 |
| Temporary Assistance for Needy Families (CFDA #93.558) | 11,928 |
| Special Supplemental Nutrition Program for Women, Infants, and Children Grant (CFDA #10.557) | 13,395 |
| State and Community Highway Safety (CFDA #20.600) | 3,641 |
| Alcohol-Impaired Driving Countermeasures Incentive Grants (CFDA #20.601) | 3,641 |
| Assistance to Rural Law Enforcement to Combat Crime and Drugs Program - ARRA (CFDA #16.810) | 37,142 |
| | 37,142 |
| Expenditures per Schedule of Expenditures of Federal Awards | \$ 3,948,476 |

**WINONA COUNTY
WINONA, MINNESOTA**

4. Clusters

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

| | | |
|--|----|---------|
| JAG Program Cluster | \$ | 189,546 |
| Highway Safety Cluster | | 35,836 |
| Temporary Assistance for Needy Families (TANF) Cluster | | 467,066 |
| Child Care and Development Fund Cluster | | 24,768 |
| Foster Care Title IV-E Cluster | | 188,824 |

5. Passed Through to Subrecipients

During 2011, Winona County did not pass any federal money to subrecipients.

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**

This page was left blank intentionally.

**WINONA COUNTY
WINONA, MINNESOTA**

EXHIBIT F-1

**TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS
FOR CALENDAR YEARS 2009 THROUGH 2011**

| | <u>Tax Year 2009</u> | | <u>Tax Year 2010</u> | | <u>Tax Year 2011</u> | |
|---|-------------------------|--------------------------------------|-------------------------|--------------------------------------|-------------------------|--------------------------------------|
| | <u>Net Tax Capacity</u> | <u>Tax Capacity Rate Percent (%)</u> | <u>Net Tax Capacity</u> | <u>Tax Capacity Rate Percent (%)</u> | <u>Net Tax Capacity</u> | <u>Tax Capacity Rate Percent (%)</u> |
| Tax Capacity | | | | | | |
| Real property | \$ 39,935,972 | | \$ 41,682,706 | | \$ 41,085,282 | |
| Personal property | 512,392 | | 510,200 | | 554,673 | |
| Tax increment financing | (233,362) | | (180,756) | | (146,516) | |
| Net Tax Capacity | \$ 40,215,002 | | \$ 42,012,150 | | \$ 41,493,439 | |
| Tax Levied for County | | | | | | |
| County Revenue | \$ 9,843,223 | 25.16 | \$ 9,696,412 | 23.787 | \$ 10,486,155 | 25.926 |
| Road and Bridge | 2,201,878 | 5.475 | 2,020,545 | 4.829 | 2,065,778 | 4.997 |
| Human Services | 3,905,210 | 9.711 | 4,034,195 | 9.64 | 2,950,878 | 7.138 |
| Community Health | 729,465 | 1.814 | 686,970 | 1.642 | 219,467 | 0.531 |
| CIP Bond 2009 | - | - | 465,598 | 1.108 | 476,758 | 1.149 |
| 2010A Bond Debt | - | - | - | - | 96,863 | 0.233 |
| CIP Bond 2007 | 887,279 | 2.211 | 462,299 | 1.1 | 479,970 | 1.157 |
| Building/Capital Improvement | 261,814 | 0.651 | 462,850 | 1.106 | 904,000 | 2.187 |
| Net Tax Levy | \$ 17,828,869 | 45.022 | \$ 17,828,869 | 43.212 | \$ 17,679,869 | 43.318 |
| | <u>Tax Capacity</u> | <u>Market Value</u> | <u>Tax Capacity</u> | <u>Market Value</u> | <u>Tax Capacity</u> | <u>Market Value</u> |
| Taxable Valuations | | | | | | |
| Light and power tax | | | | | | |
| Transmission lines | \$ 31,774 | \$ 1,626,200 | \$ 31,288 | \$ 1,601,900 | \$ 33,432 | \$ 1,709,100 |
| Distribution lines | 16,230 | 849,000 | 15,330 | 804,000 | 15,358 | 805,400 |
| Total Taxable Valuations - Light and Power | \$ 48,004 | \$ 2,475,200 | \$ 46,618 | \$ 2,405,900 | \$ 48,790 | \$ 2,514,500 |
| Light and Power Tax Levy | | | | | | |
| Transmission lines | \$ 29,010 | \$ 4,470 | \$ 27,965 | \$ 4,147 | \$ 30,452 | \$ 4,354 |
| Distribution lines | 14,818 | 2,334 | 13,702 | 2,082 | 13,989 | 2,052 |
| Total Light and Power Tax Levy | \$ 43,828 | \$ 6,804 | \$ 41,667 | \$ 6,229 | \$ 44,441 | \$ 6,406 |
| Percentage of Tax Collections for All Purposes | | 98.65 | | 98.34 | | 98.39 |

