

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

KANDIYOHI COUNTY
WILLMAR, 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.

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Year Ended December 31, 2011



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

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

ORGANIZATION
2011

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

*Chair

**Vice Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Kandiyohi County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kandiyohi County, Minnesota, as of and for the year ended December 31, 2011, including the Kandiyohi County Housing and Redevelopment Authority (HRA) as of and for the year ended June 30, 2011, which collectively comprise Kandiyohi County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kandiyohi County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Kandiyohi County HRA, the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Kandiyohi County HRA, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kandiyohi County as of December 31, 2011, including the Kandiyohi County HRA as of June 30, 2011, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.10. to the financial statements, Kandiyohi County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 establishes new fund balance classifications for the governmental fund types and clarifies the definitions of the governmental fund types.

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 Kandiyohi 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 stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, on our consideration of Kandiyohi County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It does not include the Kandiyohi County HRA, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 27, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

Kandiyohi County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements (beginning with Exhibit 1).

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$157,186,000 of which \$102,180,641 is invested in capital assets, net of related debt, and \$20,618,946 is restricted to specific purposes.
- Kandiyohi County's net assets increased by \$6,641,611 for the year ended December 31, 2011. The net assets of the County's discretely presented component unit increased by \$107,471.
- The net cost of governmental activities was \$25,522,415 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$32,164,026.
- Governmental funds' fund balances decreased by \$1,628,475.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Fund Financial Statements

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

- **Governmental funds**--The County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.
- **Fiduciary funds**--The County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 7 and 8. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$157,186,000 on December 31, 2011. (See Table A-1.)

Table A-1
Net Assets

	Governmental Activities		Percent (%) Change
	2011	2010	
Current and other assets	\$ 84,094,211	\$ 83,022,540	1.3
Capital assets	157,764,314	155,429,443	1.5
Total Assets	\$ 241,858,525	\$ 238,451,983	1.4
Current liabilities	\$ 5,370,633	\$ 4,705,354	14.1
Long-term liabilities	79,301,892	83,202,240	(4.7)
Total Liabilities	\$ 84,672,525	\$ 87,907,594	(3.7)
Net Assets			
Invested in capital assets, net of related debt	\$ 102,180,641	\$ 98,021,323	4.2
Restricted assets	20,618,946	11,875,764	73.6
Unrestricted	34,386,413	40,647,302	(15.4)
Total Net Assets	\$ 157,186,000	\$ 150,544,389	4.4

(Unaudited)

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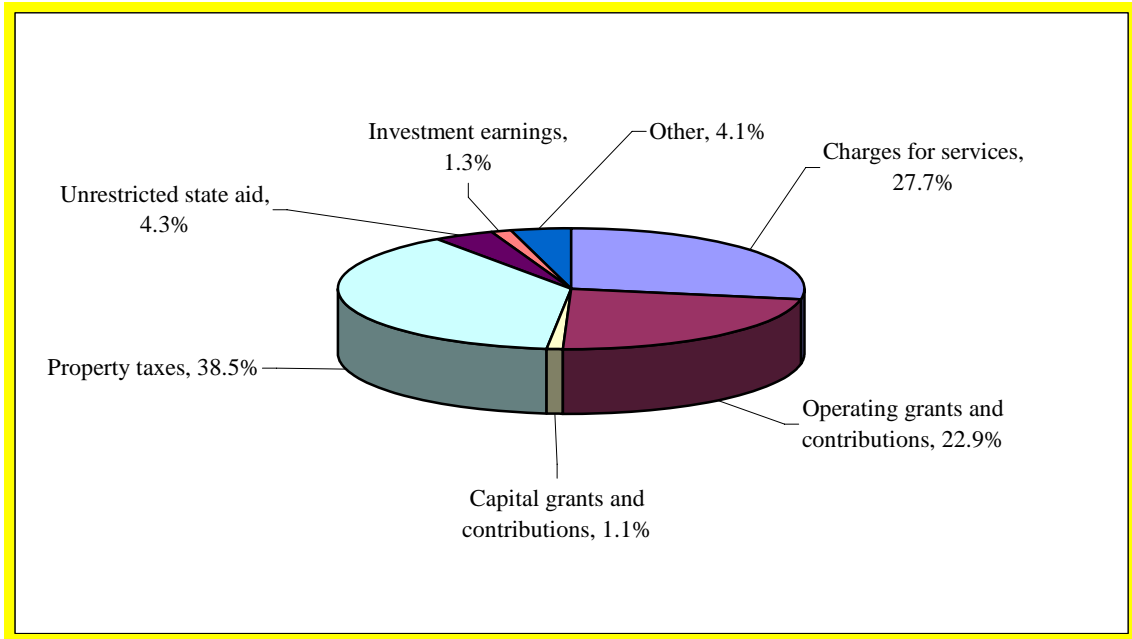
Changes in Net Assets

The County-wide total revenues were \$66,621,890 for the year ended December 31, 2011. Property taxes and intergovernmental revenues accounted for 66.8 percent of total revenues for the year. (See Figures A-3 and A-4.)

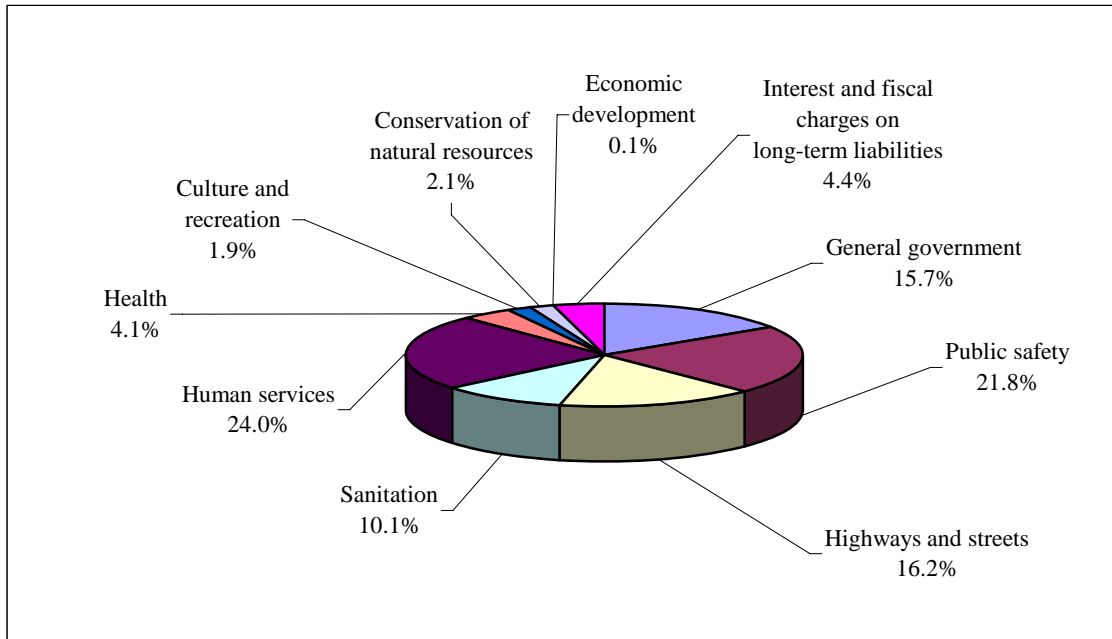
Table A-2
Changes in Net Assets

	Governmental Activities for Fiscal Year Ended December 31		Total Percent (%) Change
	2011	2010	
Revenues			
Program revenues			
Fees, charges, fines, and other	\$ 18,463,272	\$ 16,763,141	10.1
Operating grants and contributions	15,245,940	16,386,353	(7.0)
Capital grants and contributions	748,652	961,929	(22.2)
General revenues			
Taxes	25,672,438	24,655,067	4.1
Unrestricted state aid	2,847,866	2,848,315	-
Investment earnings	891,281	506,921	75.8
Other	2,752,441	3,255,643	(15.5)
Total Revenues	<u>\$ 66,621,890</u>	<u>\$ 65,377,369</u>	1.9
Expenses			
General government	\$ 9,418,573	\$ 9,368,584	0.5
Public safety	13,091,436	13,766,588	(4.9)
Highways and streets	9,718,225	9,864,719	(1.5)
Sanitation	6,055,669	1,140,238	431.1
Human services	14,398,308	13,354,670	7.8
Health	2,431,139	2,644,835	(8.1)
Culture and recreation	1,152,873	1,047,111	10.1
Conservation of natural resources	1,245,789	1,141,791	9.1
Economic development	36,481	8,462	331.1
Interest	2,431,786	2,406,153	1.1
Total Expenses	<u>\$ 59,980,279</u>	<u>\$ 54,743,151</u>	9.6
Increase in Net Assets	\$ 6,641,611	\$ 10,634,218	
Beginning Net Assets	<u>150,544,389</u>	<u>139,910,171</u>	
Ending Net Assets	<u>\$ 157,186,000</u>	<u>\$ 150,544,389</u>	

**Figure A-3
Sources of County Revenues for Fiscal Year 2011**



**Figure A-4
Sources of County Expenses for Fiscal Year 2011**



Total revenues surpassed expenses, increasing net assets \$6,641,611 over last year.

The County-wide cost of all governmental activities this year was \$59,980,279.

- Some of the cost was paid by the users of the County’s programs (\$18,463,272).
- The federal and state governments subsidized certain programs with grants and contributions (\$15,994,592).
- Some of the County’s costs (\$25,522,415), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$25,582,782 in property taxes, \$6,581,244 of state aid, and investment earnings and other general revenues.

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

**Table A-5
Governmental Activities**

	Total Cost of Services		Percent (%) Change	Net Cost of Services		Percent (%) Change
	2011	2010		2011	2010	
General government	\$ 9,418,573	\$ 9,368,584	0.5	\$ 6,973,388	\$ 7,682,194	(9.2)
Public safety	13,091,436	13,766,588	(4.9)	10,293,808	9,999,251	2.9
Highways and streets	9,718,225	9,864,719	(1.5)	2,540,945	2,408,995	5.5
Sanitation	6,055,669	1,140,238	431.1	(4,911,378)	(8,795,183)	(44.2)
Human services	14,398,308	13,354,670	7.8	7,357,959	5,110,196	44.0
Health	2,431,139	2,644,835	(8.1)	384,751	527,420	(27.1)
Culture and recreation	1,152,873	1,047,111	10.1	644,685	456,027	41.4
Conservation of natural resources	1,245,789	1,141,791	9.1	(230,010)	828,213	(127.8)
Economic development	36,481	8,462	331.1	36,481	8,462	331.1
Interest and fiscal charges on long-term liabilities	2,431,786	2,406,153	1.1	2,431,786	2,406,153	1.1
Total	\$ 59,980,279	\$ 54,743,151	9.6	\$ 25,522,415	\$ 20,631,728	23.7

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$57,643,609.

Revenues for the County’s governmental funds were \$64,721,619, while total expenditures were \$66,663,673. During 2011, the County also issued loans which are included in other financing sources and uses.

GENERAL FUND

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

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

**Table A-6
General Fund Revenues**

	Year Ended December 31		Change	
	2011	2010	Increase (Decrease)	Percent (%)
	Taxes	\$ 13,561,724	\$ 12,782,164	\$ 779,560
Intergovernmental	4,812,242	4,654,903	157,339	3.4
Charges for services	3,119,172	4,195,640	(1,076,468)	(25.7)
Investment earnings	238,977	156,857	82,120	52.4
Miscellaneous and other	2,538,721	1,682,616	856,105	50.9
Total General Fund Revenues	\$ 24,270,836	\$ 23,472,180	\$ 798,656	3.4

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

**Table A-7
General Fund Expenditures**

	Year Ended December 31		Change	
	2010	2010	Increase (Decrease)	Percent (%)
	General government	\$ 7,634,829	\$ 8,108,868	\$ (474,039)
Public safety	12,562,585	12,839,425	(276,840)	(2.2)
Health	2,447,444	2,538,219	(90,775)	(3.6)
Culture and recreation	489,182	501,204	(12,022)	(2.4)
Conservation of natural resources	585,128	683,956	(98,828)	(14.4)
Economic development	36,481	8,462	28,019	331.1
Debt service	182,915	126,900	56,015	44.1
Total General Fund Expenditures	\$ 23,938,564	\$ 24,807,034	\$ (868,470)	(3.5)

General Fund Budgetary Highlights

- Actual revenues were \$1,424,647 less than budget.
- Actual expenditures were \$22,164 more than budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011, the County had invested over \$201,899,516 in a broad range of capital assets, including land, landfill, buildings, computers, equipment, and infrastructure. (See Table A-8.) (More detailed information about capital assets can be found in Note 3.A.3. to the financial statements.) Total depreciation expense for the year was \$4,588,871.

**Table A-8
Capital Assets**

	2011	2010	Percent (%) Change
Land	\$ 5,541,127	\$ 5,279,535	5.0
Landfill	3,948,130	3,948,130	-
Infrastructure	121,935,574	118,520,360	2.9
Buildings	44,809,936	44,837,349	(0.1)
Machinery, vehicles, furniture, and equipment	15,123,717	15,242,383	(0.8)
Construction in progress	10,264,283	8,026,769	27.9
Software	276,749	-	100.0
Less: accumulated depreciation	<u>(44,135,202)</u>	<u>(40,425,083)</u>	9.2
Total Capital Assets	<u>\$ 157,764,314</u>	<u>\$ 155,429,443</u>	1.5

Debt

At year-end, the County had outstanding debt of \$67,659,952 versus \$72,568,547 last year, a decrease of 6.8 percent as shown in Table A-9.

**Table A-9
Outstanding Debt**

	2011	2010	Percent (%) Change
General obligation bonds	\$ 25,390,000	\$ 28,300,000	(10.3)
Special assessment bonds	21,380,000	21,935,000	(2.5)
Capital lease	2,767,080	3,095,687	(10.6)
Deferred (discount) premiums	(32,271)	(23,506)	37.3
Loans payable	<u>18,155,143</u>	<u>19,261,366</u>	(5.7)
Total Outstanding Debt	<u>\$ 67,659,952</u>	<u>\$ 72,568,547</u>	(6.8)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Component Unit Kandiyohi County Housing and Redevelopment Authority
<u>Assets</u>		
Current assets		
Cash and investments	\$ 51,433,046	\$ 960,294
Cash with escrow agent	4,052,214	-
Taxes receivable - net	516,727	63,558
Special assessments receivable - net	42,224	-
Accounts receivable - net	2,549,486	9,339
Accrued interest receivable	100,570	-
Property available for resale	-	94,500
Due from other governments	1,838,437	-
Current portion of loans receivable	377,500	-
Current portion of long-term receivable	18,667	-
Rent receivable	-	3,993
Inventories	363,173	-
Prepaid items	-	6,329
Noncurrent assets		
Special assessments receivable - net	18,460,610	-
Deferred charges	238,552	9,584
Loans receivable	3,787,207	-
Long-term receivable	181,998	278,270
Other postemployment benefits receivable	133,800	-
Restricted assets		
Cash and pooled investments	-	95,152
Capital assets		
Non-depreciable	15,805,410	82,359
Depreciable - net of accumulated depreciation	141,958,904	939,365
Total Assets	\$ 241,858,525	\$ 2,542,743

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Kandiyohi County Housing and Redevelopment Authority</u>
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 1,501,688	\$ 9,771
Salaries payable	1,188,455	-
Accrued payroll taxes	-	33,335
Contracts payable	287,484	-
Due to other governments	548,158	-
Accrued interest payable	867,775	4,744
Other accrued liabilities	-	3,956
Unearned revenue	977,073	63,366
Restricted payable from restricted assets		
Security deposits	-	13,480
Long-term liabilities		
Due within one year	5,442,279	41,462
Due in more than one year	73,859,613	1,528,430
	\$ 84,672,525	\$ 1,698,544
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 102,180,641	\$ (206,261)
Restricted for		
General government	463,733	-
Public safety	1,065,637	-
Highways and streets	429,202	-
Sanitation	2,764,641	-
Conservation of natural resources	374,492	-
Economic development	75,000	-
Debt service	15,446,241	-
Other purpose	-	64,285
Unrestricted	34,386,413	986,175
	\$ 157,186,000	\$ 844,199

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 9,418,573	\$ 2,265,940
Public safety	13,091,436	1,507,546
Highways and streets	9,718,225	547,652
Sanitation	6,055,669	10,861,119
Human services	14,398,308	893,686
Health	2,431,139	739,022
Culture and recreation	1,152,873	305,349
Conservation of natural resources	1,245,789	1,342,958
Economic development	36,481	-
Interest	2,431,786	-
Total Primary Government	<u>\$ 59,980,279</u>	<u>\$ 18,463,272</u>
Component unit		
Kandiyohi County Housing and Redevelopment Authority	<u>\$ 1,722,721</u>	<u>\$ 318,350</u>

General Revenues

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

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit</u>
\$ 179,245	\$ -	\$ (6,973,388)	
1,290,082	-	(10,293,808)	
5,880,976	748,652	(2,540,945)	
105,928	-	4,911,378	
6,146,663	-	(7,357,959)	
1,307,366	-	(384,751)	
202,839	-	(644,685)	
132,841	-	230,010	
-	-	(36,481)	
-	-	(2,431,786)	
<u>\$ 15,245,940</u>	<u>\$ 748,652</u>	<u>\$ (25,522,415)</u>	
<u>\$ 1,381,645</u>	<u>\$ -</u>		<u>\$ (22,726)</u>
		\$ 25,582,782	\$ -
		59,433	-
		30,223	-
		-	121,232
		248,008	-
		2,847,866	-
		891,281	8,965
		2,504,433	-
		<u>\$ 32,164,026</u>	<u>\$ 130,197</u>
		\$ 6,641,611	\$ 107,471
		<u>150,544,389</u>	<u>736,728</u>
		<u>\$ 157,186,000</u>	<u>\$ 844,199</u>

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Sanitary Landfill/ Recycling Center</u>
<u>Assets</u>				
Cash and investments	\$ 13,392,112	\$ 4,763,687	\$ 5,430,109	\$ 10,496,650
Cash with escrow agent	-	-	-	-
Taxes receivable				
Prior	260,554	73,290	106,300	-
Special assessments				
Prior	23,099	-	-	-
Noncurrent	1,458,038	-	-	-
Accounts receivable	208,447	850	89,342	1,392,848
Accrued interest receivable	38,220	3,966	-	50,271
Due from other funds	11,263	55,705	-	156
Due from other governments	401,830	469,555	690,852	3,748
Inventories	-	363,173	-	-
Loans receivable	-	-	-	-
Long-term receivable	-	-	-	-
Total Assets	\$ 15,793,563	\$ 5,730,226	\$ 6,316,603	\$ 11,943,673
<u>Liabilities and Fund Balances</u>				
Liabilities				
Cash overdraft	\$ -	\$ -	\$ -	\$ -
Accounts payable	329,464	80,321	637,135	271,650
Salaries payable	737,960	104,564	273,203	26,296
Contracts payable	-	224,864	-	-
Due to other funds	50,751	54,089	7,851	6,216
Due to other governments	214,971	14,898	252,769	17,546
Deferred revenue - unavailable	1,708,768	489,384	81,845	1,253,354
Deferred revenue - unearned	977,073	-	-	-
Total Liabilities	\$ 4,018,987	\$ 968,120	\$ 1,252,803	\$ 1,575,062

EXHIBIT 3

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,003,797	\$ 6,756,823	\$ 643,010	\$ 5,624,205	\$ 52,110,393
-	4,052,214	-	-	4,052,214
9,840	37,464	-	29,279	516,727
-	17,282	706	1,137	42,224
-	15,305,392	959,564	737,616	18,460,610
125	419,598	-	438,276	2,549,486
1,406	-	-	6,707	100,570
223	-	-	228,138	295,485
361	72,763	-	199,328	1,838,437
-	-	-	-	363,173
-	4,164,707	-	-	4,164,707
200,665	-	-	-	200,665
<u>\$ 5,216,417</u>	<u>\$ 30,826,243</u>	<u>\$ 1,603,280</u>	<u>\$ 7,264,686</u>	<u>\$ 84,694,691</u>
\$ -	\$ -	\$ -	\$ 677,347	\$ 677,347
53,771	3,862	19,350	106,135	1,501,688
-	-	-	46,432	1,188,455
-	-	-	62,620	287,484
-	-	175,000	1,578	295,485
-	-	-	47,974	548,158
9,511	15,743,094	960,179	1,329,257	21,575,392
-	-	-	-	977,073
<u>\$ 63,282</u>	<u>\$ 15,746,956</u>	<u>\$ 1,154,529</u>	<u>\$ 2,271,343</u>	<u>\$ 27,051,082</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	General	Road and Bridge	Human Services	Sanitary Landfill/ Recycling Center
<u>Liabilities and Fund Balances</u>				
(Continued)				
Fund Balances				
Nonspendable				
Inventories	\$ -	\$ 363,173	\$ -	\$ -
Restricted for				
Debt service	366,954	-	-	-
Recorder's equipment purchases	463,383	-	-	-
Sheriff's contingency	109,696	-	-	-
Forfeited property	233,092	-	-	-
Permit to carry	98,515	-	-	-
Public safety	69,791	-	-	-
Economic development	75,000	-	-	-
Sanitation	-	-	-	2,764,641
Donations - public safety	7,139	-	-	-
Enhanced 911	547,404	-	-	-
Election equipment grant	350	-	-	-
Gravel pit restoration	20,937	-	-	-
Closure/postclosure	-	-	-	7,603,970
Ditch maintenance and repairs	-	-	-	-
Committed to				
Repairs and maintenance of county buildings	-	-	-	-
Purchases of capital equipment	-	-	-	-
Eagle Lake Sewer	-	-	-	-
Green Lake Sewer	-	-	-	-
Library operations and building maintenance	-	-	-	-
DARE program	-	-	-	-
Health and Human Services Building operations and maintenance	-	-	-	-
Assigned to				
Highways and streets	-	4,398,933	-	-
Human services	-	-	5,063,800	-
Capital projects	-	-	-	-
Unassigned	9,782,315	-	-	-
Total Fund Balances	<u>\$ 11,774,576</u>	<u>\$ 4,762,106</u>	<u>\$ 5,063,800</u>	<u>\$ 10,368,611</u>
Total Liabilities and Fund Balances	<u>\$ 15,793,563</u>	<u>\$ 5,730,226</u>	<u>\$ 6,316,603</u>	<u>\$ 11,943,673</u>

EXHIBIT 3
(Continued)

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 363,173
-	15,079,287	-	-	15,446,241
-	-	-	-	463,383
-	-	-	-	109,696
-	-	-	-	233,092
-	-	-	-	98,515
-	-	-	-	69,791
-	-	-	-	75,000
-	-	-	-	2,764,641
-	-	-	-	7,139
-	-	-	-	547,404
-	-	-	-	350
-	-	-	-	20,937
-	-	-	-	7,603,970
-	-	-	353,555	353,555
5,153,135	-	-	-	5,153,135
-	-	-	3,273,639	3,273,639
-	-	-	273,785	273,785
-	-	-	1,515,367	1,515,367
-	-	-	217,890	217,890
-	-	-	20,679	20,679
-	-	-	290,793	290,793
-	-	-	-	4,398,933
-	-	-	-	5,063,800
-	-	448,751	-	448,751
-	-	-	(952,365)	8,829,950
<u>\$ 5,153,135</u>	<u>\$ 15,079,287</u>	<u>\$ 448,751</u>	<u>\$ 4,993,343</u>	<u>\$ 57,643,609</u>
<u>\$ 5,216,417</u>	<u>\$ 30,826,243</u>	<u>\$ 1,603,280</u>	<u>\$ 7,264,686</u>	<u>\$ 84,694,691</u>

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)		\$ 57,643,609
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		157,764,314
Deferred charges are not available to pay current expenditures and, therefore, are not reported in the governmental funds.		238,552
Revenue in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		21,575,392
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	\$ (25,390,000)	
Special assessment bonds	(21,380,000)	
Unamortized premium on bonds	(142,686)	
Unamortized discount on bonds	174,957	
Capital leases payable	(2,767,080)	
Loans payable	(18,155,143)	
Estimated liability for landfill closure/postclosure	(7,603,970)	
Compensated absences	(4,037,970)	
Net other postemployment benefits	133,800	(79,168,092)
	<hr/>	
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the governmental funds.		<hr/> (867,775)
Net Assets of Governmental Activities (Exhibit 1)		<u><u>\$ 157,186,000</u></u>

**KANDIYOHI COUNTY
WILLMAR, 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>Human Services</u>	<u>Sanitary Landfill/ Recycling Center</u>
Revenues				
Taxes	\$ 13,561,724	\$ 3,606,305	\$ 5,069,705	\$ -
Special assessments	232,285	-	-	-
Licenses and permits	369,128	-	-	1,030
Intergovernmental	4,812,242	7,501,649	6,731,249	105,928
Charges for services	3,119,172	515,943	696,630	3,227,362
Fines and forfeits	122,475	-	-	-
Gifts and contributions	8,910	-	-	-
Investment earnings	238,977	110,427	-	344,638
Miscellaneous	1,805,923	31,709	197,056	865,113
Total Revenues	\$ 24,270,836	\$ 11,766,033	\$ 12,694,640	\$ 4,544,071
Expenditures				
Current				
General government	\$ 7,634,829	\$ -	\$ -	\$ -
Public safety	12,562,585	-	-	-
Highways and streets	-	10,753,805	-	-
Sanitation	-	-	-	3,050,941
Human services	-	-	14,528,856	-
Health	2,447,444	-	-	-
Culture and recreation	489,182	-	-	-
Conservation of natural resources	585,128	-	-	-
Economic development	36,481	-	-	-
Intergovernmental				
Highways and streets	-	328,931	-	-
Culture and recreation	-	-	-	-
Capital outlay				
Sanitation	-	-	-	-
Debt service				
Principal	151,576	405,000	-	265,000
Interest	31,339	149,066	-	6,228
Administrative (fiscal) charges	-	-	-	-
Total Expenditures	\$ 23,938,564	\$ 11,636,802	\$ 14,528,856	\$ 3,322,169
Excess of Revenues Over (Under) Expenditures	\$ 332,272	\$ 129,231	\$ (1,834,216)	\$ 1,221,902

EXHIBIT 5

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 318,096	\$ 1,618,110	\$ -	\$ 1,488,606	\$ 25,662,546
-	2,453,960	78,730	313,085	3,078,060
-	-	-	-	370,158
43,891	89,597	-	258,980	19,543,536
-	1,300,478	-	1,174,703	10,034,288
-	-	-	11,369	133,844
-	-	-	24	8,934
8,637	22,775	-	193,170	918,624
44,141	232,869	175,000	1,619,818	4,971,629
\$ 414,765	\$ 5,717,789	\$ 253,730	\$ 5,059,755	\$ 64,721,619
\$ 78,965	\$ -	\$ -	\$ 932,817	\$ 8,646,611
-	-	-	163,102	12,725,687
-	-	-	280,736	11,034,541
-	-	-	1,434,955	4,485,896
-	-	-	-	14,528,856
-	-	-	-	2,447,444
153,295	-	-	175,024	817,501
29,982	-	-	526,307	1,141,417
-	-	-	-	36,481
-	-	-	-	328,931
-	-	-	345,800	345,800
-	-	2,404,100	-	2,404,100
-	4,013,000	-	378,833	5,213,409
-	2,158,682	-	153,709	2,499,024
-	7,975	-	-	7,975
\$ 262,242	\$ 6,179,657	\$ 2,404,100	\$ 4,391,283	\$ 66,663,673
\$ 152,523	\$ (461,868)	\$ (2,150,370)	\$ 668,472	\$ (1,942,054)

**KANDIYOHI COUNTY
WILLMAR, 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>Human Services</u>	<u>Sanitary Landfill/ Recycling Center</u>
Other Financing Sources (Uses)				
Transfers in	\$ 316,900	\$ -	\$ -	\$ -
Transfers out	(503,565)	-	-	(316,900)
Loans issued	313,579	-	-	-
Total Other Financing Sources (Uses)	\$ 126,914	\$ -	\$ -	\$ (316,900)
Net Changes in Fund Balances	\$ 459,186	\$ 129,231	\$ (1,834,216)	\$ 905,002
Fund Balance - January 1	11,315,390	4,649,966	6,898,016	9,463,609
Increase (decrease) in inventories	-	(17,091)	-	-
Fund Balance - December 31	\$ 11,774,576	\$ 4,762,106	\$ 5,063,800	\$ 10,368,611

EXHIBIT 5
(Continued)

<u>County Building</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 1,353,340	\$ 1,134,527	\$ -	\$ 53,531	\$ 2,858,298
-	(53,531)	(1,353,340)	(630,962)	(2,858,298)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>313,579</u>
\$ 1,353,340	\$ 1,080,996	\$ (1,353,340)	\$ (577,431)	\$ 313,579
\$ 1,505,863	\$ 619,128	\$ (3,503,710)	\$ 91,041	\$ (1,628,475)
3,647,272	14,460,159	3,952,461	4,902,302	59,289,175
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,091)</u>
\$ 5,153,135	\$ 15,079,287	\$ 448,751	\$ 4,993,343	\$ 57,643,609

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,628,475)

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	\$ 21,575,392	
Deferred revenue - January 1	<u>(19,675,121)</u>	1,900,271

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

Expenditures for general capital assets and infrastructure	\$ 7,278,266	
Net book value of assets sold	(354,524)	
Current year depreciation	<u>(4,588,871)</u>	2,334,871

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

Debt issued		
Loans issued		(313,579)

Principal repayments		
General obligation bonds	\$ 2,910,000	
Special assessment bonds	555,000	
Capital leases	328,607	
Loans payable	<u>1,419,802</u>	5,213,409

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT 6
(Continued)**

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

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

Change in accrued interest payable	\$	94,482	
Current year amortization of premium on bonds issued		22,060	
Current year amortization of discount on bonds issued		(13,295)	
Current year amortization of deferred debt issuance costs		(28,034)	
Change in compensated absences		166,591	
Change in net other postemployment benefits		85,239	
Change in inventories		(17,091)	
Change in estimated liability for landfill closure/postclosure		(1,174,838)	(864,886)
Change in Net Assets of Governmental Activities (Exhibit 2)			<u><u>\$ 6,641,611</u></u>

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FIDUCIARY FUNDS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 7

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

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	\$ <u><u>1,450,311</u></u>
<u>Liabilities</u>	
Due to other governments	\$ <u><u>1,450,311</u></u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
COUNTY CEMETERY INVESTMENT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Total</u>
<u>Additions</u>	
Investment earnings	\$ 236
Miscellaneous	<u>275</u>
Total additions	\$ 511
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>30,628</u>
Change in net assets	\$ (30,117)
Net Assets - January 1	<u>30,117</u>
Net Assets - December 31	<u><u>\$ -</u></u>

**KANDIYOHI COUNTY
WILLMAR, 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) as of and for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Kandiyohi County was established March 20, 1858, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. Kandiyohi County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor/Treasurer, elected on a County-wide basis, serves as clerk of the Board but does not vote in its decisions.

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

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

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

Discretely Presented Component Unit

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

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

Joint Ventures

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

2. Fund Financial Statements

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

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

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

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

Fiduciary Funds

The County Cemetery Investment Trust Fund accounts for the collection and distribution of funds to the County Cemetery Association.

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

C. Measurement Focus and Basis of Accounting

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

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 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 \$58,893.

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

2. Receivables and Payables

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable. The taxes receivable allowance is equal to 1.5 percent of outstanding property taxes at year-end.

Special assessments receivable consist of delinquent special assessments payable in the years 2002 through 2011 and deferred special assessments payable in 2012 and after. All special assessments receivable are shown net of an allowance for uncollectible. The special assessments receivable allowance is equal to 1.5 percent of outstanding special assessments at year-end.

3. Inventories

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

4. Restricted Assets

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items) are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The purchase of computer software and most communications equipment are not capitalized due to their estimated lives of less than five years. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

6. Compensated Absences

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

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

9. Classification of Net Assets

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Net Assets (Continued)

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

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

10. Classification of Fund Balances

In 2011, Kandiyohi 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. Total fund balance did not change.

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

Nonspendable - amounts that cannot be spent because they are not in spendable form, such as fund balance associated with inventories, prepaids, long-term receivables and loans.

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Classification of Fund Balances (Continued)

Assigned - amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount of fund balance that is not restricted or committed.

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

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Special Revenue Fund

Fifty-nine of 110 drainage systems of the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balance as of December 31, 2011:

Account balances	\$ 353,555
Account deficits	<u>(767,113)</u>
Fund Balance	<u>\$ (413,558)</u>

Regional Treatment Center Special Revenue Fund

At December 31, 2011, the Regional Treatment Center Special Revenue Fund had a deficit fund balance of \$185,252. This deficit is expected to be eliminated through the collection of future lease payments and possible transfers from other County funds.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2011:

	Expenditures	Final Budget	Excess
General Fund	\$ 23,938,564	\$ 23,916,400	\$ 22,164
Special Revenue Funds			
Road and Bridge	11,636,802	11,144,000	492,802
Human Services	14,528,856	13,522,300	1,006,556
Capital Equipment	524,763	-	524,763
Green Lake Sewer	1,157,126	1,075,500	81,626

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and investments	\$ 51,433,046
Cash with escrow agent	4,052,214
Statement of fiduciary net assets	
Cash and investments	1,450,311
Total Cash and Investments	\$ 56,935,571

a. Deposits

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2011, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer.

The following table presents the County's deposit and investment balances at December 31, 2011, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Percent (%) of Portfolio	Maturity Date	
U.S. government securities					
Federal Farm Credit Bank	Aaa	Moody's	11.6%	08/17/2020	\$ 4,483,143
Federal Home Loan Bank	Aaa	Moody's		11/22/2017	\$ 599,916
Federal Home Loan Bank	Aaa	Moody's		12/22/2017	700,350
Federal Home Loan Bank	Aaa	Moody's		12/28/2018	1,499,430
Federal Home Loan Bank	Aaa	Moody's		12/27/2019	501,280
Federal Home Loan Bank	Aaa	Moody's		11/23/2021	801,888
Federal Home Loan Bank	Aaa	Moody's		11/10/2017	1,041,141
Total Federal Home Loan Bank			13.3%		\$ 5,144,005

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Percent (%) of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Federal National Mortgage Association	Aaa	Moody's		10/27/2021	\$ 854,582
Federal National Mortgage Association	Aaa	Moody's		09/30/2025	200,792
Federal National Mortgage Association	Aaa	N/A		10/01/2028	10,420
Federal National Mortgage Association	Aaa	N/A		12/01/2031	2,431
Federal National Mortgage Association	Aaa	Moody's		07/20/2021	599,748
Total Federal National Mortgage Association			4.3%		\$ 1,667,973
Federal Home Loan Mortgage Corporation	Aaa	Moody's		11/21/2019	\$ 1,601,728
Federal Home Loan Mortgage Corporation	Aaa	Moody's		12/29/2021	200,230
Federal Home Loan Mortgage Corporation	Aaa	Moody's		10/05/2018	500,140
Federal Home Loan Mortgage Corporation	Aaa	Moody's		11/09/2021	500,185
Federal Home Loan Mortgage Corporation	Aaa	Moody's		09/22/2025	3,161,869
Federal Home Loan Mortgage Corporation	Aaa	Moody's		12/22/2026	5,009,000
Total Federal Home Loan Mortgage Corporation			28.4%		\$ 10,973,152
State and Local Government Securities			10.5%		\$ 4,052,214
Total U.S. government securities					\$ 26,320,487
Investment pools					
MAGIC Fund	N/A	N/R	31.9%	N/A	\$ 12,268,924
Total investments					\$ 38,589,411
Checking					11,435,549
Savings					5,823,614
Money market					1,380
Certificates of deposit					1,032,472
Departmental cash					50,630
Petty cash					2,515
Total Cash and Investments					\$ 56,935,571

N/A - Not Applicable

N/R - Not Rated

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Funds		
Receivables		
Taxes	\$ 516,727	\$ -
Special assessments	18,502,834	16,557,766
Accounts	2,549,486	-
Accrued interest	100,570	-
Due from other governments	1,838,437	-
Loans	4,164,707	3,787,207
Long-term	200,665	181,998
Total receivables	\$ 27,873,426	\$ 20,526,971

Long-Term Receivable

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 5,279,535	\$ 269,876	\$ 8,284	\$ 5,541,127
Construction in progress	8,026,769	2,362,121	124,607	10,264,283
Total capital assets not depreciated	\$ 13,306,304	\$ 2,631,997	\$ 132,891	\$ 15,805,410
Capital assets depreciated				
Landfill	\$ 3,948,130	-	-	\$ 3,948,130
Buildings	44,837,349	80,000	107,413	44,809,936
Machinery, vehicles, furniture, and equipment	15,242,383	998,913	1,117,579	15,123,717
Infrastructure	118,520,360	3,415,214	-	121,935,574
Software	-	276,749	-	276,749
Total capital assets depreciated	\$ 182,548,222	\$ 4,770,876	\$ 1,224,992	\$ 186,094,106
Less: accumulated depreciation for				
Landfill	\$ 986,414	\$ 79,263	-	\$ 1,065,677
Buildings	10,221,614	978,681	50,055	11,150,240
Machinery, vehicles, furniture, and equipment	8,809,104	1,031,349	828,697	9,011,756
Infrastructure	20,407,951	2,458,066	-	22,866,017
Software	-	41,512	-	41,512
Total accumulated depreciation	\$ 40,425,083	\$ 4,588,871	\$ 878,752	\$ 44,135,202
Total capital assets depreciated, net	\$ 142,123,139	\$ 182,005	\$ 346,240	\$ 141,958,904
Governmental Activities Capital Assets, Net	\$ 155,429,443	\$ 2,814,002	\$ 479,131	\$ 157,764,314

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities	
General government	\$ 550,142
Public safety	815,040
Highways and streets, including depreciation of infrastructure assets	2,009,760
Sanitation	991,403
Human services	15,960
Health	2,090
Culture and recreation	17,163
Conservation of natural resources	187,313
	\$ 4,588,871
Total Depreciation Expense - Governmental Activities	\$ 4,588,871

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	
General	Road and Bridge	\$ 951	Payroll clearing account and payroll taxes and supplies provided
	Human Services	7,628	Charges for services rendered and supplies provided
	Sanitary Landfill	1,155	Charges for services rendered and supplies provided
	Other nonmajor	1,529	Charges for services rendered and supplies provided
Total due to General Fund		\$ 11,263	
Road and Bridge	General	\$ 50,644	Charges for services rendered
	Sanitary Landfill	5,061	Charges for services rendered
Total due to Road and Bridge Fund		\$ 55,705	
Sanitary Landfill	General	\$ 107	Landfill charges
	Other nonmajor	49	Landfill charges
Total due to Sanitary Landfill Fund		\$ 156	

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
County Building	Human Services	\$ 223	Charges for services rendered
Other nonmajor funds	Road and Bridge Capital Projects	53,138 <u>175,000</u>	Ditch special assessments and charges for services rendered Capitalized interest owed
Total due to other nonmajor funds		<u>\$ 228,138</u>	
Total Due To/From Other Funds		<u><u>\$ 295,485</u></u>	

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

2. Interfund Transfers

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

Transfer to General Fund from Sanitary Landfill Fund	<u>\$ 316,900</u>	Portion of fees charged to cover general operations
Transfers to Debt Service Fund from General Fund	\$ 503,565	Provide funds for debt service
Nonmajor funds	<u>630,962</u>	Provide funds for debt service
Total Debt Service Fund transfers	<u>\$ 1,134,527</u>	
Transfers to County Building Fund from Capital Projects Fund	<u>\$ 1,353,340</u>	Provide funds for operations
Transfers to nonmajor funds from Debt Service Fund	<u>\$ 53,531</u>	To correct expenditures for a septic loan on Green Lake
Total Interfund Transfers	<u><u>\$ 2,858,298</u></u>	

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2011, were as follows:

	Governmental Funds	Fiduciary Funds
Accounts	\$ 1,501,688	\$ -
Salaries	1,188,455	-
Contracts	287,484	-
Due to other governments	548,158	1,450,311
Total Payables	\$ 3,725,785	\$ 1,450,311

2. Other Postemployment Benefits - Retirees

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

As of year-end, the County had 21 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2011, the County expended \$101,304 for these benefits.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2004 Taxable G.O. Tax Abatement Bonds	2022	\$270,000 - \$540,000	3.125 - 5.30	\$ 6,135,000	\$ 4,675,000
2004 G.O. Law Enforcement Facility Refunding Bonds	2021	\$385,000 - \$1,340,000	3.375 - 4.15	7,045,000	5,840,000
2005 G.O. Road Reconstruction Bonds	2027	\$125,000 - \$270,000	3.75 - 4.25	3,700,000	3,170,000
2007 G.O. Law Enforcement Facility Refunding Bonds	2020	\$435,000 - \$695,000	4.00	7,100,000	5,295,000
2008 G.O. Capital Equipment Bonds	2016	\$40,000 - \$510,000	3.00 - 4.80	3,550,000	2,615,000
2009A Capital Improvement Bonds	2016	\$490,000 - \$615,000	2.00 - 3.00	4,010,000	2,965,000
2009B State Aid Highway Refunding Bonds	2014	\$265,000 - \$285,000	2.00 - 2.25	1,365,000	830,000
Total General Obligation Bonds				<u>\$ 32,905,000</u>	<u>\$ 25,390,000</u>
Special Assessment Bonds with Government Commitment					
2001B G.O. Sewer and Water Revenue Bonds	2022	\$30,000 - \$495,000	2.65 - 4.85	\$ 6,000,000	\$ 4,315,000
2002A Green Lake Sewer and Water Revenue Bonds	2023	\$15,000 - \$80,000	3.50 - 4.85	1,000,000	715,000
2008 G.O. Wastewater Revenue Bonds	2030	\$215,000 - \$425,000	3.00 - 4.80	6,100,000	5,885,000
2010A G.O. Sewer and Water Revenue Bonds	2032	\$225,000 - \$435,000	3.00 - 4.00	6,245,000	6,245,000
2010B G.O. Sewer and Water Revenue Refunding Bonds	2022	\$380,000 - \$480,000	1.10 - 3.45	4,220,000	4,220,000
Total Special Assessment Bonds with Government Commitment				<u>\$ 23,565,000</u>	<u>\$ 21,380,000</u>
Capital Leases with Government Commitment					
16-Bed Community Behavioral Health Hospital	2018	\$148,415 - \$227,959	4.57	<u>\$ 3,710,000</u>	<u>\$ 2,767,080</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
2000 Public Facilities Authority Clean Water G.O. Revenue Note	2020	\$6,397 - \$455,000	2.25	\$ 7,188,360	\$ 3,752,000
2001 Public Facilities Authority Clean Water G.O. Revenue Note	2021	\$3,344 - \$228,000	2.25	3,648,450	2,065,000
2002 Public Facilities Authority Clean Water G.O. Revenue Note	2021	\$567 - \$40,000	2.14	651,000	366,000
2006A Public Facilities Authority Clean Water G.O. Revenue Note	2026	\$178,876 - \$216,000	1.00	3,761,876	3,030,000
1999 Public Facilities Authority Drinking Water G.O. Revenue Note	2019	\$6,027 - \$313,000	3.54	4,446,000	2,223,000
2000 Public Facilities Authority Drinking Water G.O. Revenue Note	2019	\$3,054 - \$158,450	3.54	2,262,450	1,126,450
2001 Public Facilities Authority Drinking Water G.O. Revenue Note	2020	\$1,409 - \$70,000	3.54	1,012,260	551,000
2002 Public Facilities Authority Drinking Water G.O. Revenue Note	2021	\$333 - \$16,000	3.54	233,000	137,000
2006B Public Facilities Authority Wastewater Infrastructure G.O. Revenue Note	2032	\$9,124 - \$109,000	0.00	1,208,124	1,208,124
Hawk Creek Watershed Clean Water Partnership Project	2014	\$8,599	2.00	155,169	41,732
Hawk Creek Watershed Continuation Clean Water Partnership Project	2016	\$17,027	2.00	307,260	161,267
Shakopee Creek Headwaters Clean Water Partnership Project	2015	\$12,907	2.00	232,906	86,838
Hawk Creek Watershed Continuation Clean Water Partnership Project	2020	\$26,804	2.00	483,701	417,138
Shakopee Creek Headwaters Continuation Clean Water Partnership Project	2018	\$11,515	2.00	207,794	149,736
Crow River Basin Clean Water Partnership Project	2021	\$23,752	2.00	370,772	357,917
Shakopee Creek Headwaters Continuation Clean Water Partnership Project	2021	\$14,408	2.00	123,152	166,331
Hawk Creek Watershed Continuation Clean Water Partnership Project*	2023	\$18,154	2.00	215,584	215,584
Crow River Watershed - Reducing Surface Water Runoff Project*	-	-	2.00	103,625	103,625

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
Boiler Replacement Loan	2012	\$9,233	5.00	870,000	292,401
City of New London USDA Rural Development	2042	\$19,800 - \$97,000	4.375	1,884,800	1,704,000
Total Loans Payable				<u>\$ 29,366,283</u>	<u>\$ 18,155,143</u>

*The outstanding balance for these loans represents the amount received from the Minnesota Pollution Control Agency as of December 31, 2011. The County has not finished drawing down funds on these loans; therefore, final debt payment schedules are not available. The payment schedule below does not include the debt service requirements on these loans.

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 2,735,000	\$ 950,567	\$ 575,000	\$ 813,005
2013	2,815,000	857,457	1,200,000	784,738
2014	2,910,000	758,756	1,235,000	748,567
2015	2,725,000	655,988	1,270,000	708,867
2016	2,825,000	548,961	1,325,000	665,395
2017 - 2021	9,395,000	1,498,725	7,375,000	2,553,119
2022 - 2026	1,715,000	198,444	4,410,000	1,257,324
2027 - 2031	270,000	5,738	3,555,000	445,565
2032 - 2036	-	-	435,000	8,700
Total	<u>\$ 25,390,000</u>	<u>\$ 5,474,636</u>	<u>\$ 21,380,000</u>	<u>\$ 7,985,280</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Loans		Capital Leases	
	Principal	Interest	Principal	Interest
2012	\$ 1,728,407	\$ 414,439	\$ 343,792	\$ 122,541
2013	1,472,763	377,753	359,679	106,654
2014	1,500,995	340,865	376,300	90,033
2015	1,516,146	303,236	393,688	72,644
2016	1,541,490	265,442	411,881	54,452
2017 - 2021	6,432,009	748,821	881,740	50,925
2022 - 2026	1,284,000	314,337	-	-
2027 - 2031	1,370,000	228,457	-	-
2032 - 2036	464,124	161,753	-	-
2037 - 2041	429,000	79,144	-	-
2042 - 2046	97,000	4,244	-	-
Total	\$ 17,835,934	\$ 3,238,491	\$ 2,767,080	\$ 497,249

5. 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	\$ 28,300,000	\$ -	\$ 2,910,000	\$ 25,390,000	\$ 2,735,000
Special assessment debt with government commitment	21,935,000	-	555,000	21,380,000	575,000
Add: premium on bonds	164,746	-	22,060	142,686	-
Less: discount on bonds	(188,252)	-	(13,295)	(174,957)	-
Total bonds payable	\$ 50,211,494	\$ -	\$ 3,473,765	\$ 46,737,729	\$ 3,310,000
Capital lease	3,095,687	-	328,607	2,767,080	343,792
Loans payable	19,261,366	313,579	1,419,802	18,155,143	1,728,407
Estimated liability for landfill closure/postclosure	6,429,132	1,174,838	-	7,603,970	-
Compensated absences	4,204,561	391,228	557,819	4,037,970	60,080
Governmental Activities Long-Term Liabilities	\$ 83,202,240	\$ 1,879,645	\$ 5,779,993	\$ 79,301,892	\$ 5,442,279

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

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

General	\$	151,576
Road and Bridge		405,000
Sanitary Landfill/Recycling Center		265,000
Debt Service		4,013,000
Other governmental funds		378,833
		<hr/>
Total Debt Reductions	\$	<u>5,213,409</u>

6. Crossover Refunding

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

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Kandiyohi County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (the Public Employees 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.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

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

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

Fire Fund members are required to contribute 9.60 percent. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 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	\$ 1,135,701	\$ 1,122,542	\$ 1,071,007
Public Employees Police and Fire Fund	334,551	330,701	320,650
Public Employees Correctional Fund	190,790	198,712	194,191

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

B. Other Postemployment Benefits (OPEB)

Plan Description

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

The contribution requirements of the plan members and the County are established and may be amended by the Kandiyohi County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Early retirees (under age 65) contribute to the health care plan at the same rate as active employees. This results in the early retirees receiving an implicit rate subsidy. For fiscal year 2011, the County contributed \$244,420 to the plan; there were 428 participants in the plan.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	158,359
Interest on net OPEB obligation		(2,185)
Adjustments to ARC		3,007
		3,007
Annual OPEB cost (expense)	\$	159,181
Contributions made		(244,420)
		(244,420)
Increase (Decrease) in net OPEB obligation	\$	(85,239)
Net OPEB Obligation/(Asset) - Beginning of Year		(48,561)
		(48,561)
Net OPEB Obligation/(Asset) - End of Year	\$	(133,800)
		(133,800)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the preceding two years was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
December 31, 2009	\$ 132,956	\$ 160,526	120.7%	\$ (59,208)
December 31, 2010	159,282	148,635	93.3	(48,561)
December 31, 2011	159,181	244,420	153.5	(133,800)

Funded Status and Funding Progress

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of administrative expenses), which is Kandiyohi County's implicit rate of return on the General Fund, and an annual health care cost trend cost of 8.5 percent initially, reduced by decrements to an ultimate rate of five percent after seven years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets is set equal to the market value of assets. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.

5. Summary of Significant Contingencies and Other Items

A. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although the majority of the closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each year-end. The County estimated the cost of closure and postclosure care to be \$7,603,970 with no remaining capacity to be filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Landfill Closure and Postclosure Care Costs (Continued)

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2011, cash and investments of \$5,719,569 are held for these purposes. The County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

B. Risk Management

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

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

The Property and Casualty Division of MCIT is self-sustaining, and the County pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Risk Management (Continued)

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

The County contributed \$34 per month for each participating employee in 2011. The County deposits the County contributions and employee deductions with the administrator. Any claims paid by the administrator in excess of the deposits are billed to the County. The County also pays an administrative charge for the services rendered by the administrator. Financial transactions relating to the self-insurance plan are recorded in the General Fund.

The County has not had an actuarial study of the self-insurance dental plan; it has concluded that the risk of any major losses covered by self-insurance under this plan is covered by the general taxing powers of the County. There were no accrued benefits at December 31, 2011 and 2010. The following discloses the claims activity during fiscal years 2011 and 2010.

	Year Ended December 31	
	2011	2010
Beginning liability	\$ -	\$ -
Current year claims	237,612	254,224
Claim payments	(237,612)	(254,224)
End-of-Year Liability	\$ -	\$ -

C. Contingent Liabilities

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Contingent Liabilities (Continued)

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

D. Joint Ventures

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

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

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

At December 31, 2010 (the most recent information available), the Youth Program had long-term debt of \$392,771. This debt consisted of \$173,438 related to compensated absences and \$219,333 for a contract for deed. Financing is provided by charges for services to member and nonmember counties.

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Minnesota River Board

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

The County is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project. In the event of termination of the agreement, all property, real and personal, held by the Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

Control is vested in an Executive Board of five officers elected from the membership of the Board, consisting of one representative and alternate from each County Board of Commissioners included in this agreement.

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

Southwestern Minnesota Adult Mental Health Consortium

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by Lincoln, Lyon, & Murray Human Services, creating and operating the Southwestern Minnesota Adult Mental Health Consortium under the authority of Minn. Stat. § 471.59. The Consortium is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Consortium shall take actions and enter into such agreements as may be necessary to plan and develop within the Consortium's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium (Continued)

Board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Consortium's annual financial report for the year ended December 31, 2009 (the most recent information available):

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

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

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

Crow River Watershed

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Central Minnesota Regional Radio Board

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

E. Jointly-Governed Organizations

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

Coordinated Enforcement Effort (CEE) VI Task Force

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Regional Library

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

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

Putting All Communities Together (PACT) 4 Families Collaborative

PACT 4 was established in 1996 by a joint powers agreement among Kandiyohi, Meeker, Renville, and Yellow Medicine Counties. The agreement was established to provide coordinated services to children and families.

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

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

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

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

F. Subsequent Event

The Board of County Commissioners, in its meeting on March 6, 2012, approved the issuance of \$3,110,000 of General Obligation Sewer and Water Revenue Refunding Bonds, Series 2012A.

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies

The HRA is reporting as of and for the year ended June 30, 2011.

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

B. Capital Assets

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

C. Bond Issuance Costs

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

D. Deposits and Investments

The HRA's cash and investments as of June 30, 2011, are summarized as follows:

Unrestricted	
Cash on deposit	\$ 483,390
Investments (certificates of deposit)	476,904
Restricted	
Cash on deposit	<u>95,152</u>
Total	<u>\$ 1,055,446</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

D. Deposits and Investments (Continued)

In accordance with Minnesota statutes, the HRA maintains deposits at depository banks authorized by the Board. The carrying amount of the HRA's deposits with financial institutions was \$1,055,446 as of June 30, 2011; the bank balance was \$1,063,527. Of the bank balance, \$18,282 was not covered by qualified collateral held in safekeeping.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral, and that securities pledged as collateral be legal instruments and be held in safekeeping by the HRA Treasurer or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was not in compliance with these Minnesota statutes at June 30, 2011.

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

D. Deposits and Investments (Continued)

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

E. Receivables

Receivables for the HRA at June 30, 2011, were as follows:

Accounts	\$	9,339
Rent		3,993
Taxes		63,558
Notes		278,270
		278,270
Total Receivables	\$	355,160

F. Capital Assets

The HRA's capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 58,916	\$ -	\$ -	\$ 58,916
Landscaping	23,443	-	-	23,443
	\$ 82,359	\$ -	\$ -	\$ 82,359
Capital assets depreciated				
Buildings	\$ 1,331,468	\$ -	\$ -	\$ 1,331,468
Carpeting	48,615	-	-	48,615
Machinery, furniture, and equipment	48,362	-	-	48,362
	\$ 1,428,445	\$ -	\$ -	\$ 1,428,445
Less: accumulated depreciation	451,667	37,413	-	489,080
	\$ 976,778	\$ (37,413)	\$ -	\$ 939,365
Total Capital Assets, Net	\$ 1,059,137	\$ (37,413)	\$ -	\$ 1,021,724

Depreciation expense of \$37,413 was charged to housing and redevelopment expense.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

G. Payables

Payables for the HRA at June 30, 2011, were as follows:

Accounts	\$ 9,771
Accrued payroll and payroll taxes	33,335
Other accrued liabilities	8,700
Total	\$ 51,806

H. Property Taxes

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

I. Long-Term Debt

Long-term debt outstanding at June 30, 2011, for the HRA consists of the following:

Type of Indebtedness	Final Maturity	Interest Rate (%)	Original Issue Amount	Remaining Commitment
Essential Function Housing Development Bond of 1997	2031	5.00 - 8.75	\$ 1,530,000	\$ 1,227,986
MHFA	2036	n/a	348,561	341,906
Total			\$ 1,878,561	\$ 1,569,892

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

I. Long-Term Debt (Continued)

The estimated debt service requirements as of June 30, 2011, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 41,462	\$ 55,789	\$ 97,251
2013	43,454	53,798	97,252
2014	45,540	51,711	97,251
2015	47,728	49,524	97,252
2016	50,020	47,231	97,251
2017 - 2021	288,524	197,733	486,257
2022 - 2026	364,789	121,468	486,257
2027 - 2031	346,469	29,135	375,604
Thereafter	341,906	-	341,906
Total	<u>\$ 1,569,892</u>	<u>\$ 606,389</u>	<u>\$ 2,176,281</u>

J. Lease Agreement

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

Under the shared services agreement with the Willmar HRA, the City of Willmar, Minnesota, Kandiyohi HRA will pay 44 percent, and Willmar HRA will pay 56 percent of the aforementioned lease agreement in addition to other cost-shared services. Total HRA rental expense for the year ended June 30, 2011, totaled \$20,720

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

<u>Year Ending</u>	<u>Amount</u>
2012	\$ 21,204
2013	7,068
Total	<u>\$ 28,272</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

K. Risk Management

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

L. Contingencies

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

REQUIRED SUPPLEMENTARY INFORMATION

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 13,323,225	\$ 13,323,225	\$ 13,561,724	\$ 238,499
Special assessments	350,151	350,151	232,285	(117,866)
Licenses and permits	417,257	417,257	369,128	(48,129)
Intergovernmental	4,790,532	4,790,532	4,812,242	21,710
Charges for services	4,228,248	4,228,248	3,119,172	(1,109,076)
Fines and forfeits	145,694	145,694	122,475	(23,219)
Gifts and contributions	12,112	12,112	8,910	(3,202)
Investment earnings	320,500	320,500	238,977	(81,523)
Miscellaneous	2,107,764	2,107,764	1,805,923	(301,841)
Total Revenues	\$ 25,695,483	\$ 25,695,483	\$ 24,270,836	\$ (1,424,647)
Expenditures				
Current				
General government				
Board of County Commissioners	\$ 374,000	\$ 374,000	\$ 325,142	\$ 48,858
Court system	35,000	35,000	42,654	(7,654)
Law library	82,000	82,000	77,628	4,372
County administrator	220,600	220,600	87,038	133,562
Auditor	693,500	693,500	604,380	89,120
License bureau	340,900	340,900	338,679	2,221
External audit	55,000	55,000	95,677	(40,677)
Assessor	466,000	466,000	388,031	77,969
Human resources	140,800	140,800	166,506	(25,706)
Data processing	733,100	733,100	561,552	171,548
Communications	-	-	360	(360)
Computer maintenance	-	-	31,112	(31,112)
GIS services	100,000	100,000	197,201	(97,201)
Elections	2,000	2,000	5,215	(3,215)
County attorney	1,140,500	1,140,500	1,113,318	27,182
County attorney's contingent	-	-	1,840	(1,840)
Recorder	432,400	432,400	404,611	27,789
County Recorder's technology fund	-	-	7,645	(7,645)
Records management	65,300	65,300	62,745	2,555
Surveyor	60,200	60,200	59,133	1,067
Grounds maintenance building	33,000	33,000	20,740	12,260
Prairie Lakes Youth building	79,800	79,800	60,464	19,336
Courthouse	416,400	416,400	408,807	7,593
County office building	62,700	62,700	49,216	13,484
Veterans service	162,000	162,000	172,081	(10,081)
Planning and zoning	284,918	284,918	753,009	(468,091)
Other general government	906,400	906,400	1,600,045	(693,645)
Total general government	\$ 6,886,518	\$ 6,886,518	\$ 7,634,829	\$ (748,311)

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 4,164,100	\$ 4,164,100	\$ 3,890,001	\$ 274,099
Safe and sober grant	46,000	46,000	11,775	34,225
BJA local law enforcement block grant	-	-	12,358	(12,358)
Snowmobile patrol	4,800	4,800	3,100	1,700
800 MHZ (ARMOR) radio system	-	-	373,333	(373,333)
Dispatch center	1,330,400	1,330,400	1,232,136	98,264
Boat and water safety enforcement	49,900	49,900	35,542	14,358
ATV	-	-	4,274	(4,274)
Coroner	49,000	49,000	74,254	(25,254)
County jail	4,195,000	4,195,000	3,772,284	422,716
Community corrections	2,245,100	2,245,100	2,116,035	129,065
Civil defense	215,700	215,700	232,086	(16,386)
Rescue squad	171,200	171,200	70,506	100,694
911 emergency telephone	-	-	87,244	(87,244)
Correctional facility building	694,900	694,900	619,057	75,843
Shelter house	28,600	28,600	28,600	-
Total public safety	\$ 13,194,700	\$ 13,194,700	\$ 12,562,585	\$ 632,115
Health				
Public health service	\$ 2,507,600	\$ 2,507,600	\$ 2,447,444	\$ 60,156
Culture and recreation				
Celebrations	\$ 1,000	\$ 1,000	\$ 400	\$ 600
Humane Society of Kandiyohi County	36,000	36,000	-	36,000
Historical Society	54,000	54,000	54,000	-
County fair	18,000	18,000	18,000	-
County parks	307,200	307,200	356,933	(49,733)
Snowmobile trails	-	-	59,849	(59,849)
Total culture and recreation	\$ 416,200	\$ 416,200	\$ 489,182	\$ (72,982)
Conservation of natural resources				
County extension	\$ 178,400	\$ 178,400	\$ 157,741	\$ 20,659
County extension - reimbursement programs	4,000	4,000	1,560	2,440
Soil and Water Conservation District	128,600	128,600	128,600	-
Extension programs	-	-	271	(271)
County extension youth programs	2,000	2,000	967	1,033
Public drainage	86,500	86,500	4,641	81,859
Prairie Woods Environmental Learning Center	119,200	119,200	168,690	(49,490)

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current				
Conservation of natural resources (Continued)				
Shorelands management project	6,400	6,400	6,384	16
Water planning	54,700	54,700	39,500	15,200
Feedlot program	54,400	54,400	58,938	(4,538)
Lakes	62,700	62,700	17,836	44,864
Total conservation of natural resources	\$ 696,900	\$ 696,900	\$ 585,128	\$ 111,772
Economic development				
Tourism and economic development	\$ 12,000	\$ 12,000	\$ 8,481	\$ 3,519
Region 6E Community Action Agency	28,000	28,000	28,000	-
Total economic development	\$ 40,000	\$ 40,000	\$ 36,481	\$ 3,519
Debt service				
Principal	\$ 151,576	\$ 151,576	\$ 151,576	\$ -
Interest	22,906	22,906	31,339	(8,433)
Total debt service	\$ 174,482	\$ 174,482	\$ 182,915	\$ (8,433)
Total Expenditures	\$ 23,916,400	\$ 23,916,400	\$ 23,938,564	\$ (22,164)
Excess of Revenues Over (Under) Expenditures	\$ 1,779,083	\$ 1,779,083	\$ 332,272	\$ (1,446,811)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 316,900	\$ 316,900
Transfers out	-	-	(503,565)	(503,565)
Loans issued	-	-	313,579	313,579
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 126,914	\$ 126,914
Net Change in Fund Balance	\$ 1,779,083	\$ 1,779,083	\$ 459,186	\$ (1,319,897)
Fund Balance - January 1	11,315,390	11,315,390	11,315,390	-
Fund Balance - December 31	\$ 13,094,473	\$ 13,094,473	\$ 11,774,576	\$ (1,319,897)

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

**KANDIYOHI COUNTY
WILLMAR, 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	\$ 3,657,365	\$ 3,657,365	\$ 3,606,305	\$ (51,060)
Intergovernmental	6,408,635	6,408,635	7,501,649	1,093,014
Charges for services	1,000,000	1,000,000	515,943	(484,057)
Investment earnings	78,000	78,000	110,427	32,427
Miscellaneous	-	-	31,709	31,709
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 11,144,000	\$ 11,144,000	\$ 11,766,033	\$ 622,033
Expenditures				
Current				
Highways and streets				
Administration	\$ -	\$ -	\$ 701,479	\$ (701,479)
Road and bridge	3,625,000	3,625,000	2,424,382	1,200,618
Construction	6,180,000	6,180,000	6,771,565	(591,565)
Equipment maintenance shop	1,050,000	1,050,000	856,379	193,621
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total highways and streets	\$ 10,855,000	\$ 10,855,000	\$ 10,753,805	\$ 101,195
Intergovernmental				
Highways and streets	-	-	328,931	(328,931)
Debt service				
Principal	269,000	269,000	405,000	(136,000)
Interest	20,000	20,000	149,066	(129,066)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 11,144,000	\$ 11,144,000	\$ 11,636,802	\$ (492,802)
Net Change in Fund Balance	\$ -	\$ -	\$ 129,231	\$ 129,231
Fund Balance - January 1	4,649,966	4,649,966	4,649,966	-
Increase (decrease) in inventories	-	-	(17,091)	(17,091)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 4,649,966	\$ 4,649,966	\$ 4,762,106	\$ 112,140

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,213,486	\$ 5,213,486	\$ 5,069,705	\$ (143,781)
Intergovernmental	7,350,914	7,350,914	6,731,249	(619,665)
Charges for services	774,200	774,200	696,630	(77,570)
Miscellaneous	183,700	183,700	197,056	13,356
Total Revenues	<u>\$ 13,522,300</u>	<u>\$ 13,522,300</u>	<u>\$ 12,694,640</u>	<u>\$ (827,660)</u>
Expenditures				
Current				
Human services				
Income maintenance	\$ 3,612,800	\$ 3,612,800	\$ 3,623,545	\$ (10,745)
Social services	9,909,500	9,909,500	10,905,311	(995,811)
Total Expenditures	<u>\$ 13,522,300</u>	<u>\$ 13,522,300</u>	<u>\$ 14,528,856</u>	<u>\$ (1,006,556)</u>
Net Change in Fund Balance	\$ -	\$ -	\$ (1,834,216)	\$ (1,834,216)
Fund Balance - January 1	<u>6,898,016</u>	<u>6,898,016</u>	<u>6,898,016</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 6,898,016</u></u>	<u><u>\$ 6,898,016</u></u>	<u><u>\$ 5,063,800</u></u>	<u><u>\$ (1,834,216)</u></u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
SANITARY LANDFILL/RECYCLING CENTER 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				
Licenses and permits	\$ 700	\$ 700	\$ 1,030	\$ 330
Intergovernmental	103,900	103,900	105,928	2,028
Charges for services	2,752,000	2,752,000	3,227,362	475,362
Investment earnings	90,000	90,000	344,638	254,638
Miscellaneous	546,000	546,000	865,113	319,113
Total Revenues	\$ 3,492,600	\$ 3,492,600	\$ 4,544,071	\$ 1,051,471
Expenditures				
Current				
Sanitation				
Solid waste	\$ 4,404,472	\$ 4,404,472	\$ 3,050,941	\$ 1,353,531
Debt service				
Principal	265,000	265,000	265,000	-
Interest	6,228	6,228	6,228	-
Total Expenditures	\$ 4,675,700	\$ 4,675,700	\$ 3,322,169	\$ 1,353,531
Excess of Revenues Over (Under) Expenditures	\$ (1,183,100)	\$ (1,183,100)	\$ 1,221,902	\$ 2,405,002
Other Financing Sources (Uses)				
Transfers out	-	-	(316,900)	(316,900)
Net Change in Fund Balance	\$ (1,183,100)	\$ (1,183,100)	\$ 905,002	\$ 2,088,102
Fund Balance - January 1	9,463,609	9,463,609	9,463,609	-
Fund Balance - December 31	\$ 8,280,509	\$ 8,280,509	\$ 10,368,611	\$ 2,088,102

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-5

**BUDGETARY COMPARISON SCHEDULE
COUNTY BUILDING 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	\$ 315,261	\$ 315,261	\$ 318,096	\$ 2,835
Intergovernmental	44,934	44,934	43,891	(1,043)
Investment earnings	-	-	8,637	8,637
Miscellaneous	-	-	44,141	44,141
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 360,195	\$ 360,195	\$ 414,765	\$ 54,570
Expenditures				
Current				
General government	\$ 142,000	\$ 142,000	\$ 78,965	\$ 63,035
Public safety	10,000	10,000	-	10,000
Culture and recreation	179,000	179,000	153,295	25,705
Conservation of natural resources	29,000	29,000	29,982	(982)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 360,000	\$ 360,000	\$ 262,242	\$ 97,758
Excess of Revenues Over (Under) Expenditures	\$ 195	\$ 195	\$ 152,523	\$ 152,328
Other Financing Sources (Uses)				
Transfers in	-	-	1,353,340	1,353,340
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ 195	\$ 195	\$ 1,505,863	\$ 1,505,668
Fund Balance - January 1	3,647,272	3,647,272	3,647,272	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 3,647,467	\$ 3,647,467	\$ 5,153,135	\$ 1,505,668
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT A-6

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
January 1, 2008	\$ -	\$ 1,343,799	\$ 1,343,799	0.00%	\$ 19,339,847	6.9%
January 1, 2010	-	1,753,622	1,753,622	0.00	20,734,186	8.5

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

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

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

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

2. Excess of Expenditures Over Budget

The following is a summary of individual major funds that had expenditures in excess of budget for the year ended December 31, 2011:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 23,938,564	\$ 23,916,400	\$ 22,164
Special Revenue Fund			
Road and Bridge	11,636,802	11,144,000	492,802
Human Services	14,528,856	13,522,300	1,006,556

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Other Postemployment Benefits Funding Status

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

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

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	<u>Capital Equipment</u>	<u>Ditch</u>	<u>Eagle Lake Sewer</u>	<u>Green Lake Sewer</u>
<u>Assets</u>				
Cash and investments	\$ 3,271,069	\$ -	\$ 273,753	\$ 1,508,817
Taxes receivable				
Prior	11,616	-	-	-
Special assessments receivable				
Prior	-	1,137	-	-
Noncurrent	-	737,616	-	-
Accounts receivable	-	1,889	236,680	199,005
Accrued interest receivable	5,384	596	727	-
Due from other funds	-	30,635	-	-
Due from other governments	-	146,227	-	50,476
Total Assets	\$ 3,288,069	\$ 918,100	\$ 511,160	\$ 1,758,298
<u>Liabilities and Fund Balances</u>				
Liabilities				
Cash overdraft	\$ -	\$ 333,090	\$ -	\$ -
Accounts payable	-	57,625	18	32,097
Salaries payable	-	-	198	19,398
Contracts payable	-	62,620	-	-
Due to other funds	-	-	-	264
Due to other governments	-	-	16	5,044
Deferred revenue - unavailable	14,430	878,323	237,143	186,128
Total Liabilities	\$ 14,430	\$ 1,331,658	\$ 237,375	\$ 242,931
Fund Balances				
Restricted for				
Ditch maintenance and repairs	\$ -	\$ 353,555	\$ -	\$ -
Committed to				
Purchases of capital equipment	3,273,639	-	-	-
Eagle Lake Sewer	-	-	273,785	-
Green Lake Sewer	-	-	-	1,515,367
Library operations and building maintenance	-	-	-	-
DARE program	-	-	-	-
Health and human services	-	-	-	-
Building operations and maintenance	-	-	-	-
Unassigned	-	(767,113)	-	-
Total Fund Balances	\$ 3,273,639	\$ (413,558)	\$ 273,785	\$ 1,515,367
Total Liabilities and Fund Balances	\$ 3,288,069	\$ 918,100	\$ 511,160	\$ 1,758,298

EXHIBIT B-1

<u>County Library</u>	<u>DARE</u>	<u>Health and Human Services Building</u>	<u>Forfeited Tax Sale</u>	<u>Regional Treatment Center</u>	<u>Total</u>
\$ 231,524	\$ 20,409	\$ 310,423	\$ 8,210	\$ -	\$ 5,624,205
7,052	-	10,611	-	-	29,279
-	-	-	-	-	1,137
-	-	-	-	-	737,616
-	-	35	667	-	438,276
-	-	-	-	-	6,707
-	-	22,503	-	175,000	228,138
-	270	2,355	-	-	199,328
\$ 238,576	\$ 20,679	\$ 345,927	\$ 8,877	\$ 175,000	\$ 7,264,686
\$ -	\$ -	\$ -	\$ -	\$ 344,257	\$ 677,347
2,854	-	6,516	-	7,025	106,135
3,748	-	15,425	-	7,663	46,432
-	-	-	-	-	62,620
1,000	-	223	-	91	1,578
7,676	-	25,145	8,877	1,216	47,974
5,408	-	7,825	-	-	1,329,257
\$ 20,686	\$ -	\$ 55,134	\$ 8,877	\$ 360,252	\$ 2,271,343
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 353,555
-	-	-	-	-	3,273,639
-	-	-	-	-	273,785
-	-	-	-	-	1,515,367
217,890	-	-	-	-	217,890
-	20,679	-	-	-	20,679
-	-	290,793	-	-	290,793
-	-	-	-	(185,252)	(952,365)
\$ 217,890	\$ 20,679	\$ 290,793	\$ -	\$ (185,252)	\$ 4,993,343
\$ 238,576	\$ 20,679	\$ 345,927	\$ 8,877	\$ 175,000	\$ 7,264,686

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	<u>Capital Equipment</u>	<u>Ditch</u>	<u>Eagle Lake Sewer</u>	<u>Green Lake Sewer</u>
Revenues				
Taxes	\$ 526,031	\$ -	\$ -	\$ -
Special assessments	-	311,085	2,000	-
Intergovernmental	60,566	-	-	-
Charges for services	-	-	214,321	960,382
Fines and forfeits	-	-	-	-
Gifts and contributions	-	-	-	-
Investment earnings	189,148	1,210	2,812	-
Miscellaneous	-	10,103	-	164,540
Total Revenues	\$ 775,745	\$ 322,398	\$ 219,133	\$ 1,124,922
Expenditures				
Current				
General government	\$ 90,483	\$ -	\$ -	\$ -
Public safety	153,544	-	-	-
Highways and streets	280,736	-	-	-
Sanitation	-	-	277,829	1,157,126
Culture and recreation	-	-	-	-
Conservation of natural resources	-	526,307	-	-
Intergovernmental				
Culture and recreation	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	\$ 524,763	\$ 526,307	\$ 277,829	\$ 1,157,126
Excess of Revenues Over (Under)				
Expenditures	\$ 250,982	\$ (203,909)	\$ (58,696)	\$ (32,204)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ -	\$ 53,531
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ 53,531
Net Change in Fund Balance	\$ 250,982	\$ (203,909)	\$ (58,696)	\$ 21,327
Fund Balance - January 1	3,022,657	(209,649)	332,481	1,494,040
Fund Balance - December 31	\$ 3,273,639	\$ (413,558)	\$ 273,785	\$ 1,515,367

EXHIBIT B-2

<u>County Library</u>	<u>DARE</u>	<u>Health and Human Services Building</u>	<u>Forfeited Tax Sale</u>	<u>Regional Treatment Center</u>	<u>Total</u>
\$ 358,658	\$ -	\$ 603,917	\$ -	\$ -	\$ 1,488,606
-	-	-	-	-	313,085
128,586	-	69,828	-	-	258,980
-	-	-	-	-	1,174,703
-	11,369	-	-	-	11,369
-	24	-	-	-	24
-	-	-	-	-	193,170
33,060	-	552,444	13,777	845,894	1,619,818
\$ 520,304	\$ 11,393	\$ 1,226,189	\$ 13,777	\$ 845,894	\$ 5,059,755
\$ -	\$ -	\$ 549,225	\$ 13,777	\$ 279,332	\$ 932,817
-	9,558	-	-	-	163,102
-	-	-	-	-	280,736
-	-	-	-	-	1,434,955
175,024	-	-	-	-	175,024
-	-	-	-	-	526,307
345,800	-	-	-	-	345,800
-	-	-	-	378,833	378,833
-	-	-	-	153,709	153,709
\$ 520,824	\$ 9,558	\$ 549,225	\$ 13,777	\$ 811,874	\$ 4,391,283
\$ (520)	\$ 1,835	\$ 676,964	\$ -	\$ 34,020	\$ 668,472
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,531
-	-	(630,962)	-	-	(630,962)
\$ -	\$ -	\$ (630,962)	\$ -	\$ -	\$ (577,431)
\$ (520)	\$ 1,835	\$ 46,002	\$ -	\$ 34,020	\$ 91,041
218,410	18,844	244,791	-	(219,272)	4,902,302
\$ 217,890	\$ 20,679	\$ 290,793	\$ -	\$ (185,252)	\$ 4,993,343

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
CAPITAL EQUIPMENT 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	\$ 525,290	\$ 525,290	\$ 526,031	\$ 741
Intergovernmental	74,879	74,879	60,566	(14,313)
Investment earnings	-	-	189,148	189,148
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 600,169	\$ 600,169	\$ 775,745	\$ 175,576
Expenditures				
Current				
General government	\$ -	\$ -	\$ 90,483	\$ (90,483)
Public safety	-	-	153,544	(153,544)
Highways and streets	-	-	280,736	(280,736)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ -	\$ -	\$ 524,763	\$ (524,763)
Net Change in Fund Balance	\$ 600,169	\$ 600,169	\$ 250,982	\$ (349,187)
Fund Balance - January 1	3,022,657	3,022,657	3,022,657	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 3,622,826	\$ 3,622,826	\$ 3,273,639	\$ (349,187)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
GREEN LAKE SEWER SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 1,031,315	\$ 1,031,315	\$ 960,382	\$ (70,933)
Miscellaneous	124,400	124,400	164,540	40,140
Total Revenues	\$ 1,155,715	\$ 1,155,715	\$ 1,124,922	\$ (30,793)
Expenditures				
Current				
Sanitation	1,075,500	1,075,500	1,157,126	(81,626)
Excess of Revenues Over (Under) Expenditures	\$ 80,215	\$ 80,215	\$ (32,204)	\$ (112,419)
Other Financing Sources (Uses)				
Transfers in	-	-	53,531	53,531
Net Change in Fund Balance	\$ 80,215	\$ 80,215	\$ 21,327	\$ (58,888)
Fund Balance - January 1	1,494,040	1,494,040	1,494,040	-
Fund Balance - December 31	\$ 1,574,255	\$ 1,574,255	\$ 1,515,367	\$ (58,888)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-5

**BUDGETARY COMPARISON SCHEDULE
COUNTY LIBRARY 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	\$ 359,082	\$ 359,082	\$ 358,658	\$ (424)
Intergovernmental	114,720	114,720	128,586	13,866
Miscellaneous	32,100	32,100	33,060	960
Total Revenues	\$ 505,902	\$ 505,902	\$ 520,304	\$ 14,402
Expenditures				
Current				
Culture and recreation	\$ 186,800	\$ 186,800	\$ 175,024	\$ 11,776
Intergovernmental				
Culture and recreation	345,800	345,800	345,800	-
Total Expenditures	\$ 532,600	\$ 532,600	\$ 520,824	\$ 11,776
Net Change in Fund Balance	\$ (26,698)	\$ (26,698)	\$ (520)	\$ 26,178
Fund Balance - January 1	218,410	218,410	218,410	-
Fund Balance - December 31	\$ 191,712	\$ 191,712	\$ 217,890	\$ 26,178

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
HEALTH AND HUMAN SERVICES BUILDING 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	\$ 605,449	\$ 605,449	\$ 603,917	\$ (1,532)
Intergovernmental	86,328	86,328	69,828	(16,500)
Miscellaneous	590,000	590,000	552,444	(37,556)
Total Revenues	\$ 1,281,777	\$ 1,281,777	\$ 1,226,189	\$ (55,588)
Expenditures				
Current				
General government	1,281,900	1,281,900	549,225	732,675
Excess of Revenues Over (Under) Expenditures	\$ (123)	\$ (123)	\$ 676,964	\$ 677,087
Other Financing Sources (Uses)				
Transfers out	-	-	(630,962)	(630,962)
Net Change in Fund Balance	\$ (123)	\$ (123)	\$ 46,002	\$ 46,125
Fund Balance - January 1	244,791	244,791	244,791	-
Fund Balance - December 31	\$ 244,668	\$ 244,668	\$ 290,793	\$ 46,125

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>CURRENT SCHOOL</u>				
<u>Assets</u>				
Cash and investments	\$ <u> -</u>	\$ <u> 13,277,014</u>	\$ <u> 13,277,014</u>	\$ <u> -</u>
<u>Liabilities</u>				
Due to other governments	\$ <u> -</u>	\$ <u> 13,277,014</u>	\$ <u> 13,277,014</u>	\$ <u> -</u>
 <u>DEED TAX</u>				
<u>Assets</u>				
Cash and investments	\$ <u> 63,804</u>	\$ <u> 448,650</u>	\$ <u> 453,811</u>	\$ <u> 58,643</u>
<u>Liabilities</u>				
Due to other governments	\$ <u> 63,804</u>	\$ <u> 448,650</u>	\$ <u> 453,811</u>	\$ <u> 58,643</u>
 <u>GAME AND FISH</u>				
<u>Assets</u>				
Cash and investments	\$ <u> 3,147</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 3,147</u>
<u>Liabilities</u>				
Due to other governments	\$ <u> 3,147</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 3,147</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>MORTGAGE REGISTRY TAX</u>				
<u>Assets</u>				
Cash and investments	<u>\$ 68,354</u>	<u>\$ 549,545</u>	<u>\$ 554,951</u>	<u>\$ 62,948</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 68,354</u>	<u>\$ 549,545</u>	<u>\$ 554,951</u>	<u>\$ 62,948</u>
 <u>WATERSHED DISTRICT</u>				
<u>Assets</u>				
Cash and investments	<u>\$ -</u>	<u>\$ 236,635</u>	<u>\$ 236,635</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 236,635</u>	<u>\$ 236,635</u>	<u>\$ -</u>
 <u>COUNTY-WIDE LEVY</u>				
<u>Assets</u>				
Cash and investments	<u>\$ -</u>	<u>\$ 647,119</u>	<u>\$ 647,119</u>	<u>\$ -</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ -</u>	<u>\$ 647,119</u>	<u>\$ 647,119</u>	<u>\$ -</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE AGENCY</u>				
<u>Assets</u>				
Cash and investments	\$ <u>108,627</u>	\$ <u>22,333,665</u>	\$ <u>22,325,165</u>	\$ <u>117,127</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>108,627</u>	\$ <u>22,333,665</u>	\$ <u>22,325,165</u>	\$ <u>117,127</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and investments	\$ <u>852,800</u>	\$ <u>62,230,869</u>	\$ <u>62,379,046</u>	\$ <u>704,623</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>852,800</u>	\$ <u>62,230,869</u>	\$ <u>62,379,046</u>	\$ <u>704,623</u>
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and investments	\$ <u>-</u>	\$ <u>11,058,797</u>	\$ <u>11,058,797</u>	\$ <u>-</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>11,058,797</u>	\$ <u>11,058,797</u>	\$ <u>-</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>KANDIYOHI COUNTY/CITY OF WILLMAR EDC</u>				
<u>Assets</u>				
Cash and investments	\$ <u>436,987</u>	\$ <u>837,174</u>	\$ <u>980,328</u>	\$ <u>293,833</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>436,987</u>	\$ <u>837,174</u>	\$ <u>980,328</u>	\$ <u>293,833</u>
 <u>CEE VI TASK FORCE</u>				
<u>Assets</u>				
Cash and investments	\$ <u>107,593</u>	\$ <u>727,666</u>	\$ <u>691,562</u>	\$ <u>143,697</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>107,593</u>	\$ <u>727,666</u>	\$ <u>691,562</u>	\$ <u>143,697</u>
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and investments	\$ <u>-</u>	\$ <u>66,293</u>	\$ <u>-</u>	\$ <u>66,293</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>-</u>	\$ <u>66,293</u>	\$ <u>-</u>	\$ <u>66,293</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and investments	\$ <u>1,641,312</u>	\$ <u>112,413,427</u>	\$ <u>112,604,428</u>	\$ <u>1,450,311</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>1,641,312</u>	\$ <u>112,413,427</u>	\$ <u>112,604,428</u>	\$ <u>1,450,311</u>

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OTHER SCHEDULES

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2011**

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Pooled Deposits and Investments			
Checking accounts			
Bremer Bank of Willmar		0.05%	\$ 11,027,135
Bremer Bank of Willmar		0.05%	17,226
Bremer Bank of Willmar		0.10%	4,646
Heritage Bank - Willmar		0.00%	293,591
US Bank of Willmar		0.00%	<u>26,658</u>
Total checking accounts			\$ <u>11,369,256</u>
Savings accounts			
Atwater State Bank		0.65%	\$ 50,997
North American State Bank		0.30%	2,545,288
Citizens State Bank - Lake Lillian		0.10%	26,562
United Minnesota Bank		0.15%	43,524
Home State Bank		0.13%	31,841
Lake Region Bank - New London		0.06%	68,058
Prinsburg State Bank		0.31%	23,878
Concorde Bank		0.19%	82,452
United Prairie Bank		0.80%	19,921
Wells Fargo		0.16%	192,723
Lake Region Bank - Willmar		0.25%	<u>2,738,370</u>
Total savings accounts			\$ <u>5,823,614</u>
U.S. government securities			
Morgan Keegan	December 28, 2018	1.25%	\$ 499,810
Morgan Keegan	November 21, 2019	2.00%	<u>600,648</u>
Total U.S. government securities			\$ <u>1,100,458</u>
MAGIC Fund			
Cadre Financial Services		Various	\$ <u>12,268,924</u>
Total pooled deposits and investments			\$ <u>30,562,252</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2011**

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Fund Deposits and Investments			
General Fund			
Certificates of deposit			
Atwater State Bank	January 10, 2012	1.00%	\$ 100,504
Home State Bank - Willmar	July 16, 2012	1.15%	200,000
Bremer Bank	Various	.30 to 1.15%	<u>188,311</u>
Total certificates of deposit			\$ 488,815
Money market account			
Charles Schwab Institutional			<u>\$ 1,379</u>
U.S. government securities			
Charles Schwab & Co., Inc.	August 17, 2020	3.25%	\$ 1,120,786
Morgan Keegan	Various	2.11 to 2.99%	3,865,167
Wells Fargo	Various	2.00 to 2.50%	<u>1,000,325</u>
Total U.S. government securities			\$ 5,986,278
Total General Fund			\$ 6,476,472
Road and Bridge Special Revenue Fund			
Certificates of deposit			
Concorde Bank	March 22, 2012	0.39%	<u>\$ 100,000</u>
U.S. government securities			
Charles Schwab & Co., Inc.	November 10, 2017	2.00%	\$ 1,041,141
Morgan Keegan	Various	2.99% to 6.00%	<u>303,139</u>
Total U.S. government securities			\$ 1,344,280
Total Road and Bridge Special Revenue Fund			\$ 1,444,280
County Building Special Revenue Fund			
U.S. government securities			
Charles Schwab & Co, Inc.	December 22, 2026	2.50%	\$ 1,502,700
Morgan Keegan	November 23, 2021	2.99%	<u>300,708</u>
Total County Building Special Revenue Fund			\$ 1,803,408
Capital Equipment Special Revenue Fund			
U.S. government securities			
Charles Schwab & Co., Inc.	September 22, 2025	2.00%	<u>\$ 3,161,869</u>
Ditch Special Revenue Fund			
Certificates of deposit			
United Prairie Bank	September 27, 2014	1.29%	<u>\$ 175,000</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-1
(Continued)**

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2011**

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Fund Deposits and Investments (Continued)			
Eagle Lake Sewer Special Revenue Fund			
Certificates of deposit			
United Prairie Bank	April 10, 2012	1.75%	<u>\$ 125,000</u>
Sanitary Landfill/Recycling Center Special Revenue Fund			
U.S. government securities			
Charles Schwab & Co., Inc.	Various	2.50% to 3.25%	\$ 6,868,658
Morgan Keegan	Various	1.00% to 3.25%	1,403,575
Wells Fargo	July 20, 2021	2.00%	<u>599,748</u>
Total Sanitary Landfill/Recycling Center Special Revenue Fund			<u>\$ 8,871,981</u>
Debt Service Fund			
U.S. government securities			
US Bank	Various	0.53%	<u>\$ 4,052,214</u>
Fidiciary Social Service Agency Fund			
Checking account			
Home State Bank		0.00%	<u>\$ 66,293</u>
Taxes and Penalties Agency Fund			
Certificates of deposit			
Bremer Bank of Willmar	Various	.30 to 1.10%	<u>\$ 143,657</u>
Total fund deposits and investments			<u>\$ 26,320,174</u>
Total Deposits and Investments			<u>\$ 56,882,426</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	Assets							Total Assets
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Receivables	Due from Other Funds	Due from Other Governments	
			Delinquent	Deferred				
County Ditches								
#7	\$ 524	\$ -	\$ -	\$ 1,057	\$ 6	\$ 3	\$ 34	\$ 1,624
#7 Rep D	7,520	-	-	-	-	-	-	7,520
#8	(39,001)	-	97	42,793	-	233	1,198	5,320
#8A	(26,638)	-	-	12,612	-	2,105	2,345	(9,576)
#8 Lat A	(9,387)	-	-	8,581	-	-	1,010	204
#8 Lat B	204	-	-	138	-	-	-	342
#9	2,138	-	-	4,880	-	47	12	7,077
#9 Lat 1 Br A	22,675	-	-	-	-	-	-	22,675
#10 Impr C	(90,471)	-	-	77,918	672	2,189	26,875	17,183
#12	(14,954)	-	-	-	-	-	-	(14,954)
#15	(480)	-	-	635	-	-	-	155
#16A	(1,785)	-	-	2,251	-	238	373	1,077
#18A	(14,458)	-	-	12,043	-	944	3,667	2,196
#19	(96,787)	-	-	67,505	13	2,230	22,390	(4,649)
#20	(493)	-	-	-	-	-	-	(493)
#23A	(22,420)	-	34	37	-	-	-	(22,349)
#23A, Branch 3	-	-	-	-	-	-	-	-
#24A	(4,686)	-	1	4,105	1	355	940	716
#24A Lat G	(3,486)	-	-	5,372	52	300	323	2,561
#24A Lat H	(4,408)	-	-	5,082	6	506	10	1,196
#24A Lat H-1	(12,499)	-	-	9,828	-	1,094	763	(814)
#24A Lat J	578	-	-	-	-	-	-	578
#26	(5,343)	-	413	4,781	-	468	-	319
#27	(23,217)	-	-	13,781	-	176	84	(9,176)
#28	14,050	-	-	-	-	-	-	14,050
#28 Impr Br 7	253	-	-	-	-	-	-	253
#28 Lat A Br 4	7,283	-	-	-	-	-	-	7,283
#28 Impr Br 5	119	-	-	-	-	-	-	119
#29	1,840	-	-	187	-	-	-	2,027
#31 Impr	29,426	125,426	-	-	-	-	-	154,852
#31 Lat A of Br 10 of Lat 10	(171)	-	-	-	-	-	-	(171)
#31 Lat A of Br 2 of Lat 10	11,507	-	-	-	-	-	-	11,507
#34	451	-	-	-	-	-	-	451
#37	(1,796)	-	489	2,091	-	2	66	852
#38	(19,338)	-	-	23,620	-	245	630	5,157
#40	(2,925)	-	-	2,375	-	28	82	(440)
#42	253	-	-	-	-	-	-	253
#43	(3,150)	-	-	3,322	-	-	-	172
#45	57	-	-	-	-	-	-	57
#46	(33,071)	-	-	32,317	440	1,963	2,481	4,130
#47	(41,048)	-	-	50,630	301	1,045	1,747	12,675
#48	(7,662)	-	-	10,020	57	413	866	3,694
#50	573	-	-	-	-	-	-	573
#51	(4,858)	-	-	22,437	-	268	433	18,280
#51 Lat A-1	1,062	-	2	16	-	-	-	1,080
#52	(4,237)	-	-	3,691	-	188	178	(180)
#52 Lat A	(20,496)	-	-	-	-	-	-	(20,496)
#54	487	-	-	-	-	-	-	487
#54 Impr	26,527	-	-	-	-	-	-	26,527
#55	1,163	-	88	-	-	-	-	1,251
#56	-	-	-	4,398	-	1,092	2,046	7,536

EXHIBIT D-2

Liabilities				Fund Balance			Total Liabilities and Fund Balances
Accounts Payables	Contracts Payables	Deferred Revenue	Total Liabilities	Restricted for Ditch Maintenance and Repairs	Unassigned	Total Fund Balances	
\$ 722	\$ -	\$ 1,100	\$ 1,822	\$ -	\$ (198)	\$ (198)	\$ 1,624
-	-	-	-	7,520	-	7,520	7,520
-	-	44,231	44,231	-	(38,911)	(38,911)	5,320
-	-	17,062	17,062	-	(26,638)	(26,638)	(9,576)
-	-	9,591	9,591	-	(9,387)	(9,387)	204
-	-	138	138	204	-	204	342
-	-	4,939	4,939	2,138	-	2,138	7,077
-	-	-	-	22,675	-	22,675	22,675
-	-	107,654	107,654	-	(90,471)	(90,471)	17,183
-	-	-	-	-	(14,954)	(14,954)	(14,954)
-	-	635	635	-	(480)	(480)	155
-	-	2,862	2,862	-	(1,785)	(1,785)	1,077
572	-	16,654	17,226	-	(15,030)	(15,030)	2,196
3,342	-	92,138	95,480	-	(100,129)	(100,129)	(4,649)
-	-	-	-	-	(493)	(493)	(493)
788	-	70	858	-	(23,207)	(23,207)	(22,349)
-	-	-	-	-	-	-	-
-	-	5,401	5,401	-	(4,685)	(4,685)	716
877	3,075	6,047	9,999	-	(7,438)	(7,438)	2,561
-	-	5,604	5,604	-	(4,408)	(4,408)	1,196
-	-	11,685	11,685	-	(12,499)	(12,499)	(814)
-	-	-	-	578	-	578	578
-	-	5,287	5,287	-	(4,968)	(4,968)	319
-	-	14,041	14,041	-	(23,217)	(23,217)	(9,176)
-	-	-	-	14,050	-	14,050	14,050
-	-	-	-	253	-	253	253
-	-	-	-	7,283	-	7,283	7,283
-	-	-	-	119	-	119	119
-	-	187	187	1,840	-	1,840	2,027
-	33,173	426	33,599	121,253	-	121,253	154,852
-	-	-	-	-	(171)	(171)	(171)
-	-	-	-	11,507	-	11,507	11,507
-	-	-	-	451	-	451	451
-	-	2,648	2,648	-	(1,796)	(1,796)	852
-	-	24,495	24,495	-	(19,338)	(19,338)	5,157
-	-	2,485	2,485	-	(2,925)	(2,925)	(440)
-	-	-	-	253	-	253	253
-	-	3,322	3,322	-	(3,150)	(3,150)	172
-	-	-	-	57	-	57	57
-	-	37,201	37,201	-	(33,071)	(33,071)	4,130
-	-	53,723	53,723	-	(41,048)	(41,048)	12,675
-	-	11,356	11,356	-	(7,662)	(7,662)	3,694
-	-	-	-	573	-	573	573
793	-	23,138	23,931	-	(5,651)	(5,651)	-
-	-	16	16	1,064	-	1,064	1,080
-	-	4,057	4,057	-	(4,237)	(4,237)	(180)
-	-	-	-	-	(20,496)	(20,496)	(20,496)
-	-	-	-	487	-	487	487
-	-	-	-	26,527	-	26,527	26,527
-	-	88	88	1,163	-	1,163	1,251
-	-	7,536	7,536	-	-	-	7,536

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	Assets							Total Assets
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Receivables	Due from Other Funds	Due from Other Governments	
			Delinquent	Deferred				
County Ditches (Continued)								
#56 Outlet	(200)	-	-	12,354	-	-	-	12,154
#58	257	-	-	5,529	14	172	438	6,410
#60	506	-	-	-	-	-	2,290	2,796
#61	(301)	-	-	568	-	34	-	301
#62	(2,447)	-	-	478	-	24	10	(1,935)
#63	(183)	-	-	2,089	-	58	61	2,025
#64	(28,119)	-	-	30,950	-	1,012	431	4,274
#65	(1,496)	-	-	2,488	-	-	22	1,014
State Ditch								
#1 Impr Div 2	(1,190)	-	-	1,873	-	95	17	795
Judicial Ditches								
#1 M & K (Rep F)	(31,496)	-	-	26,587	-	459	8,074	3,624
#1 Lat A, M & K	193	-	1	338	-	1	35	568
#1 Lat M & K	10,318	-	-	67,599	-	-	-	77,917
#1 Lat B, M & K	(7,544)	-	-	9,889	-	1,200	1,775	5,320
#1 Lat A of Lat B, M & K	3,387	-	-	-	-	-	-	3,387
#1 Br 4 of Lat B, M & K	1,516	-	-	-	-	-	-	1,516
#1 Lat C, M & K	825	-	-	-	-	-	-	825
#1 Lat D, M & K	383	-	-	-	-	-	-	383
#1 Lat E, M & K	310	-	-	1,506	-	22	267	2,105
#1 Br 2 of Lat F, M & K	2,358	-	-	10,777	-	927	814	14,876
#1 Lat G, M & K	(372)	-	-	582	-	-	-	210
#2 R & K	(1,188)	-	-	9,377	-	231	320	8,740
#2 Lat 3, R & K	565	-	-	-	-	-	-	565
#2 Lat 4, R & K	491	-	-	-	-	-	7	498
#2 Lat A of Lat 4, R & K	294	-	-	-	-	-	-	294
#2 Lat 5, R & K	(2,632)	-	-	4,341	-	827	22	2,558
#2 Lat 7, R & K	22	-	-	-	-	-	-	22
#2 Lat 8, R & K	401	-	-	502	-	11	9	923
#2 C & K	(5,692)	-	-	2,095	14	38	4,410	865
#2 St & K	211	-	-	-	-	-	151	362
#3 Lat B, K & C	(710)	-	-	1,280	-	51	100	721
#3 Lat A of Lat B, K & C	(850)	-	-	1,519	-	52	141	862
#3 Lat C, C & K	(41)	-	-	-	-	-	92	51
#3 Lat D, C & K	33,316	50,170	-	-	-	-	105	83,591
#3 Impr Br 5 & 6, C & K	(377)	-	-	28,717	-	1,246	135	29,721
#3 Impr Br 7 & 8, C & K	(182)	-	-	753	-	-	54	625
#3 Impr Br 9, C & K	1,679	-	-	-	-	-	-	1,679
#3 Impr Br 10, C & K	161	-	-	-	-	-	-	161
#3 Br 10 of Lat A, C & K	356	-	-	-	-	-	-	356
#3 St & K	(8,333)	-	-	3,954	-	-	4,181	(198)
#3 Rep A, St & K	2,047	-	-	-	-	-	-	2,047
#7 C, K & R (& Rep F)	(36,152)	-	12	17,303	118	1,990	27,446	10,717
#7 Lat A, C, K & R	(6,667)	-	-	28,049	-	2,745	3,379	27,506
#7 Lat B, C, K & R	1,603	-	-	-	-	-	166	1,769
#7 Lat E, C, K & R	(9,337)	-	-	3,015	6	97	10,562	4,343
#10 R & K	(17)	-	-	-	-	-	-	(17)
#11 K & M	(43,927)	-	-	3,978	-	911	1,903	(37,135)
#16 R & K	(8,244)	-	-	11,310	-	660	1,659	5,385
#17 M & K	10,710	-	-	3,629	13	406	1,437	16,195
#17 Rep A, M & K	4,475	-	-	-	-	-	-	4,475

EXHIBIT D-2
(Continued)

Liabilities				Fund Balance			Total Liabilities and Fund Balances
Accounts Payables	Contracts Payables	Deferred Revenue	Total Liabilities	Restricted for Ditch Maintenance and Repairs	Unassigned	Total Fund Balances	
72	-	12,354	12,426	-	(272)	(272)	12,154
4,810	-	6,153	10,963	-	(4,553)	(4,553)	6,410
279	-	2,290	2,569	227	-	227	2,796
-	-	602	602	-	(301)	(301)	301
-	-	512	512	-	(2,447)	(2,447)	(1,935)
1,000	-	2,208	3,208	-	(1,183)	(1,183)	2,025
3,090	-	32,393	35,483	-	(31,209)	(31,209)	4,274
1,774	-	2,510	4,284	-	(3,270)	(3,270)	1,014
-	-	1,985	1,985	-	(1,190)	(1,190)	795
-	-	-	-	-	-	-	-
12,245	-	30,626	42,871	-	(39,247)	(39,247)	3,624
242	-	374	616	-	(48)	(48)	568
1,495	-	67,599	69,094	8,823	-	8,823	77,917
4,671	-	12,240	16,911	-	(11,591)	(11,591)	5,320
215	-	-	215	3,172	-	3,172	3,387
-	-	-	-	1,516	-	1,516	1,516
785	-	-	785	40	-	40	825
-	-	-	-	383	-	383	383
947	-	1,795	2,742	-	(637)	(637)	2,105
9,888	-	12,518	22,406	-	(7,530)	(7,530)	14,876
243	-	582	825	-	(615)	(615)	210
1,114	-	9,722	10,836	-	(2,096)	(2,096)	8,740
-	-	-	-	565	-	565	565
-	-	-	-	498	-	498	498
287	-	-	287	7	-	7	294
951	-	5,190	6,141	-	(3,583)	(3,583)	2,558
-	-	-	-	22	-	22	22
703	-	522	1,225	-	(302)	(302)	923
550	-	2,205	2,755	-	(1,890)	(1,890)	865
-	-	151	151	211	-	211	362
-	-	1,431	1,431	-	(710)	(710)	721
-	-	1,712	1,712	-	(850)	(850)	862
-	-	-	-	51	-	51	51
1,322	-	170	1,492	82,099	-	82,099	83,591
-	-	30,098	30,098	-	(377)	(377)	29,721
-	-	807	807	-	(182)	(182)	625
-	-	-	-	1,679	-	1,679	1,679
-	-	-	-	161	-	161	161
333	-	-	333	23	-	23	356
390	-	3,954	4,344	-	(4,542)	(4,542)	(198)
-	-	-	-	2,047	-	2,047	2,047
1,449	-	40,297	41,746	-	(31,029)	(31,029)	10,717
-	26,372	33,592	59,964	-	(32,458)	(32,458)	27,506
900	-	-	900	869	-	869	1,769
-	-	3,399	3,399	944	-	944	4,343
-	-	-	-	-	(17)	(17)	(17)
-	-	5,114	5,114	-	(42,249)	(42,249)	(37,135)
-	-	13,410	13,410	-	(8,025)	(8,025)	5,385
-	-	5,485	5,485	10,710	-	10,710	16,195
-	-	-	-	4,475	-	4,475	4,475

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	Assets							
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Receivables	Due from Other Funds	Due from Other Governments	Total Assets
			Delinquent	Deferred				
Judicial Ditches								
(Continued)								
#17 Br 4 of Lat A, M & K	461	-	-	-	-	-	-	461
#17 Br 4 of Lat B, M & K	7,108	-	-	-	-	-	-	7,108
#18 Sw, K & C	(18,165)	-	-	10,863	176	1,082	6,691	647
#18 M & K	2,268	-	-	-	-	-	135	2,403
#18 Lat A, M & K	5,104	-	-	-	-	-	-	5,104
#18 Lat C, M & K	(3,452)	-	-	4,821	-	152	67	1,588
#19 Sw & K	105	-	-	-	-	-	-	105
#21 R, C & K	268	-	-	-	-	-	-	268
#21 Sw, K & C	317	-	-	-	-	-	-	317
#29 Rep B, R, M & K	(216)	-	-	-	-	-	268	52
Total	\$ (508,090)	\$ 175,596	\$ 1,137	\$ 737,616	\$ 1,889	\$ 30,635	\$ 146,227	\$ 585,010

EXHIBIT D-2
(Continued)

Liabilities				Fund Balance			Total Liabilities and Fund Balances
Accounts Payables	Contracts Payables	Deferred Revenue	Total Liabilities	Restricted for Ditch Maintenance and Repairs	Unassigned	Total Fund Balances	
-	-	-	-	461	-	461	461
-	-	-	-	7,108	-	7,108	7,108
-	-	13,472	13,472	-	(12,825)	(12,825)	647
-	-	4	4	2,399	-	2,399	2,403
776	-	-	776	4,328	-	4,328	5,104
-	-	5,030	5,030	-	(3,442)	(3,442)	1,588
-	-	-	-	105	-	105	105
-	-	-	-	268	-	268	268
-	-	-	-	317	-	317	317
-	-	-	-	52	-	52	52
\$ 57,625	\$ 62,620	\$ 878,323	\$ 998,568	\$ 353,555	\$ (767,113)	\$ (413,558)	\$ 566,730

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT D-3

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

	Total Primary Government	Housing and Redevelopment Authority Component Unit
	<u> </u>	<u> </u>
Shared Revenue		
State		
Highway users tax	\$ 6,393,352	\$ -
County program aid	1,553,283	-
Market value credit	1,192,544	-
PERA rate reimbursement	73,608	-
Disparity reduction aid	28,431	-
Police aid	239,477	-
Enhanced 911	115,079	-
	<u> </u>	<u> </u>
Total shared revenue	\$ 9,595,774	\$ -
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 1,143,887	\$ -
	<u> </u>	<u> </u>
Payments		
Local		
Payments in lieu of taxes	\$ 248,008	\$ -
Local	95,350	-
	<u> </u>	<u> </u>
Total payments	\$ 343,358	\$ -
Grants		
State		
Minnesota Department/Board of		
Public Safety	\$ 11,613	\$ -
Health	392,656	-
Natural Resources	143,441	-
Human Services	2,079,048	-
Veterans Affairs	11,000	-
Corrections	800,320	-
Transportation	223,960	-
Water and Soil Resources	125,292	-
Peace Officer Standards and Training Board	13,255	-
Pollution Control Agency	103,053	-
	<u> </u>	<u> </u>
Total state	\$ 3,903,638	\$ -

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-3
(Continued)**

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

	Total Primary Government	Housing and Redevelopment Authority Component Unit
	<u> </u>	<u> </u>
Grants (Continued)		
Federal		
Department of		
Agriculture	\$ 646,586	\$ -
Commerce	30,507	-
Housing and Urban Development	-	1,381,645
Justice	29,999	-
Transportation	487,585	-
Health and Human Services	3,357,077	-
Homeland Security	5,125	-
	<u> </u>	<u> </u>
Total federal	\$ 4,556,879	\$ 1,381,645
	<u> </u>	<u> </u>
Total state and federal grants	\$ 8,460,517	\$ 1,381,645
	<u> </u>	<u> </u>
Total Intergovernmental Revenue	\$ 19,543,536	\$ 1,381,645
	<u> </u>	<u> </u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT D-4

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct		
Conservation Reserve Program	10.069	\$ 10,424
Passed Through Minnesota Department of Health		
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	298,998
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>337,164</u>
Total U.S. Department of Agriculture		<u>\$ 646,586</u>
U.S. Department of Commerce		
Passed through Central Minnesota Regional Radio Board		
Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 30,507</u>
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	<u>\$ 29,999</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 474,320
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	3,637
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>9,628</u>
Total U.S. Department of Transportation		<u>\$ 487,585</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**EXHIBIT D-4
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Direct		
Drug-Free Communities Support Program Grants	93.276	\$ 145,946
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness Immunization Cluster	93.069	49,516
Immunization Grants	93.268	1,700
Immunization - ARRA	93.712	1,457
PPHF 2012 National Public Health Improvement Initiative	93.507	2,500
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	47,637
Maternal and Child Health Services Block Grant to the States	93.994	57,490
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	9,882
Temporary Assistance for Needy Families (TANF) Cluster		
Temporary Assistance for Needy Families	93.558	607,400
Emergency Contingency Fund for TANF State Program - ARRA	93.714	22,845
Child Support Enforcement	93.563	792,056
Refugee and Entrant Assistance - State-Administered Programs	93.566	66
Child Care and Development Fund Cluster		
Child Care and Development Block Grant	93.575	13,961
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	15,930
Stephanie Tubbs Jones Child Welfare Services Program	93.645	9,250
Foster Care - Title IV-E	93.658	216,204
Social Services Block Grant	93.667	325,977
Chafee Foster Care Independence Program	93.674	7,210
Children's Health Insurance Program	93.767	366
Medical Assistance Program	93.778	930,947
Block Grants for Community Mental Health Services	93.958	98,737
Total U.S. Department of Health and Human Services		\$ 3,357,077
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 5,125
Total Federal Awards		\$ 4,556,879

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**KANDIYOHI COUNTY
WILLMAR, 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 Kandiyohi County. The County's reporting entity is defined in Note 1 to the financial statements. The schedule does not include \$1,330,909 in federal awards expended by the Kandiyohi County Housing and Redevelopment Authority component unit, which had a separate single audit performed by other auditors.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kandiyohi County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Kandiyohi County, it is not intended to and does not present the financial position or changes in net assets of Kandiyohi County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Immunization Cluster	\$	3,157
Temporary Assistance for Needy Families (TANF) Cluster		677,882
Child Care and Development Fund Cluster		29,891

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Subrecipients

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

6. American Recovery and Reinvestment Act

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

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**KANDIYOHI COUNTY
WILLMAR, 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? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

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

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? **No**

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	CFDA #10.561
Highway Planning and Construction	CFDA #20.205
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.

Kandiyohi 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

96-8 Segregation of Duties

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

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

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

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

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

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

Client's Response:

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

06-1 Audit Adjustments

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

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

Effect: An audit adjustment was necessary in the Capital Projects Fund to record additional due to other funds in the amount of \$175,000 to properly account for revenues collected from the lease of the Regional Treatment Center Building. An audit adjustment was necessary in the Ditch Special Revenue Fund to increase deferred revenue - unavailable and noncurrent special assessments receivable in the amount of \$533,902 to properly include additional deferred special assessments that were excluded from the special assessments file listing. Audit adjustments were also necessary to adjust modified accrual financial statements to the accrual basis for the government-wide financial statements.

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

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

Client's Response:

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

07-2 Journal Entries

Criteria: Management is responsible for establishing and maintaining internal control over the various accounting cycles, including the processing of journal entries.

Management is also responsible for the accuracy and completeness of all financial records and related information, including but not limited to, the controls over initiating, authorizing, recording, and processing journal entries in the general ledger system.

Condition: Based on our testing of internal control relating to journal entries, the entries made by the County Auditor/Treasurer and the entries made by the Human Services Fiscal Supervisor are not being reviewed and approved by anyone. Also, during our testing of the Human Services journal entries, supporting documentation for two journal entries could not be located.

Context: The ability to initiate and approve journal entries on the general ledger system is a powerful function. It allows staff with access the ability to make changes to the financial system.

Effect: As a result of this condition, the County lacks internal controls over the processing of journal entries.

Cause: County staff has not yet established a procedure to require the review and approval of journal entries by someone other than the person making the entry. County staff was unable to explain why the documentation was missing for the two journal entries.

Recommendation: We recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries, who is also knowledgeable about and familiar with the transactions. This approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. There should be supporting documentation attached to the journal entry or sufficient explanation on the journal entry to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner which allows for their review should questions arise. A report should be generated that lists all journal entries made to the general ledger system, and this report should be reviewed periodically by the person charged with review and approval of journal entries. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval.

Client's Response:

Kandiyohi County will establish procedures to have journal entries reviewed and approved by more than one person. The journal entry document will be signed off by its author and a staff member who has reviewed and verified the entry. Supporting documentation and/or a sufficient explanation will be attached to all journal entries.

09-1 Segregation of Duties - Vendor Setup

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual has the ability to both process disbursements and set up new vendors.

Condition: During our review of the general disbursements process, we noted that several individuals have the ability to both process disbursements and set up new vendors.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Kandiyohi County; however, the County's management should constantly be aware that both processing disbursements and setting up new vendors are incompatible duties and are not desirable from an accounting point of view.

Effect: Fictitious vendors could be added to the accounting system, increasing the likelihood of the County processing improper payments.

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

Client's Response:

As noted in Finding 96-8, Segregation of Duties, Kandiyohi County's management realizes that due to the limited number of office personnel within several County offices, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. To combat the lack of separation of duties between disbursements and vendor setup, a County Auditor staff member who is independent of the disbursement process will review and verify all vendors added on a monthly basis.

PREVIOUSLY REPORTED ITEM RESOLVED

Annual Adopted Budget and Budget Policy (07-4)

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

Resolution

After the adoption of the budget by the County Board, County staff independent of the budget process entered the budget amounts into the general ledger.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Cash Balance Deficits

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

Condition: At December 31, 2011, the Regional Treatment Center Special Revenue Fund had a deficit cash balance of \$344,257. The Ditch Special Revenue Fund had a deficit cash balance of \$333,090.

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

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

Cause: Expenditures in both funds were necessary. The Regional Treatment Center did not have sufficient resources to cover expenditures partially due to the County not satisfying a \$175,000 interfund receivable from 2010. The Ditch Special Revenue Fund did not have sufficient resources to cover expenditures as ditch levies were not sufficient to cover the ditch work performed. Temporary transfers as allowed by Minn. Stat. § 385.32 were not approved by the Board and the County Auditor-Treasurer.

Recommendation: We recommend that the County borrow from another fund when the cash balances are so low as to cause the fund to have a cash deficit when a payment is made from that fund. We also recommend the County satisfy on a timely basis interfund receivables and payables that arise from the normal course of business.

Client's Response:

The Kandiyohi County Board of Commissioners will review the status of the Regional Treatment Center Special Revenue Fund and the Ditch Special Revenue Fund, and, if necessary, an interfund transfer will be made in October 2012.

96-3

Individual Ditch System Cash Deficits

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

Condition: Fifty-six of the 110 individual ditch systems had deficit cash balances totaling \$728,795 at December 31, 2011. This amount increased from the prior year when 48 of the 108 individual ditch systems had deficit cash balances totaling \$598,452.

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

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

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

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

Client's Response:

In 2012, one-year ditch repair liens will be levied.

09-2

Traffic Safety Course

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

In 2009, the Minnesota Legislature enacted a new statute, Minn. Stat. § 169.999, to authorize the issuance of administrative citations and prescribe criteria for them. *See* 2009 Minn. Laws, ch. 158. Among other provisions, the statute states that a governing body resolution must be passed to authorize issuance of administrative citations. The resolution must bar peace officers from issuing administrative citations in violation of Minn. Stat. § 169.999 and specifies the offenses for which an administrative citation may be used. The authority requires the use of a uniform administrative citation prescribed by the Commissioner of Public Safety and specifies that the fine for an administrative violation must be \$60, two-thirds of which must be credited to the general revenue fund of the local unit of government, and one-third of which must be transferred to the Commissioner of Minnesota Management & Budget for deposit in the state's General Fund. A local unit of government receiving administrative fine proceeds must use one-half of the funds for law enforcement purposes. Each local unit of government must follow these and other criteria specified in the statute.

Condition: Kandiyohi County has established a Traffic Safety Course option in lieu of issuance or court filing of a state uniform traffic ticket. Sheriff's Deputies have the discretion to offer traffic violators the option of attending the Traffic Safety Course in lieu of a citation. The course is two hours long and costs \$75, which is payable to the Kandiyohi County Sheriff.

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

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

Effect: The County’s Traffic Safety Course is unauthorized and in violation of Minn. Stat. § 169.022.

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

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

Client’s Response:

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

PREVIOUSLY REPORTED ITEM RESOLVED

Prompt Payment of Invoices (07-8)

The County is required by Minn. Stat. § 471.425 to make payment on vendor invoices according to the terms of the contract or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later. We noted during the 2010 audit that 2 of 40 vouchers tested had invoices not paid within the 35-day time period.

Resolution

All vendor invoices reviewed during the current audit were paid within 35 days of the completed delivery of the goods or services as required as Minn. Stat. § 471.425.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-11 Individual Ditch System Equity Balance Deficits

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

Condition: As of December 31, 2011, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance accounts.

Context: Fifty-nine of the 110 individual ditch systems had deficit fund balances as of December 31, 2011, totaling \$767,113, which is an increase from the \$639,393 deficit reported in the prior year.

Effect: Allowing a ditch system to maintain a deficit fund balance, in effect, constitutes an interest-free loan from other individual ditch systems.

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

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

Client's Response:

In 2012, one-year ditch repair liens will be levied.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Commissioners
Kandiyohi County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kandiyohi County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Kandiyohi County Housing and Redevelopment Authority (HRA) for the year ended June 30, 2011, as described in our report on Kandiyohi County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of Kandiyohi County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Kandiyohi County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-8, 07-2, and 09-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kandiyohi County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

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

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

Also included in the Schedule of Findings and Questioned Costs is a management practices comment. We believe this recommendation to be of benefit to Kandiyohi County, and we are reporting it for that purpose.

Kandiyohi County's written responses to the internal control, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2012

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

Board of County Commissioners
Kandiyohi County

Compliance

We have audited Kandiyohi County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Kandiyohi County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Kandiyohi County's basic financial statements include the operations of the Kandiyohi County Housing and Redevelopment Authority (HRA), a component unit, which expended \$1,330,909 in federal awards during the year ended June 30, 2011, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA because other auditors were engaged to perform a separate single audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kandiyohi County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

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

Internal Control Over Compliance

Management of Kandiyohi County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of County Commissioners, management 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 27, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR