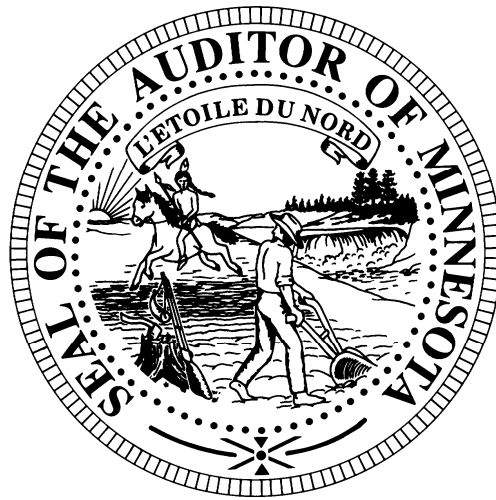


STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

WILKIN COUNTY
BRECKENRIDGE, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Year Ended December 31, 2012



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

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2012**

Office	Name	Term Expires
Commissioners		
1st District	John Blaufuss	January 2017
2nd District	Stephanie Miranowski ¹	January 2015
3rd District	Lyle Hovland	January 2017
4th District	Neal Folstad	January 2015
5th District	Robert Perry	January 2017
Officials		
Elected		
Attorney	Timothy Fox	January 2015
Auditor	Wayne Bezenek	January 2015
County Recorder	Renae Niemi	January 2015
Registrar of Titles	Renae Niemi	January 2015
Sheriff	Rick Fiedler	January 2015
Treasurer	Rose Ann Hulne	January 2015
Appointed		
Assessor	Cheryl Wall	July 2013
Highway Engineer	Steve Nepl	Indefinite ²
Medical Examiner	Dr. Gregory A. Smith	Indefinite
Veterans Service Officer	Ron Verhaagen	November 2013
Family Services Director	Dave Saylor	Indefinite
Emergency Management Officer	Breanna Koval	Indefinite

¹Chair

²Steve Nepl and Dan Swedlund are filling in during the absence of a County Engineer until a new one is appointed.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Wilkin County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wilkin County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wilkin County as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wilkin County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2013, on our consideration of Wilkin County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wilkin County's internal control over financial reporting and compliance.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 16, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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

As management of Wilkin County, Minnesota, we offer the readers of the Wilkin County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

The assets of Wilkin County exceeded its liabilities on December 31, 2012, by \$50,068,135. Of this amount, \$8,226,028 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

As of the close of 2012, Wilkin County's governmental funds reported combined ending fund balances of \$8,442,907, an increase of \$551,787 in comparison with 2011. Of this balance amount, \$7,409,116 was unrestricted by Wilkin County and thus available for spending at the government's discretion.

At the end of 2012, unrestricted fund balance of the General Fund was \$2,288,626, or 57 percent, of the total General Fund expenditures for that year.

The County had general obligation bonds in the amount of \$2,490,000 at the end of 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to Wilkin County's basic financial statements. The County's financial statements are comprised of three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other supplementary information.

Government-Wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to a private-sector business. The statement of net position presents information on all of Wilkin County's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the County is improving or deteriorating.

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

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

The government-wide statements can be found as Exhibits 1 and 2 of this report.

Fund Level Statements

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

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

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

Wilkin County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Environmental Special Revenue Fund, Public Health Nurse Special Revenue Fund, and Courthouse Improvement Debt Service Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of Wilkin County. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support Wilkin County's own programs or activities. The accounting for fiduciary funds is much like that used for the government-wide statements.

Notes to the Financial Statements

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

Other Information

Other information is provided in supplementary information schedules on Wilkin County's budgeted funds, deposits and investments, ditch balances, intergovernmental revenues, and Schedule of Expenditures of Federal Awards.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. Wilkin County's assets exceeded liabilities by \$50,068,135 at the close of 2012. The largest portion of the County's net position (80 percent) reflects the County's investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related debt used to acquire those assets. However, it should be noted that these assets are not for future spending or for liquidating any remaining debt.

	Net Position	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 10,810,431	\$ 11,254,720
Capital assets	<u>42,671,575</u>	<u>41,743,173</u>
 Total Assets	 <u>\$ 53,482,006</u>	 <u>\$ 52,997,893</u>
 Long-term liabilities	 \$ 2,841,416	 \$ 3,111,103
Other liabilities	<u>572,455</u>	<u>659,369</u>
 Total Liabilities	 <u>\$ 3,413,871</u>	 <u>\$ 3,770,472</u>
 Net Position		
Net investment in capital assets	\$ 40,167,900	\$ 38,966,234
Restricted	1,674,207	2,481,790
Unrestricted	<u>8,226,028</u>	<u>7,779,397</u>
 Total Net Position	 <u><u>\$ 50,068,135</u></u>	 <u><u>\$ 49,227,421</u></u>

The unrestricted net position amount of \$8,226,028 as of December 31, 2012, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Wilkin County's activities increased Wilkin County's net position during 2012 by \$840,714. A key element in this increase is the increase in current and other assets and a decrease in total liabilities.

	<u>2012</u>	<u>2011</u>
Changes in Net Position		
Revenues		
Program revenues		
Charges for services	\$ 1,854,616	\$ 2,513,884
Operating grants and contributions	5,089,276	5,262,052
Capital grants and contributions	254,890	260,233
General revenues		
Property taxes	6,368,450	5,760,717
Other taxes	3,576	8,248
Grants and contributions not restricted	302,034	455,442
Other general revenues	<u>118,400</u>	<u>104,284</u>
Total Revenues	<u>\$ 13,991,242</u>	<u>\$ 14,364,860</u>
Expenses		
General government	\$ 1,844,689	\$ 1,730,839
Public safety	2,046,829	1,755,588
Highways and streets	4,981,961	5,353,517
Sanitation	348,510	365,375
Human services	2,074,579	2,173,629
Health	821,131	774,770
Culture and recreation	68,304	60,718
Conservation of natural resources	861,744	712,281
Economic development	2,800	0
Interest	<u>99,981</u>	<u>112,044</u>
Total Expenses	<u>\$ 13,150,528</u>	<u>\$ 13,038,761</u>
Increase in Net Position	\$ 840,714	\$ 1,326,099
Net Position - January 1	<u>49,227,421</u>	<u>47,901,322</u>
Net Position - December 31	<u>\$ 50,068,135</u>	<u>\$ 49,227,421</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental funds

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

As of the end of the current fiscal year, Wilkin County's governmental funds reported combined ending fund balances of \$8,442,907, an increase of \$551,787 in comparison with the prior year. Of the ending fund balance, \$7,409,116 represents unrestricted fund balance, which is available for spending at the County's discretion. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is a chief operating fund for the County. At the end of the current fiscal year, it had an unrestricted fund balance of \$2,288,626. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total expenditures. The General Fund's unrestricted fund balance represents 57 percent of total General Fund expenditures. In 2012, ending fund balance in the General Fund decreased by \$730,458 due to excess expenditures over revenues of \$291,458 and a \$439,000 transfer out.

The Road and Bridge Special Revenue Fund's unrestricted fund balance of \$1,631,303 at year-end represents 27 percent of expenditures. Fund balance increased \$449,255 due to excess revenues over expenditures of \$30,224, with a transfer in of \$439,000 and an inventory reduction of \$19,969.

The Human Services Special Revenue Fund's unrestricted fund balance of \$2,461,713 at year-end represents 120 percent of the fund's annual expenditures. Fund balance increased \$731,730 during 2012 due to excess revenues over expenditures.

General Fund Budgetary Highlights

The Wilkin County Board of Commissioners did not make any significant budgetary amendments/revisions in 2012.

Actual revenues were greater than budgeted revenues by \$121,394, primarily due to intergovernmental transactions.

Actual expenditures were more than budgeted by \$205,952 due to more public safety expenditures because of an E-911 equipment purchase.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Wilkin County's capital assets for its governmental activities at December 31, 2012, totaled \$42,671,575 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure.

	Governmental Capital Assets (Net of Depreciation)	
	2012	2011
Land	\$ 1,042,274	\$ 1,042,274
Infrastructure	34,163,267	33,497,384
Buildings	5,552,144	5,681,826
Improvements other than buildings	35,264	39,781
Machinery and equipment	1,811,428	1,414,548
Construction in progress	67,198	67,360
Total	<u>\$ 42,671,575</u>	<u>\$ 41,743,173</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had a total outstanding debt of \$2,490,000.

	2012	2011
General obligation bonds	<u>\$ 2,490,000</u>	<u>\$ 2,715,000</u>

The County debt related to general obligation bonds decreased by \$225,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Wilkin County at the end of 2012 was 4.6 percent. This compares favorably with the state unemployment rate of 5.3 percent and shows a decrease from the 4.9 percent rate of one year ago.

By the end of 2012, Wilkin County approved its balanced 2013 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Wilkin County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to: Wilkin County Auditor, 300 South 5th Street, Breckenridge, Minnesota 56520.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	8,219,791
Taxes receivable delinquent		66,113
Special assessments receivable		
Prior - net		4,868
Deferred - net		564,009
Accounts receivable - net		83,132
Accrued interest receivable		4,635
Due from other governments		1,603,754
Inventories		229,607
Deferred charges		34,522
Capital assets		
Non-depreciable		1,109,472
Depreciable - net of accumulated depreciation		41,562,103
Total Assets	\$	53,482,006

Liabilities

Accounts payable	\$	266,541
Salaries payable		26,884
Contracts payable		94,567
Due to other governments		93,487
Accrued interest payable		41,588
Unearned revenue		49,388
Long-term liabilities		
Due within one year		459,428
Due in more than one year		2,381,988
Total Liabilities	\$	3,413,871

Net Position

Net investment in capital assets	\$	40,167,900
Restricted for		
General government		154,075
Public safety		16,065
Highways and streets		980,666
Conservation of natural resources		277,704
Economic development		100,000
Debt service		142,093
Held in trust for other purposes		3,604
Unrestricted		8,226,028
Total Net Position	\$	50,068,135

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>	
	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 1,844,689	\$ 173,254	\$ 49,142	\$ -	\$ (1,622,293)
Public safety	2,046,829	157,878	138,726	65,891	(1,684,334)
Highways and streets	4,981,961	381,471	3,514,825	182,999	(902,666)
Sanitation	348,510	217,531	-	-	(130,979)
Human services	2,074,579	305,667	973,861	-	(795,051)
Health	821,131	281,843	297,995	-	(241,293)
Culture and recreation	68,304	-	-	6,000	(62,304)
Conservation of natural resources	861,744	336,972	114,727	-	(410,045)
Economic development	2,800	-	-	-	(2,800)
Interest	99,981	-	-	-	(99,981)
Total	<u>\$ 13,150,528</u>	<u>\$ 1,854,616</u>	<u>\$ 5,089,276</u>	<u>\$ 254,890</u>	<u>\$ (5,951,746)</u>
General Revenues					
Property taxes					\$ 6,368,450
Gravel taxes					3,576
Payments in lieu of tax					47,406
Grants and contributions not restricted to specific programs					302,034
Investment income					36,754
Miscellaneous					34,240
Total general revenues					<u>\$ 6,792,460</u>
Change in net position					<u>\$ 840,714</u>
Net Position - Beginning					<u>49,227,421</u>
Net Position - Ending					<u>\$ 50,068,135</u>

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 2,672,455	\$ 1,450,596
Petty cash and change funds	2,750	100
Undistributed cash in agency funds (taxes and other)	69,196	28,572
Taxes receivable delinquent	29,283	14,284
Special assessments		
Prior	-	-
Deferred	-	-
Accounts receivable	8,005	3,778
Accrued interest receivable	4,635	-
Due from other funds	13,827	104,634
Due from other governments	57,002	1,306,401
Advance to other funds	4,869	-
Inventories	-	229,607
	\$ 2,862,022	\$ 3,137,972
Total Assets	\$ 2,862,022	\$ 3,137,972

EXHIBIT 3

Human Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 2,407,484	\$ 365,932	\$ 1,156,831	\$ 8,053,298
-	-	5,000	7,850
29,204	16,191	15,480	158,643
15,672	-	6,874	66,113
-	4,868	-	4,868
-	564,009	-	564,009
8,163	-	63,186	83,132
-	-	-	4,635
794	-	8,644	127,899
120,904	-	117,375	1,601,682
-	-	-	4,869
-	-	-	229,607
\$ 2,582,221	\$ 951,000	\$ 1,373,390	\$ 10,906,605

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 133,489	\$ 58,366
Salaries payable	4,559	2,147
Contracts payable	94,567	-
Due to other funds	1,797	-
Due to other governments	33,177	37,692
Deferred revenue - unavailable	27,194	1,095,057
Deferred revenue - unearned	-	-
Advance from other funds	-	-
	\$ 294,783	\$ 1,193,262
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 229,607
Advance to other funds	4,869	-
Restricted		
Debt service	-	-
Law library	25,537	-
Recorder's technology equipment	57,120	-
Real estate tax shortfall	21,330	-
Enhanced 911	16,065	-
Recorder's compliance fund	50,088	-
Economic development	100,000	-
Gravel pit restoration	-	-
County state-aid highway system	-	83,800
Ditch maintenance and construction	-	-
Missing heirs	3,604	-
Committed		
Sheriff contingencies	175	-
Equipment purchases	-	203,371
Assigned		
Subsequent year's appropriated budget	41,400	-
Highways and streets	-	1,427,932
Human services	-	-
Sanitation	-	-
Public health	-	-
Unassigned	2,247,051	-
	\$ 2,567,239	\$ 1,944,710
Total Liabilities and Fund Balances	\$ 2,862,022	\$ 3,137,972

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

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 62,991	\$ -	\$ 11,695	\$ 266,541
8,628	-	11,550	26,884
-	-	-	94,567
15,449	104,282	4,299	125,827
16,351	-	6,267	93,487
17,089	567,814	94,981	1,802,135
-	-	49,388	49,388
-	4,869	-	4,869
<u>\$ 120,508</u>	<u>\$ 676,965</u>	<u>\$ 178,180</u>	<u>\$ 2,463,698</u>
\$ -	\$ -	\$ -	\$ 229,607
-	-	-	4,869
-	-	142,093	142,093
-	-	-	25,537
-	-	-	57,120
-	-	-	21,330
-	-	-	16,065
-	-	-	50,088
-	-	-	100,000
-	-	21,974	21,974
-	-	-	83,800
-	277,704	-	277,704
-	-	-	3,604
-	-	-	175
-	-	-	203,371
-	-	-	41,400
-	-	-	1,427,932
2,461,713	-	-	2,461,713
-	-	312,233	312,233
-	-	718,910	718,910
-	(3,669)	-	2,243,382
<u>\$ 2,461,713</u>	<u>\$ 274,035</u>	<u>\$ 1,195,210</u>	<u>\$ 8,442,907</u>
<u>\$ 2,582,221</u>	<u>\$ 951,000</u>	<u>\$ 1,373,390</u>	<u>\$ 10,906,605</u>

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)	\$ 8,442,907
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.	42,671,575
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.	1,802,135
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	\$ (2,490,000)
Other postemployment benefits	(53,143)
Bond premium	(13,675)
Deferred charges	34,522
Accrued interest payable	(41,588)
Compensated absences	(284,598)
	<u>(2,848,482)</u>
Net Position of Governmental Activities (Exhibit 1)	<u>\$ 50,068,135</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 2,897,082	\$ 1,405,314
Special assessments	-	-
Licenses and permits	10,000	-
Intergovernmental	433,006	4,195,887
Charges for services	274,529	308,066
Fines and forfeits	21,812	-
Gifts and contributions	-	6,000
Investment earnings	41,404	-
Miscellaneous	59,031	86,494
	\$ 3,736,864	\$ 6,001,761
Expenditures		
Current		
General government	\$ 1,849,808	\$ -
Public safety	1,953,406	-
Highways and streets	-	5,581,127
Sanitation	-	-
Human services	-	-
Health	2,038	-
Culture and recreation	58,025	8,286
Conservation of natural resources	162,245	-
Economic development	2,800	-
Intergovernmental		
Highways and streets	-	334,795
Debt service		
Principal	-	46,572
Interest	-	757
Administrative (fiscal) charges	-	-
	\$ 4,028,322	\$ 5,971,537
Excess of Revenues Over (Under) Expenditures	\$ (291,458)	\$ 30,224
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 439,000
Transfers out	(439,000)	-
	\$ (439,000)	\$ 439,000
Change in Fund Balances	\$ (730,458)	\$ 469,224
Fund Balances - January 1	3,297,697	1,495,455
Increase (decrease) in inventories	-	(19,969)
Fund Balances - December 31	\$ 2,567,239	\$ 1,944,710

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

EXHIBIT 5

<u>Human Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 1,432,862	\$ -	\$ 636,739	\$ 6,371,997
-	704,997	-	704,997
-	-	1,200	11,200
1,050,373	-	414,589	6,093,855
275,454	-	384,220	1,242,269
1,133	-	-	22,945
-	-	1,643	7,643
36	-	-	41,440
29,080	-	141,698	316,303
<u>\$ 2,788,938</u>	<u>\$ 704,997</u>	<u>\$ 1,580,089</u>	<u>\$ 14,812,649</u>
\$ -	\$ 840	\$ -	\$ 1,850,648
-	-	-	1,953,406
-	-	-	5,581,127
-	-	330,585	330,585
2,057,208	-	-	2,057,208
-	-	824,657	826,695
-	-	-	66,311
-	673,133	25,180	860,558
-	-	-	2,800
-	-	-	334,795
-	-	225,000	271,572
-	-	104,029	104,786
-	-	402	402
<u>\$ 2,057,208</u>	<u>\$ 673,973</u>	<u>\$ 1,509,853</u>	<u>\$ 14,240,893</u>
<u>\$ 731,730</u>	<u>\$ 31,024</u>	<u>\$ 70,236</u>	<u>\$ 571,756</u>
\$ -	\$ -	\$ -	\$ 439,000
-	-	-	(439,000)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 731,730</u>	<u>\$ 31,024</u>	<u>\$ 70,236</u>	<u>\$ 571,756</u>
1,729,983	243,011	1,124,974	7,891,120
-	-	-	(19,969)
<u>\$ 2,461,713</u>	<u>\$ 274,035</u>	<u>\$ 1,195,210</u>	<u>\$ 8,442,907</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 571,756

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

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

Deferred revenue - December 31	\$ 1,802,135	
Deferred revenue - January 1	<u>(2,710,542)</u>	(908,407)

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, the net book value of assets disposed of is expensed, while not reported in the fund statements.

Expenditures for general capital assets and infrastructure	\$ 2,924,948	
Current year depreciation	<u>(1,996,546)</u>	928,402

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General obligation bonds	\$ 225,000	
Capital lease	<u>46,572</u>	271,572

Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.		(2,578)
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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	\$ 3,515	
Change in compensated absences	(85)	
Change in other postemployment benefits	(3,492)	
Change in inventories	<u>(19,969)</u>	<u>(20,031)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 840,714

FIDUCIARY FUNDS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 7

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

<u>Assets</u>	
Cash and pooled investments	\$ 315,836
Due from other governments	<u>11</u>
Total Assets	<u><u>\$ 315,847</u></u>
<u>Liabilities</u>	
Due to other funds	\$ 2,072
Due to other governments	207,543
Funds held in trust	<u>106,232</u>
Total Liabilities	<u><u>\$ 315,847</u></u>

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). 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

Wilkin County was established March 6, 1868, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

The County participates in joint ventures, jointly-governed organizations, and a related organization, which are described in Notes 5.D., 5.E., and 5.F., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the County. 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.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

The Ditch Special Revenue Fund is used to account for the financial transactions of the County drainage systems. Financing is provided by special assessments levied against benefited property owners.

Additionally, the County reports the following fund types:

The Debt Service Fund accounts for the resources accumulated and payments made for the principal and interest on long-term debt of the government.

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 revenue in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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. Wilkin County considers all revenue 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, unless the County Board takes specific action to appropriate those unrestricted resources.

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2012 were \$41,404.

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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 receivables are shown net of an allowance for uncollectibles.

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

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. Inventories at the government-wide level are recorded as expenses when consumed.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the 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 life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

4. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the current period, the County did not have any capitalized interest.

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Improvements other than buildings	20 - 35
Infrastructure	15 - 75
Machinery, furniture, and equipment	3 - 15

5. Compensated Absences

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

6. Deferred Revenue

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

In the fund financial statements, the face amount of the debt issued is reported as an other financing source.

8. Classification of Net Position

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

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

9. Classification of Fund Balances

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

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

9. Classification of Fund Balances (Continued)

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

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Minimum Fund Balance

Wilkin County is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. Wilkin County has adopted a minimum fund balance policy to address cash flow or working capital needs. The County is heavily reliant on property tax revenues to fund current operations. However, current property tax revenues are not available for distribution until June. Therefore, the County will maintain an unrestricted fund balance level of no less than five months of operating expenditures.

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

Of 20 drainage systems, 1 has incurred expenditures in excess of revenues and available resources. This deficit will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue Fund as of December 31, 2012.

Account balances	\$ 277,704
Account deficits	<u>(3,669)</u>
Fund Balance	<u>\$ 274,035</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity (Continued)

For internal purposes, the County accounts for its ditches on the accrual basis. Under the full accrual basis where revenues are recognized when earned, the Ditch Special Revenue Fund reports a positive fund balance of \$841,849 with one ditch reporting a deficit.

B. Excess of Expenditures Over Budget

	Expenditures	Budget	Excess
General Fund	\$ 4,028,322	\$ 3,822,370	\$ 205,952
Special Revenue Funds			
Road and Bridge	5,971,537	5,438,300	533,237
Public Health	824,657	784,434	40,223

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

The County's total cash and investments are reported as follows:

Governmental activities	
Cash and pooled investments	\$ 8,219,791
Fiduciary funds	
Cash and pooled investments	
Agency funds	315,836
Total Cash and Investments	\$ 8,535,627

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.

**WILKIN COUNTY
BRECKENRIDGE, 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 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. As of December 31, 2012, the County’s deposits were not exposed to custodial credit risk.

b. Investments

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

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

**WILKIN COUNTY
BRECKENRIDGE, 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 minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

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. At December 31, 2012, \$1,029,190 of government securities and \$355,939 of publicly traded certificates of deposit were exposed to custodial credit risk because they were held by the counterparty.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities may be held without limit.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's cash and investment balances at December 31, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Bank	AAA	Moody's		08/15/22	\$ 200,086
Federal Home Loan Bank	AAA	Moody's		11/15/22	300,126
Federal Home Loan Bank	AA+	S&P		11/28/22	199,498
Federal Home Loan Bank	AA+	S&P		12/28/22	700,994
Total Federal Home Loan Bank			16.4%		\$ 1,400,704
Investment pools/mutual funds					
MAGIC Fund			N/A		\$ 1,260,092
Negotiable certificates of deposit			N/A		\$ 484,425
Total investments					\$ 3,145,221
Deposits					5,382,556
Change funds					7,850
Total Cash and Investments					\$ 8,535,627

N/A - Not Applicable

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 66,113	\$ -
Special assessments	568,877	-
Accounts - net	83,132	-
Interest	4,635	-
Due from other governments	1,603,754	-
Total Governmental Activities	\$ 2,326,511	\$ -

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,042,274	\$ -	\$ -	\$ 1,042,274
Construction in progress	67,360	15,767	15,929	67,198
Total capital assets not depreciated	\$ 1,109,634	\$ 15,767	\$ 15,929	\$ 1,109,472
Capital assets depreciated				
Improvements other than buildings	\$ 75,716	\$ -	\$ -	\$ 75,716
Buildings	7,466,168	48,116	-	7,514,284
Machinery, furniture, and equipment	4,907,193	757,503	335,894	5,328,802
Infrastructure	54,001,062	2,119,491	-	56,120,553
Total capital assets depreciated	\$ 66,450,139	\$ 2,925,110	\$ 335,894	\$ 69,039,355

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Improvements other than buildings	\$ 35,935	\$ 4,517	\$ -	\$ 40,452
Buildings	1,784,342	177,798	-	1,962,140
Machinery, furniture, and equipment	3,492,645	360,623	335,894	3,517,374
Infrastructure	20,503,678	1,453,608	-	21,957,286
Total accumulated depreciation	\$ 25,816,600	\$ 1,996,546	\$ 335,894	\$ 27,477,252
Total capital assets depreciated, net	\$ 40,633,539	\$ 928,564	\$ -	\$ 41,562,103
Governmental Activities				
Capital Assets, Net	\$ 41,743,173	\$ 944,331	\$ 15,929	\$ 42,671,575

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

General government	\$ 42,648
Public safety	196,476
Highways and streets, including depreciation of infrastructure assets	1,719,384
Human services	11,317
Sanitation	24,218
Culture and recreation	1,993
Conservation of natural resources	510
Total Depreciation Expense	\$ 1,996,546

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Human Services Special Revenue Fund	\$ 8,141
	Public Health Nurse Special Revenue Fund	3,614
	Agency funds	2,072
Total due to General Fund		\$ 13,827

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

Receivable Fund	Payable Fund	Amount
Road and Bridge Special Revenue Fund	General Fund Ditch Special Revenue Fund Environmental Special Revenue Fund	\$ 152 104,282 <u>200</u>
Total due to Road and Bridge Special Revenue Fund		<u>\$ 104,634</u>
Human Services Special Revenue Fund	General Fund Public Health Nurse Special Revenue Fund	\$ 309 <u>485</u>
Total due to Human Services Special Revenue Fund		<u>\$ 794</u>
Public Health Nurse Special Revenue Fund	General Fund Human Services Special Revenue Fund	\$ 1,336 <u>7,308</u>
Total due to Public Health Nurse Special Revenue Fund		<u>\$ 8,644</u>
Total Due To/From Other Funds		<u>\$ 127,899</u>

The outstanding balances between the funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

2. Advance From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	<u>\$ 4,869</u>

The purpose of the advance from the General Fund to the Ditch Special Revenue Fund is to provide cash flow for individual drainage systems. The advance will be repaid in future years through the use of special assessments levied on the benefited parcels.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

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

Transfer to Road and Bridge Special Revenue Fund from General Fund	\$	<u>439,000</u>	To cover current year budgeted expenditures
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C. Liabilities

1. Payables

Payables at December 31, 2012, were as follows:

		<u>Governmental Activities</u>
Accounts	\$	266,541
Salaries		26,884
Contracts		94,567
Due to other governments		<u>93,487</u>
Total Payables	\$	<u>481,479</u>

2. Deferred Revenue

Deferred revenue as of December 31, 2012, for the County is as follows:

	<u>Deferred Unavailable</u>	<u>Deferred Unearned</u>
Taxes and special assessments	\$ 620,253	\$ -
State-aid highway allotments	874,892	-
Charges for services	129,681	-
Grants	173,280	49,388
Interest	<u>4,029</u>	<u>-</u>
Total Deferred Revenue	<u>\$ 1,802,135</u>	<u>\$ 49,388</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Construction and Other Significant Commitments

The County has an active construction project and commitment as of December 31, 2012.

	Spent-to-Date	Remaining Commitment
Governmental Activities Highways and Streets Payloader	\$ -	\$ 203,371

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
2005 G.O. Jail Bonds	2021	\$200,000 - \$325,000	3.99	\$ 3,750,000	\$ 2,490,000
Add: Unamortized premium					13,675
Total General Obligation Bonds, Net					\$ 2,503,675

5. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2013	\$ 235,000	\$ 95,404
2014	245,000	86,097
2015	255,000	76,098
2016	265,000	65,698
2017	275,000	54,897
2018 - 2021	1,215,000	102,382
Total	\$ 2,490,000	\$ 480,576

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 2,715,000	\$ -	\$ 225,000	\$ 2,490,000	\$ 235,000
Add: Unamortized premium	15,367	-	1,692	13,675	-
Total bonds payable	\$ 2,730,367	\$ -	\$ 226,692	\$ 2,503,675	\$ 235,000
Capital leases	46,572	-	46,572	-	-
Compensated absences	284,513	267,362	267,277	284,598	224,428
OPEB liability	49,651	3,492	-	53,143	-
Total Long-Term Liabilities	\$ 3,111,103	\$ 270,854	\$ 540,541	\$ 2,841,416	\$ 459,428

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 239,303	\$ 234,415	\$ 227,085
Public Employees Police and Fire Fund	48,232	45,069	47,375
Public Employees Correctional Fund	35,946	33,666	33,735

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

B. Defined Contribution Plan

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

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 932	\$ 932
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Wilkin County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Wilkin County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees and their spouses contribute to the health care plan at the same rate as County employees. This results in the retirees receiving an implicit rate subsidy. For 2012, there were 99 participants in the plan, including 4 retirees.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	27,074
Interest on net OPEB obligation		2,234
Adjustment to ARC		(3,043)
		(3,043)
Annual OPEB cost (expense)	\$	26,265
Contributions made		(22,773)
		(22,773)
Increase in net OPEB obligation	\$	3,492
Net OPEB Obligation - Beginning of Year		49,651
		49,651
Net OPEB Obligation - End of Year	\$	53,143

The County's annual OPEB cost for December 31, 2012, was \$26,265. The percentage of annual OPEB cost contributed to the plan was 86.7 percent, and the net OPEB obligation for 2012 was \$53,143.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2011, and 2012 were as follows:

Fiscal Year-End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
December 31, 2010	\$ 35,259	\$ 18,189	51.6	\$ 39,047
December 31, 2011	34,980	24,376	69.7	49,651
December 31, 2012	26,265	22,773	86.7	53,143

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan had no funding. The actuarial accrued liability for benefits was \$236,471, and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$236,471. The covered payroll (annual payroll of active employees covered by the plan) was \$3,734,955, and the ratio of the UAAL to the covered payroll was 6.3 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.

Actuarial Methods and Assumptions

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

In the January 1, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return (net of investment expenses), which is Wilkin County's implicit rate of return on the General Fund. The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years. Both rates included a 2.5 percent inflation assumption. The UAAL is being amortized over 30 years on a closed basis. The remaining amortization period at December 31, 2012, was 27 years.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Claims and Litigation

The County, in connection with the normal conduct of its affairs, may be involved in various claims, judgments, and litigation. The County Attorney identified no potential claims against the County that would materially affect the financial statements.

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.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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

D. Joint Ventures

Central Minnesota Emergency Services Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39. As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to the Central Minnesota Emergency Services Board. Members include the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

The purpose of the Central Minnesota Emergency Services Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota.

The Central Minnesota Emergency Services Board is composed of one Commissioner from each county appointed by the respective County Board and one City Council member appointed by the City Council, as provided in the Central Minnesota Emergency Services Board's by-laws.

In the event of dissolution of the Central Minnesota Emergency Services Board, all property, assets, and funds of the Board shall be distributed to the parties of the agreement upon termination in direct proportion to their participation and contribution. Any city or county that has withdrawn from the agreement prior to termination of the Board shall share in the distribution of property, assets, and funds of the Board only to the extent they shared in the original expense.

The Central Minnesota Emergency Services Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. Complete financial information can be obtained from Central Minnesota Emergency Services Board, City of St. Cloud, Office of the Mayor, City Hall, 400 Second Street South, St. Cloud, Minnesota 56303.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. In 2005, the Area Agency on Aging became part of a larger planning and service area, covering 21 counties. This is a partnership between Northwest Regional Development Commission, the 5-county service area of Region 2, and the West Central Area Agency on Aging. The combined area on aging, known as the Land of the Dancing Sky Area on Aging, was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the 21-county area. Each county may be assessed a proportional share of 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

The Land of the Dancing Sky umbrella board meets quarterly to discuss and approve major items such as the area plan and dollar allocations, while the advisory councils and joint powers boards continue to meet monthly to make decisions affecting their local counties.

Control is vested in the West Central Board on Aging. The Board consists of one County Commissioner from each of the counties. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of withdrawal.

Complete financial statements for the West Central Area Agency on Aging can be obtained from its administrative office, P. O. Box 726, Fergus Falls, Minnesota 56537.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Wilkin County Children's Collaborative

The Wilkin County Children's Collaborative was established in 1997, under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Wilkin County; Wilkin County Family Service Agency; Wilkin County Public Health Nursing Service; Wilkin County Courts Services; Independent School District Nos. 846, 850, and 852; St. Mary School; St. Francis Medical Center/Hope Unit; and Clay-Wilkin Opportunity Council/Head Start. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

Control of the Wilkin County Children's Collaborative is vested in a Board of Directors, which is composed of one member appointed by each member party.

In the event of a withdrawal from the Wilkin County Children's Collaborative, the withdrawing party shall give a 90-day notice. The withdrawing party shall not be entitled to a refund of monies contributed to the Collaborative prior to the effective date of withdrawal. The Board shall continue to exist if the Collaborative is terminated for the limited purpose of discharging the Board's debts and liabilities, settling its affairs, and disposing of its remaining property.

Financing is provided by state grants and appropriations and contributions from its member parties. Wilkin County, in an agent capacity, reports the cash transactions of the Wilkin County Children's Collaborative as an agency fund on its financial statements. During 2012, the County did not contribute any funds to the Collaborative.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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

E. Jointly-Governed Organizations

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

Buffalo-Red River Watershed District

The Buffalo-Red River Watershed District was formed pursuant to Minn. Stat. §§ 103D.201-.231, effective June 17, 1963, and includes land within Becker, Clay, and Wilkin Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. Control of the District is vested in the Buffalo-Red River Watershed District Board of Managers, which is composed of five members having staggered terms of three years each, with three appointed by the Clay County Board, one appointed by the Becker County Board, and one appointed by the Wilkin County Board.

Western Area City/County Co-Op

Wilkin County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of WACCO is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burden on each of its members through the cooperative sharing of existing resources. The management and control of WACCO shall be vested in a Board of Directors composed of a representative appointed by each member city and county.

District IV Transportation Planning

Wilkin County and 13 other cities and counties entered into a joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Agassiz Regional Library

The Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Becker, Clay, Clearwater, Mahnomon, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library Board, with 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners; one member appointed by each participating city; and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. In 2012, Wilkin County provided \$43,825 in the form of an appropriation.

Richland-Wilkin Joint Powers Authority

Wilkin County and Richland County, ND entered into a joint powers agreement for the purpose of protecting the citizens and properties of these two counties and to oppose the planned construction of dams on the Wild Rice and Red Rivers as currently proposed in the Fargo Metropolitan Area Flood and Risk Management Project. This agreement is established pursuant to Minn. Stat Sec 471.59 and North Dakota Century Code 54-401-1. Control is vested in the Board, which is composed of two members appointed by the Wilkin County Board and two members appointed by the Richland County Board. Wilkin County made no contributions to the Authority in 2012.

F. Related Organization

Bois de Sioux Watershed District

Wilkin County and the Bois de Sioux Watershed District entered into a joint powers agreement for the purpose of providing for the repair and maintenance of Wilkin County Ditch No. 8, which lies outside the present boundaries of the Bois de Sioux Watershed District, effective November 19, 1991, and authorized under Minn. Stat. § 103D.335, subs. 2 and 21.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

6. Subsequent Event

General Obligation Jail Bond Refinance

On April 9, 2013, the County Board approved to go forward with the refinancing of the General Obligation Jail Bonds of 2005.

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REQUIRED SUPPLEMENTARY INFORMATION

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,972,578	\$ 2,972,578	\$ 2,897,082	\$ (75,496)
Licenses and permits	9,350	9,350	10,000	650
Intergovernmental	281,091	281,091	433,006	151,915
Charges for services	253,151	253,151	274,529	21,378
Fines and forfeits	1,800	1,800	21,812	20,012
Investment earnings	50,000	50,000	41,404	(8,596)
Miscellaneous	47,500	47,500	59,031	11,531
Total Revenues	\$ 3,615,470	\$ 3,615,470	\$ 3,736,864	\$ 121,394
Expenditures				
Current				
General government				
Commissioners	\$ 151,528	\$ 151,528	\$ 146,268	\$ 5,260
County auditor	284,240	284,240	300,549	(16,309)
County treasurer	201,448	201,448	204,548	(3,100)
County assessor	239,825	239,825	220,445	19,380
Elections	45,919	45,919	43,160	2,759
Accounting and auditing	41,000	41,000	53,456	(12,456)
Data processing	69,000	69,000	82,300	(13,300)
Attorney	186,501	186,501	185,514	987
Law library	-	-	13,476	(13,476)
Recorder	205,919	205,919	207,509	(1,590)
Planning and zoning	8,800	8,800	3,811	4,989
Buildings and plant	267,250	267,250	150,263	116,987
Veterans service officer	81,030	81,030	80,187	843
GIS	13,550	13,550	13,434	116
Unallocated	143,600	143,600	144,888	(1,288)
Total general government	\$ 1,939,610	\$ 1,939,610	\$ 1,849,808	\$ 89,802
Public safety				
Sheriff	\$ 882,597	\$ 882,597	\$ 879,331	\$ 3,266
Coroner	4,800	4,800	4,400	400
E-911 system	136,900	136,900	433,626	(296,726)
County jail	489,750	489,750	489,002	748
Probation and parole	89,500	89,500	113,546	(24,046)
Sheriff's contingent	1,800	1,800	-	1,800
Civil defense	32,297	32,297	33,501	(1,204)
Total public safety	\$ 1,637,644	\$ 1,637,644	\$ 1,953,406	\$ (315,762)

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

*EXHIBIT A-1
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Health				
Aging grant	\$ 1,020	\$ 1,020	\$ 1,038	\$ (18)
Rothsay Partners	1,000	1,000	1,000	-
Rural life outreach	3,000	3,000	-	3,000
Other	700	700	-	700
Total health	\$ 5,720	\$ 5,720	\$ 2,038	\$ 3,682
Culture and recreation				
Historical society	\$ 12,800	\$ 12,800	\$ 13,800	\$ (1,000)
Regional library	43,825	43,825	43,825	-
Celebrations	400	400	400	-
Other	300	300	-	300
Total culture and recreation	\$ 57,325	\$ 57,325	\$ 58,025	\$ (700)
Conservation of natural resources				
County extension	\$ 98,787	\$ 98,787	\$ 82,758	\$ 16,029
Soil and water conservation	65,000	65,000	65,000	-
Agricultural society/County fair	8,000	8,000	8,000	-
Weed control	7,484	7,484	6,487	997
Total conservation of natural resources	\$ 179,271	\$ 179,271	\$ 162,245	\$ 17,026
Economic development				
Community development	\$ 2,800	\$ 2,800	\$ 2,800	\$ -
Total Expenditures	\$ 3,822,370	\$ 3,822,370	\$ 4,028,322	\$ (205,952)
Excess of Revenues Over (Under) Expenditures	\$ (206,900)	\$ (206,900)	\$ (291,458)	\$ (84,558)
Other Financing Sources (Uses)				
Transfers out	-	-	(439,000)	(439,000)
Net Change in Fund Balance	\$ (206,900)	\$ (206,900)	\$ (730,458)	\$ (523,558)
Fund Balance - January 1	3,297,697	3,297,697	3,297,697	-
Fund Balance - December 31	\$ 3,090,797	\$ 3,090,797	\$ 2,567,239	\$ (523,558)

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,452,222	\$ 1,452,222	\$ 1,405,314	\$ (46,908)
Intergovernmental	3,369,778	3,369,778	4,195,887	826,109
Charges for services	130,300	130,300	308,066	177,766
Gifts and contributions	-	-	6,000	6,000
Miscellaneous	47,000	47,000	86,494	39,494
Total Revenues	\$ 4,999,300	\$ 4,999,300	\$ 6,001,761	\$ 1,002,461
Expenditures				
Current				
Highways and streets				
Administration	\$ 204,709	\$ 204,709	\$ 183,834	\$ 20,875
Maintenance	1,529,327	1,529,327	1,704,483	(175,156)
Construction	2,425,415	2,425,415	2,725,341	(299,926)
Equipment maintenance and shop	991,897	991,897	824,267	167,630
Materials and services for resale	-	-	42,247	(42,247)
Unallocated - highways and streets	282,952	282,952	100,955	181,997
Total highways and streets	\$ 5,434,300	\$ 5,434,300	\$ 5,581,127	\$ (146,827)
Culture and recreation				
Parks	4,000	4,000	8,286	(4,286)
Intergovernmental				
Highways and streets	-	-	334,795	(334,795)
Debt service				
Principal	-	-	46,572	(46,572)
Interest	-	-	757	(757)
Total Expenditures	\$ 5,438,300	\$ 5,438,300	\$ 5,971,537	\$ (533,237)
Excess of Revenues Over (Under) Expenditures	\$ (439,000)	\$ (439,000)	\$ 30,224	\$ 469,224
Other Financing Sources (Uses)				
Transfers in	-	-	439,000	439,000
Net Change in Fund Balance	\$ (439,000)	\$ (439,000)	\$ 469,224	\$ 908,224
Fund Balance - January 1	1,495,455	1,495,455	1,495,455	-
Increase (decrease) in inventories	-	-	(19,969)	(19,969)
Fund Balance - December 31	\$ 1,056,455	\$ 1,056,455	\$ 1,944,710	\$ 888,255

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,473,194	\$ 1,473,194	\$ 1,432,862	\$ (40,332)
Intergovernmental	923,575	923,575	1,050,373	126,798
Charges for services	204,103	204,103	275,454	71,351
Fines and forfeits	500	500	1,133	633
Investment earnings	225	225	36	(189)
Miscellaneous	17,694	17,694	29,080	11,386
Total Revenues	\$ 2,619,291	\$ 2,619,291	\$ 2,788,938	\$ 169,647
Expenditures				
Current				
Human services				
Income maintenance	\$ 752,679	\$ 752,679	\$ 640,828	\$ 111,851
Social services	1,866,612	1,866,612	1,416,380	450,232
Total Expenditures	\$ 2,619,291	\$ 2,619,291	\$ 2,057,208	\$ 562,083
Net Change in Fund Balance	\$ -	\$ -	\$ 731,730	\$ 731,730
Fund Balance - January 1	1,729,983	1,729,983	1,729,983	-
Fund Balance - December 31	\$ 1,729,983	\$ 1,729,983	\$ 2,461,713	\$ 731,730

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT A-4

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2012	\$ -	\$ 236,471	\$ 236,471	0.0%	\$ 3,734,955	6.3%
January 1, 2009	-	297,047	297,047	0.0	3,731,784	8.0

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch and Gravel Tax Reserve Special Revenue Funds. All annual appropriations lapse at fiscal year-end.

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

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no budgetary amendments.

2. Excess of Expenditures Over Budget

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

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 4,028,322	\$ 3,822,370	\$ 205,952
Road and Bridge Special Revenue Fund	5,971,537	5,438,300	533,237

3. Other Postemployment Benefits

See Note 4.C., Other Postemployment Benefits, for more information.

Governmental Accounting Standards Board Statement 45 requires a Schedule of Funding Progress - Other Postemployment Benefits for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Other Postemployment Benefits (Continued)

Currently, only two actuarial valuations are available. Future reports will provide additional trend analysis to meet the three most recent valuation funding status requirements as the information becomes available.

SUPPLEMENTARY INFORMATION

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Environmental Fund - to account for the financial transactions of providing environmental services. Financing is provided by special assessments, charges for services, and intergovernmental revenues designated for environmental purposes.

Gravel Tax Reserve Fund - to account for the proceeds of a special gravel removal or occupation tax restricted to expenditures for the restoration of abandoned gravel pits.

Public Health Nurse Fund - to account for providing nursing service care to the elderly and other residents of the County. Financing is provided by health care service grants, County contributions, and user service charges.

DEBT SERVICE FUND

Courthouse Improvement - to account for accumulation of resources and payment of principal and interest on the general obligation jail bonds.

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT B-1

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

	Special Revenue (Exhibit B -3)	Courthouse Improvement Debt Service	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 1,021,946	\$ 134,885	\$ 1,156,831
Petty cash and change funds	5,000	-	5,000
Undistributed cash in agency funds	8,979	6,501	15,480
Taxes receivable delinquent	3,346	3,528	6,874
Accounts receivable	63,186	-	63,186
Due from other funds	8,644	-	8,644
Due from other governments	117,375	-	117,375
	\$ 1,228,476	\$ 144,914	\$ 1,373,390
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 11,695	\$ -	\$ 11,695
Salaries payable	11,550	-	11,550
Due to other funds	4,299	-	4,299
Due to other governments	6,267	-	6,267
Deferred revenue - unavailable	92,160	2,821	94,981
Deferred revenue - unearned	49,388	-	49,388
	\$ 175,359	\$ 2,821	\$ 178,180
 Fund Balances			
Restricted			
Debt service	\$ -	\$ 142,093	\$ 142,093
Gravel pit restoration	21,974	-	21,974
Assigned			
Sanitation	312,233	-	312,233
Public health	718,910	-	718,910
	\$ 1,053,117	\$ 142,093	\$ 1,195,210
Total Fund Balances	\$ 1,053,117	\$ 142,093	\$ 1,195,210
 Total Liabilities and Fund Balances	\$ 1,228,476	\$ 144,914	\$ 1,373,390

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT B-2

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

	Special Revenue (Exhibit B-4)	Courthouse Improvement Debt Service	Total (Exhibit 5)
Revenues			
Taxes	\$ 317,555	\$ 319,184	\$ 636,739
Licenses and permits	1,200	-	1,200
Intergovernmental	397,776	16,813	414,589
Charges for services	384,220	-	384,220
Gifts and contributions	1,643	-	1,643
Miscellaneous	141,698	-	141,698
	\$ 1,244,092	\$ 335,997	\$ 1,580,089
Expenditures			
Current			
Sanitation	\$ 330,585	\$ -	\$ 330,585
Health	824,657	-	824,657
Conservation of natural resources	25,180	-	25,180
Debt service			
Principal	-	225,000	225,000
Interest	-	104,029	104,029
Administrative - fiscal charges	-	402	402
	\$ 1,180,422	\$ 329,431	\$ 1,509,853
Net Change in Fund Balance	\$ 63,670	\$ 6,566	\$ 70,236
Fund Balance - January 1	989,447	135,527	1,124,974
Fund Balance - December 31	\$ 1,053,117	\$ 142,093	\$ 1,195,210

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT B-3

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

	Environmental	Gravel Tax Reserve	Public Health Nurse	Total (Exhibit B-1)
<u>Assets</u>				
Cash and pooled investments	\$ 365,311	\$ 22,531	\$ 634,104	\$ 1,021,946
Petty cash and change funds	5,000	-	-	5,000
Undistributed cash in agency funds	2,492	-	6,487	8,979
Taxes receivable delinquent	34	-	3,312	3,346
Accounts receivable	8,846	1,044	53,296	63,186
Due from other funds	-	-	8,644	8,644
Due from other governments	-	-	117,375	117,375
	\$ 381,683	\$ 23,575	\$ 823,218	\$ 1,228,476
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 7,536	\$ -	\$ 4,159	\$ 11,695
Salaries payable	117	-	11,433	11,550
Due to other funds	200	-	4,099	4,299
Due to other governments	4,666	1,601	-	6,267
Deferred revenue - unavailable	7,543	-	84,617	92,160
Deferred revenue - unearned	49,388	-	-	49,388
	\$ 69,450	\$ 1,601	\$ 104,308	\$ 175,359
 Fund Balances				
Restricted				
Gravel pit restoration	\$ -	\$ 21,974	\$ -	\$ 21,974
Assigned				
Sanitation	312,233	-	-	312,233
Public health	-	-	718,910	718,910
	\$ 312,233	\$ 21,974	\$ 718,910	\$ 1,053,117
 Total Liabilities and Fund Balances				
	\$ 381,683	\$ 23,575	\$ 823,218	\$ 1,228,476

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT B-4

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

	Environmental	Gravel Tax Reserve	Public Health Nurse	Total (Exhibit B-2)
Revenues				
Taxes	\$ 1,764	\$ 333	\$ 315,458	\$ 317,555
Licenses and permits	1,200	-	-	1,200
Intergovernmental	115,299	-	282,477	397,776
Charges for services	95,913	-	288,307	384,220
Gifts and contributions	-	-	1,643	1,643
Miscellaneous	120,955	-	20,743	141,698
	\$ 335,131	\$ 333	\$ 908,628	\$ 1,244,092
Expenditures				
Current				
Sanitation	\$ 330,585	\$ -	\$ -	\$ 330,585
Health	-	-	824,657	824,657
Conservation of natural resources	25,180	-	-	25,180
	\$ 355,765	\$ -	\$ 824,657	\$ 1,180,422
Net Change in Fund Balance	\$ (20,634)	\$ 333	\$ 83,971	\$ 63,670
Fund Balance - January 1	332,867	21,641	634,939	989,447
Fund Balance - December 31	\$ 312,233	\$ 21,974	\$ 718,910	\$ 1,053,117

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT B-5

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,345	\$ 3,345	\$ 1,764	\$ (1,581)
Licenses and permits	1,000	1,000	1,200	200
Intergovernmental	91,000	91,000	115,299	24,299
Charges for services	93,000	93,000	95,913	2,913
Miscellaneous	163,060	163,060	120,955	(42,105)
Total Revenues	\$ 351,405	\$ 351,405	\$ 335,131	\$ (16,274)
Expenditures				
Current				
Sanitation				
Solid waste	\$ 202,100	\$ 202,100	\$ 214,621	\$ (12,521)
Recycling	151,500	151,500	115,964	35,536
Total sanitation	\$ 353,600	\$ 353,600	\$ 330,585	\$ 23,015
Conservation of natural resources				
Water planning	4,300	4,300	25,180	(20,880)
Total Expenditures	\$ 357,900	\$ 357,900	\$ 355,765	\$ 2,135
Net Change in Fund Balance	\$ (6,495)	\$ (6,495)	\$ (20,634)	\$ (14,139)
Fund Balance - January 1	332,867	332,867	332,867	-
Fund Balance - December 31	\$ 326,372	\$ 326,372	\$ 312,233	\$ (14,139)

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 327,301	\$ 327,301	\$ 315,458	\$ (11,843)
Intergovernmental	250,494	250,494	282,477	31,983
Charges for services	206,339	206,339	288,307	81,968
Gifts and contributions	200	200	1,643	1,443
Miscellaneous	100	100	20,743	20,643
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 784,434	\$ 784,434	\$ 908,628	\$ 124,194
Expenditures				
Current				
Health				
Nursing service	784,434	784,434	824,657	(40,223)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ -	\$ -	\$ 83,971	\$ 83,971
Fund Balance - January 1	634,939	634,939	634,939	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 634,939	\$ 634,939	\$ 718,910	\$ 83,971
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT B-7

**BUDGETARY COMPARISON SCHEDULE
COURTHOUSE IMPROVEMENT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 327,455	\$ 327,455	\$ 319,184	\$ (8,271)
Intergovernmental	4,945	4,945	16,813	11,868
Total Revenues	\$ 332,400	\$ 332,400	\$ 335,997	\$ 3,597
Expenditures				
Debt service				
Principal	\$ 225,000	\$ 225,000	\$ 225,000	\$ -
Interest	104,029	104,029	104,029	-
Administrative (fiscal) charges	3,371	3,371	402	2,969
Total Expenditures	\$ 332,400	\$ 332,400	\$ 329,431	\$ 2,969
Net Change in Fund Balance	\$ -	\$ -	\$ 6,566	\$ 6,566
Fund Balance - January 1	135,527	135,527	135,527	-
Fund Balance - December 31	\$ 135,527	\$ 135,527	\$ 142,093	\$ 6,566

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FIDUCIARY FUNDS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 35,029	\$ 21,603	\$ 38,753	\$ 17,879
Due from other governments	17	11	17	11
Total Assets	\$ 35,046	\$ 21,614	\$ 38,770	\$ 17,890
<u>Liabilities</u>				
Due to other governments	\$ 35,046	\$ 21,614	\$ 38,770	\$ 17,890
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,587	\$ 1,018,072	\$ 956,800	\$ 68,859
<u>Liabilities</u>				
Due to other funds	\$ 228	\$ 2,072	\$ 228	\$ 2,072
Due to other governments	7,359	1,016,000	956,572	66,787
Total Liabilities	\$ 7,587	\$ 1,018,072	\$ 956,800	\$ 68,859

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 155,265	\$ 12,710,371	\$ 12,636,538	\$ 229,098
<u>Liabilities</u>				
Due to other governments	\$ 53,299	\$ 12,604,139	\$ 12,534,572	\$ 122,866
Funds held in trust	101,966	106,232	101,966	106,232
Total Liabilities	\$ 155,265	\$ 12,710,371	\$ 12,636,538	\$ 229,098
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 197,881	\$ 13,750,046	\$ 13,632,091	\$ 315,836
Due from other governments	17	11	17	11
Total Assets	\$ 197,898	\$ 13,750,057	\$ 13,632,108	\$ 315,847
<u>Liabilities</u>				
Due to other funds	\$ 228	\$ 2,072	\$ 228	\$ 2,072
Due to other governments	95,704	13,641,753	13,529,914	207,543
Funds held in trust	101,966	106,232	101,966	106,232
Total Liabilities	\$ 197,898	\$ 13,750,057	\$ 13,632,108	\$ 315,847

SCHEDULES

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments				
Cash on hand	N/A	N/A	N/A	\$ 7,850
Interest-bearing checking	Two	Various	Continuous	455,384
Certificates of deposit	Seven	0.20 to 1.45	March 23, 2013 to May 6, 2014	1,012,830
Money market savings	Two	Variable	Continuous	3,914,343
Brokerage certificates of deposit	Three	0.40 to 2.10	May 30, 2013 to June 8, 2013	484,425
Minnesota Association of Governments Investing for Counties Fund	N/A	Variable	Continuous	1,260,092
Federal Home Loan Bank	Four	1.00 to 1.01	August 15, 2022 to December 28, 2022	1,400,704
Total Cash and Pooled Investments				<u>\$ 8,535,628</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2012**

	Assets				Total
	Cash	Undistributed Cash	Special Assessments Receivable		
			Delinquent	Deferred	
County Ditches					
1A	\$ 100	\$ 1,100	\$ -	\$ -	\$ 1,200
1A - new	19,352	684	31	5,001	25,068
1B	9,145	-	-	-	9,145
1B - new	21,265	12	131	-	21,408
1C	20,396	1,831	183	50,000	72,410
2	6,581	-	-	5,000	11,581
3	89,647	2,467	713	80,000	172,827
4	14,741	158	116	5,001	20,016
6	4,371	2,263	-	65,001	71,635
7	13,448	115	62	30,001	43,626
12	20,055	91	69	40,000	60,215
15	15,182	78	-	20,001	35,261
23	9,646	1,354	59	10,000	21,059
27	9,132	107	-	10,001	19,240
28	19,146	21	5	50,001	69,173
29	25,419	3,648	-	-	29,067
31	23,892	1,733	524	135,002	161,151
34	19,378	529	-	45,000	64,907
37	6,196	-	2,975	14,000	23,171
Joint Ditches					
County					
J-2	18,840	-	-	-	18,840
Total	\$ 365,932	\$ 16,191	\$ 4,868	\$ 564,009	\$ 951,000

EXHIBIT D-2

Liabilities				Fund Balances	Total Liabilities and Fund Balances
Due to Other Funds	Deferred Revenue	Advance from Other Funds	Total		
\$ -	\$ -	\$ 4,869	\$ 4,869	\$ (3,669)	\$ 1,200
-	5,001	-	5,001	20,067	25,068
-	-	-	-	9,145	9,145
-	131	-	131	21,277	21,408
-	50,000	-	50,000	22,410	72,410
-	5,000	-	5,000	6,581	11,581
89,541	80,578	-	170,119	2,708	172,827
-	5,001	-	5,001	15,015	20,016
985	65,001	-	65,986	5,649	71,635
-	30,001	-	30,001	13,625	43,626
-	40,025	-	40,025	20,190	60,215
-	20,001	-	20,001	15,260	35,261
441	10,000	-	10,441	10,618	21,059
-	10,001	-	10,001	9,239	19,240
2,036	50,001	-	52,037	17,136	69,173
-	-	-	-	29,067	29,067
11,279	135,098	-	146,377	14,774	161,151
-	45,000	-	45,000	19,907	64,907
-	16,975	-	16,975	6,196	23,171
-	-	-	-	18,840	18,840
\$ 104,282	\$ 567,814	\$ 4,869	\$ 676,965	\$ 274,035	\$ 951,000

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT D-3

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

	Governmental Funds
Shared Revenue	
State	
Highway users tax	\$ 4,080,821
County program aid	98,425
PERA rate reimbursement	14,876
Disparity reduction credit	84,847
Police aid	38,296
Market value credit	82,596
Disparity reduction aid	10,350
Border cities reimbursement	10,940
	\$ 4,421,151
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 159,145
Payments	
Local	
Otto Bremer Grant	\$ 1,500
Payments in lieu of taxes	47,406
	\$ 48,906
Grants	
State	
Minnesota Department/Board of	
Corrections	\$ 11,267
Public Safety	86,852
Health	43,531
Human Services	299,999
Veterans Affairs	2,298
Water and Soil Resources	58,777
Pollution Control Agency	55,950
Peace Officer Standards and Training Board	1,993
Secretary of State	5,572
	\$ 566,239

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

*EXHIBIT D-3
(Continued)*

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

	<u>Governmental Funds</u>
Grants (Continued)	
Federal	
Department of	
Agriculture	\$ 102,923
Commerce	35,118
Health and Human Services	670,697
Homeland Security	71,334
Transportation	18,342
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Total federal	\$ 898,414
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Total state and federal grants	\$ 1,464,653
	<hr/>
Total Intergovernmental Revenue	\$ 6,093,855
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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT D-4

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health and Clay-Wilkin Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 61,470
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	79,893
Total U.S. Department of Agriculture		\$ 141,363
U.S. Department of Commerce		
Passed Through Minnesota Department of Public Safety and City of St. Cloud Public Safety Interoperable Communications Grant Program	11.555	\$ 35,118
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety Highway Safety Cluster Occupant Protection Incentive Grants	20.602	\$ 5,903
State Traffic Safety Information System Improvement Grants	20.610	5,000
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	7,439
Total U.S. Department of Transportation		\$ 18,342
U.S. Department of Health and Human Services		
Direct Drug-Free Communities Support Program Grants	93.276	\$ 162,199
Passed Through Minnesota Department of Health and West Central Area Agency on Aging Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	16,693
Passed Through Minnesota Department of Health and Clay-Wilkin Community Health Services Public Health Emergency Preparedness	93.069	933
Universal Newborn Hearing Screening	93.251	125
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$70,308)	93.558	264
Maternal and Child Health Services Block Grant to the States	93.994	11,137

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**EXHIBIT D-4
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	2,081
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	70,044
(Total Temporary Assistance for Needy Families 93.558 \$70,308)		
Emergency Contingency Fund for Temporary Assistance for Needy Families		
State Programs - ARRA	93.714	4,486
Child Support Enforcement	93.563	158,206
Refugee and Entrant Assistance - State-Administered Programs	93.566	77
Child Care and Development Block Grants	93.575	3,525
Community-Based Child Abuse Prevention Grants	93.590	10,000
Stephanie Tubbs Jones Child Welfare Services Program	93.645	1,820
Foster Care Title IV-E	93.658	9,600
Social Services Block Grant	93.667	59,287
Chafee Foster Care Independence Program	93.674	1,140
Children's Health Insurance Program	93.767	12
Medical Assistance Program	93.778	152,813
Total U.S. Department of Health and Human Services		\$ 664,442
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 28,493
Emergency Management Performance Grants	97.042	9,926
Pre-Disaster Mitigation	97.047	453
Passed Through Minnesota Department of Public Safety and West Central Minnesota EMS Corporation		
Homeland Security Grant Program	97.067	30,773
Total U.S. Department of Homeland Security		\$ 69,645
Total Federal Awards		\$ 928,910

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Wilkin County under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Wilkin County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Wilkin County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Highway Safety Cluster	\$	10,903
Temporary Assistance for Needy Families Cluster		74,794

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 898,414
Grants received more than 60 days after year-end, deferred in 2012	
Special Supplemental Nutrition Program for Women, Infants, and Children	38,440
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	95,050
Grants deferred in 2011, recognized in 2012	
Public Health Emergency Preparedness	(6,255)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>(96,739)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 928,910</u>

6. Subrecipients

Wilkin County did not pass any federal awards through to subrecipients in 2012.

7. 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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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

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

Federal Awards

Internal control over major programs:

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

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

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

The major programs are:

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	CFDA #10.561
Child Support Enforcement	CFDA #93.563
Social Services Block Grant	CFDA #93.667
Medical Assistance Program	CFDA #93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

Wilkin County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect County assets, proper segregation of the record keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel within several Wilkin County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. The smaller fee offices generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: This is not unusual in operations the size of Wilkin 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 internal control point of view.

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

Cause: The County informed us that collecting fees for services at a department level provides a convenience for its customers. Fee services are provided in several locations, so having customers paying at a single point of collection, such as the Treasurer's Office, would be very inconvenient. The staffing available in several of these smaller offices limits the potential for complete segregation of duties.

Recommendation: We recommend Wilkin County's elected officials and management be mindful that limited staffing increases the risks in safeguarding the County's assets and the proper recording of its financial activity and, where possible, implement oversight procedures to ensure that internal control policies and procedures are being followed by staff.

Client's Response:

The Commissioners wish to continue allowing offices to service the public and collect fees, rather than inconveniencing the client to go to another area to pay fees. The County understands the risk and is willing to assume the responsibility.

07-1 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.

Context: The inability 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 Road and Bridge Special Revenue Fund to reflect revenues and expenditures in the amount of \$334,795 for town road allotments. An audit adjustment was necessary in the Ditch Special Revenue Fund to reduce special assessments deferred and deferred revenue unavailable in the amount of \$1,693,736 to correct an error made in reversing prior year accruals.

Cause: Wilkin County uses its Taxes and Penalties Agency Fund to account for the collection and distribution of town road allotments. As provided in Minn. Stat. § 162.08, subd. 3, the County Board has discretion on how the funds are allocated, and the revenues and expenditures should be shown in the County financial statements. Generally, this is done in the Road and Bridge Special Revenue Fund. For the Ditch Special Revenue Fund, an entry to reverse the 2011 receivable for special assessments deferred was done incorrectly. The reversal entry was made backwards, and the amount of the adjustment was the portion adjusted as an audit adjustment from 2011 rather than reversing the ending balance. Wilkin County relies on an outside vendor to make the audit adjustments and reversing entries to its Integrated Financial System (IFS).

Recommendation: We recommend that the County establish internal controls necessary to ensure the County's annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

The County will work toward a change in procedure to eliminate the cause.

08-1 Documenting and Monitoring Internal Controls

Criteria: Management is responsible for the County's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Condition: Wilkin County maintains narratives to document the controls in place over its significant transaction cycles; however, there is no formal risk assessment process in place to determine if the internal controls that have been established by County management are still effective or if changes are needed to maintain a sound internal control structure.

Context: Local governments tend to establish controls but fail to periodically review those controls to ensure they are appropriate for all of the changes that take place over time.

Effect: The internal control environment is constantly changing with changes in staffing, information systems, processes, and services provided. Changes may have taken place that reduce or negate the effectiveness of internal controls which may go unnoticed without a formal and timely risk assessment process in place.

Cause: Lack of resources dedicated to establish a formal process for assessing risks, documenting the internal controls established to reduce those risks, and monitoring of those controls.

Recommendation: Wilkin County management should document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. A formal plan should be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performs the work.

Client's Response:

The County will attempt to establish a procedure and document the same.

ITEMS ARISING THIS YEAR

12-1 Network/Application Password Controls

Criteria: County management is responsible for the County's internal controls over their information systems. This requires establishing security policies and performing assessments of existing controls to determine if the internal controls that have been established are still effective or if changes are needed to ensure County data is protected as prescribed by management.

Condition: Wilkin County recently updated to a new version of the IFS application software. This application was written as a web-based application and may be run on a server or a mainframe system. For an employee of Wilkin County to access the new IFS application, the user must be signed on to the County network and have a current sign-on for the IFS application. The network sign-on differs from the sign-on for the IBM AS-400 system, so the mainframe security settings do not apply to the application. Wilkin County has not reviewed the network controls or assessed risks from the change to a web-based application to ensure password controls are working as intended.

Context: The IFS application is the general ledger for Wilkin County. Detailed receipt and disbursement transactions as well as budget information are maintained on the IFS application throughout the year. This information is used by management to monitor the resources available and make decisions based on the available resources. At or near year-end, certain accrual information is also recorded in the application. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: Normal password controls in place in the IBM AS-400 system are not effective for the IFS application, so a review of the IFS application controls and County network controls is imperative to ensure passwords are working as intended.

Cause: Wilkin County recently updated to a new web-based version of the IFS application software. County management was not aware of some of the password implications of this change.

Recommendation: We recommend Wilkin County management review password controls in place that limit access to the IFS application to ensure they are appropriate to protect the County data as prescribed by management.

Client's Response:

The County will work with its vendor to establish the necessary password controls.

12-2 Account Activity Report

Criteria: A double entry system is used for recording transactions in IFS. In a double entry system, debits should always equal credits for each transaction or adjustment entered into the system. All reports generated off the system should balance.

Condition: The Modified Account Activity Report download provided to us was out of balance by \$766,598. This difference resulted from a Fund Balance forward issue of \$95,384 and an understatement of expenditures in seven of the funds amounting to \$671,214. The Cash Basis Account Activity was out of balance by the understatement of expenditures of \$671,214.

Context: The IFS application is the general ledger for Wilkin County. The information maintained within the IFS application is the key source of information used for the preparation of the County's annual financial statements.

Effect: The December 31, 2012, Modified Account Activity Report download was out of balance by \$766,598, and the Cash Basis Account Activity Report download was out of balance by \$671,214. OSA staff assisted with finding the cause of the problem, so only minor scheduling adjustments to audit procedures were necessary to allow the vendor's support team time to correct the entries within the application.

Cause: In May 2012, when the client converted to the web-based IFS application, there were a couple of batches open which created a one-sided credit to Accounts Payable in each of the funds involved. The client tried to fix this by debiting Accounts Payable and crediting expenditures; however, due to the one-sided journal entry, the expenditures were not in the system. This resulted in an understatement of expenditures by \$671,214. For the \$95,384 Fund Balance difference in the Modified Account Activity Report, the cause is unknown but believed to be a timing difference of when certain adjustments for accruals are posted to IFS.

Recommendation: Prior to the Office of the State Auditor beginning the audit, the client should make sure that its IFS system is in balance.

Client's Response:

The County will have the IFS system in balance prior to the start of the 2013 audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

12-3 Supervisory Review Over Eligibility - Intake Function

Program: U.S. Department of Health and Human Services' Medical Assistance (MA) Grant (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. These controls should include a review process for case files to ensure the intake function related to eligibility requirements is met.

Condition: The state maintains the MAXIS computer system, which is used by the County to support the eligibility determination process. During our testing of controls over the MA case files, we noted no documented review process of case files by a supervisor.

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

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

Effect: The lack of case file reviews increases the risk that clients will receive benefits when they are not eligible.

Cause: The County does not have an Income Maintenance Supervisor to review case files, so the lead financial worker tries to cover those duties if time allows. For 2012, the lead financial worker did not complete a review of case files for MA to ensure that all the required information affecting eligibility is obtained, correctly entered into MAXIS, and is retained in the manual case file.

Recommendation: We recommend Wilkin County establish a process for reviewing a sample of case files periodically by a person with knowledge of the program to ensure that all the required information affecting eligibility is obtained, is correctly entered into MAXIS, and is retained in the manual case file. We further recommend that those reviews be documented.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Karen Kath, Financial Assistance Specialist

Corrective Action Planned:

Karen Kath, Financial Assistance Specialist contacted Tracy Scott from the Minnesota Dept. of Human Services in regards to reviewing Medical Assistance cases. She stated in an email dated Monday, May 20, 2013, that we should try to review a couple each month if possible, but they understand it is not always feasible. Bulletin #08-03-03 - Case Management Review Forms and Guides for Cash, Health Care, Child Care and Food Support dated May 14, 2008, has the most current guidelines for Case Management Reviews. In a statement on the last page of this Bulletin, the Minnesota Dept. of Human Services provides some guidance on Targeted Case Reviews "Because it has been frequently communicated to us that there is a lack of time to complete case reviews, we request, at a minimum that you use the error prone area targeted review forms to complete case reviews as you will be able to complete more reviews in a shorter amount of time and affect the cases that are causing most of the errors in the state." Karen Kath, Financial Assistance Specialist will try to complete two (2) Targeted Case Reviews each month on Medical Assistance cases.

Anticipated Completion Date:

June 1, 2013.

12-4 Supervisory Review Over Income Maintenance DHS 2550, Social Services DHS 2556, and SEAGR Reporting

Programs: U. S. Department of Agriculture's State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) (CFDA No.10.561) and the U.S. Department of Health and Human Services' Child Support Enforcement (CFDA No. 93.563), Social Services Block Grant (CFDA No. 93.667), and Medical Assistance (MA) (CFDA No. 93.778)

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Standard internal control procedures should include a review process of the claims and reports submitted to the Minnesota Department of Human Services (DHS) for reimbursement of program expenditures to ensure accurate and timely reporting.

Condition: During our testing of controls over SNAP, Child Support Enforcement, Social Services Block Grant, and MA, we noted no documented review process of reporting.

Questioned Costs: None.

Context: Wilkin County submits its quarterly DHS 2550, 2556, and SEAGR reports electronically. The DHS 2550 and 2556 reports provide a signature space for the preparer and a signature space for the County Financial Official or Human Services Director. The Fiscal Officer types in her name as the preparer and the Director's name in the space for the County Financial Official or Human Services Director. There are no controls in the system to provide assurance that the second signature line is completed by someone other than the preparer. The SEAGR report does not provide any lines to indicate preparer or approval.

Effect: Without formal documentation of a review of the DHS 2550, 2556, and SEAGR reports, there is no assurance the reviews are being completed as intended, which may increase the risk that the reports could contain errors and may not be submitted timely.

Cause: The County does not have a procedure in place to ensure that reports are reviewed and approved and that the process is documented.

Recommendation: We recommend Wilkin County establish a review process for all reports submitted to DHS for reimbursement. The review of reports should be documented, and the documentation should be retained in accordance with the County record retention schedule.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

LaRae Kuhfal, Fiscal Officer

Corrective Action Planned:

LaRae Kuhfal, Fiscal Officer, will have the Human Services Director, David L. Saylor, review, approve, and sign off on the D.H.S. Quarterly #2550, #2556, and SEAGR Reports. All of these Reimbursement Reports are contained in a Binder that the Director will review and approve by signing and dating the specific reports.

Anticipated Completion Date:

Our agency instituted this recommendation effective May 2013.

PREVIOUSLY REPORTED ITEMS RESOLVED

Central Services Cost Allocation Plan (11-1)

During our testing of the 2011 Central Services Cost Allocation Plan, we were able to tie the plan to the indirect costs reported in the County's 2009 Account Activity Report and verify those costs as allowable costs in accordance with OMB Circular A-87; however, we could not verify the correctness of the allocation base information for two of the departments tested. Supporting documentation to verify the "effort by department" was not available.

Resolution

During our testing of the 2012 Central Services Cost Allocation Plan, we were able to tie the plan to the indirect costs reported in the County's 2010 Account Activity Report and verify those costs as allowable as well as verify the correctness of the allocation base information for the department tested. Supporting documentation to verify the "effort by department" was available.

Income Maintenance DHS 2550/Social Services DHS 2556 Reporting (11-2)

During our review of the Income Maintenance DHS 2550 reporting, we noted that one of the three employees identified as participants in the random moment study by the IMRMS Coordinator was not correctly reported in the IMRMS Section A of the quarterly Income Maintenance DHS 2550 reports during 2011. This employee's salary was reported as income maintenance administrative overhead expenses on the Income Maintenance DHS 2550 report and social services expenditures on the Social Services DHS 2556 report.

Resolution

Wilkin County changed the payroll coding for the individual that was incorrectly being reported. All participants of the random moment study were correctly reported in the IMRMS Section A of the quarterly Income Maintenance DHS 2550 reports in the final two quarters of 2012.



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

Independent Auditor's Report

Board of County Commissioners
Wilkin County

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wilkin County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wilkin County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and 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 07-1 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 96-4, 08-1, 12-1, and 12-2 to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because Wilkin County has no tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that Wilkin County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

Other Matters

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 16, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Wilkin County

Report on Compliance for Each Major Federal Program

We have audited Wilkin County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. Wilkin County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Wilkin County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Wilkin County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Wilkin County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 12-3 and 12-4, that we consider to be significant deficiencies.

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

July 16, 2013