This page was left blank intentionally.

This page was left blank intentionally.

**WINONA COUNTY
WINONA, 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:

| | |
|--|--------------|
| Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program - ARRA | CFDA #16.810 |
| Temporary Assistance for Needy Families (TANF) Cluster | |
| Temporary Assistance for Needy Families | CFDA #93.558 |
| Emergency Contingency Fund for TANF State Program - ARRA | CFDA #93.714 |
| Child Support Enforcement | CFDA #93.563 |
| Medical Assistance Program | CFDA #93.778 |

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

Winona County qualified as low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-2 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Condition: During our audit, we proposed audit adjustments which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

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

Effect: Audit adjustments were proposed to record additional receivables found during the audit, additional deferred revenue, and to reclassify assets and revenues.

Cause: Winona County staff missed the additional items found by auditors.

Recommendation: We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

Client's Response:

Winona County is implementing procedures to ensure that the financial statements are presented correctly. The procedures implemented are a monthly review and monitoring of daily receipts and expenses to ensure proper posting; a tracking feature for month-end reports; and the ability to print documentation to monitor the month-end reports are being reviewed. Winona County will continue to enhance the review and monitoring of the reports that are provided. The reclassifications and adjustments were reduced from the 2009 audit.

08-1 Segregation of Duties - County Departments

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. Specifically, we noted these issues in our review of receipting procedures in the Sheriff and Planning/Zoning Departments.

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 Winona County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

Cause: The County 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 duties 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:

Winona County will monitor to ensure internal controls and policies and procedures are being followed. Winona County will explore reorganization, which will enhance the segregation of accounting duties and ensure internal accounting controls. Winona County has implemented a monthly review and monitoring of the daily receipts and expenses to ensure proper posting. Winona County has implemented a tracking feature for month-end reports and the ability to print documentation printed to monitor that month-end reports are being reviewed.

PREVIOUSLY REPORTED ITEM RESOLVED

Supporting Documentation for Social Welfare Fund Disbursements (10-1)

County personnel did not provide supporting documentation for Social Welfare disbursements selected for review.

Resolution

The County provided supporting documentation for Social Welfare disbursements selected for the current year.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

11-1 Eligibility Testing

Program: Medical Assistance Program (CFDA No. 93.778)

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.

Specific criteria are established with respect to eligibility for assistance. During our testing of the intake function related to eligibility, we noted noncompliance related to the following requirements:

- Per 42 CFR 435.907, “(a) The agency must require a written application from the applicant, an authorized representative, or, if the applicant is incompetent or incapacitated, someone acting responsibly for the applicant. (b) Subject to the conditions specified in paragraph (c) of this section, the application must be on a form prescribed by the agency and signed under a penalty of perjury. . . .”
- Minn. Stat. § 256B.056, subd. 3, gives statutory asset limitations for individuals and families.

Condition: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. While the County has controls over intake to provide reasonable assurance of compliance with grant requirements for eligibility, not all documentation was available to support participant eligibility. In one other circumstance, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- Four case files did not have a completed paper application, and there was not sufficient evidence the County followed up on the incomplete sections of the application to ensure completeness and accuracy of the information.
- One case file did not have accurate asset information in the MAXIS system to match the application completed by the client.

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

Context: The State of Minnesota contracts with the County Social Services Department to perform the “intake function” (meeting with the social services client to determine income and categorical eligibility), while the state maintains MAXIS, which supports the eligibility determination process and actually pays the benefits to the participants.

Effect: The improper input of information into MAXIS and lack of follow-up on incomplete application items increases the risk that a client will receive benefits when they are not eligible.

Cause: Program personnel entering case information into MAXIS did not ensure all required information were obtained and/or completed and agreed to the documentation obtained.

Recommendation: We recommend that the County implement additional procedures to provide reasonable assurance that all necessary documentation to support eligibility determinations is complete and properly input into MAXIS.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Beth M. Wilms

Corrective Action Planned:

Winona County has changed from a case management structure to one of process management (Case Banking) that allows for ongoing peer review. The staff will also consistently utilize the MAXIS Case Note template to identify asset information at application, re-certifications and at times of change.

Anticipated Completion Date:

Ongoing reviews beginning September 1, 2012.

11-2 Special Tests and Provisions

Program: Child Support Enforcement (CFDA No. 93.563)

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.

For all cases referred to the IV-D agency or applying for services under 45 CFR Section 302.33 or 45 CFR Section 309.65(a)(2) in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for monitoring compliance with the support obligation.

Condition: The state maintains the computer system, PRISM, which is used by the County to support monitoring support obligations. During our testing, 1 out of 40 case files was not monitored nor was there documentation to determine that action was taken within the required time frame to enforce the obligation.

Questioned Costs: None.

Context: The State of Minnesota contracts with the County Social Services Department to perform the child support services, while the state maintains PRISM, which supports the child support enforcement process.

Effect: Cases where there is no evidence of monitoring, there is no documentation of action taken to enforce an obligation against the noncustodial parent, which creates the possibility that the custodial parent will not receive the obligation required or receive the obligation in a timely manner.

Cause: Monitoring of the case was overlooked by the County Social Services Department.

Recommendation: We recommend that the County monitor and maintain documentation to verify that enforcement action is initiated in the required time frame.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Beth M. Wilms

Corrective Action Planned:

The County will perform monthly self-audits and random case reviews; these audits/reviews will be conducted by the Child Support Supervisor, or in his/her absence, the Director of the Agency. The reviews will initially target the areas of deficiency and will also include a review of all state reports for self-monitoring purposes.

Anticipated Completion Date:

Current and ongoing.

11-3 Eligibility - Intake Function

Program: Temporary Assistance for Needy Families (CFDA No. 93.558)

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.

Specific criteria are established with respect to eligibility for assistance. During our testing of the intake function related to eligibility, we noted noncompliance related to the following requirements:

- Per Minn. Stat. § 256J.09, subd. 4, “a county agency must verify information provided by an applicant as required in section 256J.32.” Additionally, per Minn. Stat § 256J.09, subd. 5, “Upon receiving an application, a county agency must determine the applicant’s eligibility”

- Per Minn. Stat. § 256J.21, subd. 1, “To determine MFIP eligibility, the county agency must evaluate income received by members of an assistance unit, or by other persons whose income is considered available to the assistance unit, and only count income that is available to the member of the assistance unit. Income is available if the individual has legal access to the income. All payments, unless specifically excluded in subdivision 2, must be counted as income. The county agency shall verify the income of all MFIP recipients and applicants.”

Condition: The state maintains the computer system, MAXIS, which is used by the County to support the eligibility determination process. During our testing of the intake function, not all documentation was available to support participant eligibility. In other circumstances, information was input into MAXIS incorrectly. The following instances were noted in our sample of 40 cases tested:

- 6 case files did not have accurate income information in the MAXIS system to match the paper application completed by the client, and
- 1 case file could not be located.

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

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

Effect: Inappropriate benefits could be approved, causing an inappropriate expenditure of federal awards.

Cause: Program personnel entering case information into MAXIS did not ensure all required information was obtained and/or completed and agreed to the documentation obtained.

Recommendation: We recommend that the County implement additional review procedures to provide reasonable assurance that all necessary documentation to support an eligibility determination is obtained. In addition, consideration should be given to providing additional training to program personnel.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Beth M. Wilms

Corrective Action Planned:

Winona County has made a major transition in moving from a paper system to imaged files. There were also changes to the process structure when the county moved to a case banking model. The case banking model allows for constant peer review. In conjunction with the peer review via the case banking workflow, Winona County will make diligent efforts to ensure accountability whether the file is a paper file or an imaged one. The staff will target income reviews; there are state worksheets that allow for specific areas of review. Peer reviews will also be randomly performed. Winona County is also working very closely with State DHS personnel to ensure the work process is meeting state performance guidelines. Ongoing training for front desk support staff and the IMU staff is an ongoing priority. Open communication is also a high priority to ensure staff have consistent and current information related to program guidelines.

Anticipated Completion Date:

Current and ongoing.

PREVIOUSLY REPORTED ITEMS RESOLVED

Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drug Competitive Grant Program (ARRA) (CFDA #16.810) Reporting (10-2)

The County did not submit three of the four quarterly 2010 ARRA 1512 reports within ten days after the end of each calendar quarter.

Resolution

The County submitted ARRA 1512 reports for 2011 within the required time period.

**Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and
Drug Competitive Grant Program (ARRA) (CFDA #16.810) Reporting
(10-3)**

Our review of the ARRA Financial Status quarterly reports for the audit year 2010 showed the reports did not reconcile to the general ledger account codes for this program. In addition, neither the cash basis nor the accrual basis of accounting was consistently used in preparing the reports.

Resolution

The County reconciled the 2011 reports to the general ledger account codes for this program. The County consistently used a basis of accounting based on recommendations from the State of Minnesota.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

11-4 Contractor's Performance and Payment Bond

Criteria: Per Minn. Stat. § 574.26, contractors doing public work are required to give both a performance bond and a payment bond in an amount not less than the contract price if the contract is more than \$75,000. (In 2012, the legislature raised this threshold to \$100,000. See 2012 Minn. Laws, ch. 287, art. 4, § 45.) Also, bids should be opened publicly in the presence of the officials named in the bid notice, and these bids should be opened and tabulated at a public meeting.

Condition: The County could not provide documentation that a payment or performance bond had been secured for a \$508,326 contract. The County did not open and tabulate the bids publicly.

Context: The County contract was for the Garvin Heights tower site reconstruction project. One employee received the bids for the contract and opened and tabulated each bid in his office with no other County employee present.

Effect: By not obtaining a performance or payment bond, the County is not in compliance with Minnesota statutes. A performance bond secures the contractor's promise to perform the contract within the agreed terms and conditions. A payment bond protects the County from other participants if the contractor is unable to pay these participants, such as subcontractors, suppliers, etc. The bond would pay these individuals if the contractor defaults. Also, by not opening and tabulating the bids publicly, the County is at risk for accepting bids that do not meet specifications and/or creating an atmosphere conducive to unfair bid practices.

Cause: The employee involved in the contract was not aware of the statutory requirements concerning performance and payment bonds.

Recommendation: We recommend the County be in compliance with Minn. Stat. § 574.26 and require all contractors to have a performance and payment bond for any contract more than \$75,000. Bids should also be opened and tabulated publicly.

Client's Response:

Winona County will ensure that compliance is being met regarding Minn. Stat. § 574.26 and require that all contractors have a performance and payment bond for all contracts over the statutory limit. The contracts should be tabulated publicly.

This page was left blank intentionally.



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
Winona County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Winona County, Minnesota, 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 September 7, 2012. 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.

Internal Control Over Financial Reporting

Management of Winona County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Winona 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 06-2 and 08-1 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 Winona 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 Winona County did not have any.

The results of our tests indicate that for the items tested, Winona 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 11-4.

Winona 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 Winona County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 7, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

This page was left blank intentionally.



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
Winona County

Compliance

We have audited Winona 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. Winona 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 Winona 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, Winona County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 to 11-3.

Internal Control Over Compliance

Management of Winona 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 in order to determine our 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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 11-1 to 11-3. 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.

Winona County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans 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 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

September 7, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR