

**KANABEC COUNTY  
MORA, MINNESOTA**

**BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2012**





**KANABEC COUNTY  
MORA, MINNESOTA  
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## INTRODUCTORY SECTION



**KANABEC COUNTY  
MORA, MINNESOTA  
ORGANIZATION  
DECEMBER 31, 2012**

Office	Name	Term	
		From	To
<b>County Board of Commissioners</b>			
1st District	Kevin Troupe	January 2011	January 2015
2nd District	Gene Anderson	May 2011	January 2013
3rd District	Les Nielsen	January 2011	January 2015
4th District	Kathi Ellis	January 2009	January 2013
5th District	* Kim Smith	January 2011	January 2015
<b>Officers</b>			
<b>Elected</b>			
Attorney	Amy Brosnahan	January 2011	January 2015
Auditor-Treasurer	Denise Cooper	January 2011	January 2015
County Recorder	Rhonda Olson	January 2011	January 2015
Sheriff	Steve Schulz	January 2011	January 2015
<b>Appointed</b>			
Interim Assessor	Jodi Lindberg	February 2012	December 2012
Coordinator	Patrick Christopherson	Indefinite	
Court Administrator	Rosemary Nelson	Indefinite	
Examiner of Titles	Norman J. Loren	Indefinite	
Public Works Director	Chad Gramentz	February 2012	May 2015
Court Services Director	Todd Eustice	Indefinite	
Surveyor	Morrell B. Rud	January 2010	January 2013

\* Denotes Board Chair

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## FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

Board of County Commissioners  
Kanabec County  
Mora, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of Kanabec County, Minnesota (the County), as of and for the year ended December 31, 2012, and the related notes of 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.

### ***Auditors' 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 statement 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 from 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 auditors' 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 entity'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 entity'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, the discretely presented component unit, and the aggregate remaining fund information of Kanabec County as of December 31, 2012, and the respective changes in financial position 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 budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 Kanabec County's basic financial statements. The Combining Statement of Changes in Assets and Liabilities – All Agency Funds and the Schedule of Intergovernmental Revenue are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Combining Statement of Changes in Assets and Liabilities – All Agency Funds and the Schedule of Intergovernmental Revenue and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 Combining Statement of Changes in Assets and Liabilities – All Agency Funds, the Schedule of Intergovernmental Revenue, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of County Commissioners  
Kanabec County

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2013, on our consideration of Kanabec 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kanabec County's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
August 9, 2013

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**REQUIRED SUPPLEMENTARY INFORMATION**



**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

This section of Kanabec County's (County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2012. The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain comparative information between the current year, 2012, and the prior year, 2011, is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2012 include the following:

- County-wide net position (excluding the Kanabec Hospital component unit) increased \$4,440,996 during 2012. This is primarily due to the County's continued investment into capital assets, financed by intergovernmental revenues.
- Overall fund-level revenues totaled \$25,586,043 and were \$1,731,554 more than expenditures due to the increase in the collections of property taxes.
- The General Fund's fund balance increased \$288,848 from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are Government-wide financial statements which provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County's operations in more detail than the Government-wide statements.
  - The governmental funds statements tell how basic services such as general government, human services, and highways and streets were financed in the short-term as well as what remains for future spending.
  - Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

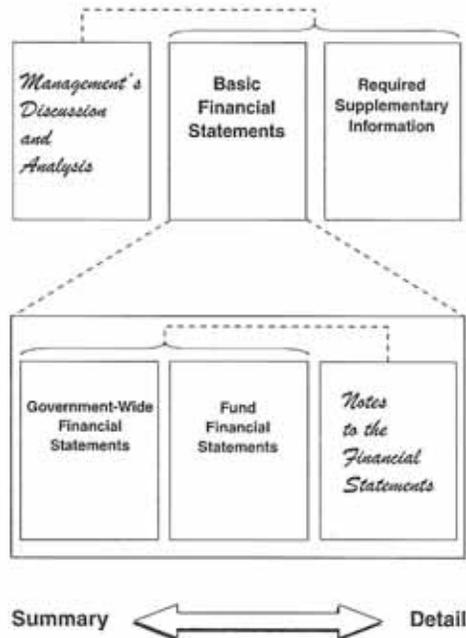
**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1  
Annual Report Format**



**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the County's Government-Wide and Fund Financial Statements			
Type of Statements	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary.	Instances in which the County is the trustee or agent for someone else's resources.
Required financial statements	Statement of net position.	Balance sheet.	Statement of fiduciary net position.
	Statement of activities.	Statement of revenues, expenditures and changes in fund balances.	
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included.	All assets and liabilities, both short-term and long-term, Agency's funds do not currently contain capital assets, although they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid.

**GOVERNMENT-WIDE STATEMENTS**

The Government-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the County's net position and how they have changed. Net position – the difference between the County's assets and liabilities – are one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net position are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the County, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of county buildings and other facilities.
- In the Government-wide financial statements, the County's activities are shown in one category: Governmental activities and the County's basic services are included here. Property taxes and state aids finance most of these activities.

**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the County's funds – focusing on its most significant or "major" funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The County establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

**THE COUNTY HAS TWO KINDS OF FUNDS:**

- Governmental funds – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, we provide additional information that explains the relationship (or differences) between them.
- Fiduciary funds – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the Government-wide financial statements because the County cannot use these assets to finance its operations.

**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE**

**NET POSITION**

The County's net position was \$67,739,043 on December 31, 2012 (see Table A-1).

**Table A-1  
The County's Net Position**

	Governmental Activities		%
	2012	2011	
Current and Other Assets	\$ 18,837,922	\$ 13,655,157	38.0 %
Capital Assets	67,864,587	66,000,126	2.8
Total Assets	<u>86,702,509</u>	<u>79,655,283</u>	8.8
Current Liabilities	6,309,182	3,184,656	98.1
Long-Term Liabilities	12,654,284	13,172,580	(3.9)
Total Liabilities	<u>18,963,466</u>	<u>16,357,236</u>	15.9
Net Position			
Net Investment			
in Capital Assets	52,419,002	52,892,306	(0.9)
Restricted	7,201,380	4,153,417	73.4
Unrestricted	8,118,661	6,252,324	29.9
Total Net Position	<u>\$ 67,739,043</u>	<u>\$ 63,298,047</u>	7.0

**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)**

**CHANGES IN NET POSITION**

The Government-wide total revenues were \$25,791,550 for the year ended December 31, 2012. Property taxes and intergovernmental revenues accounted for 80 percent of total revenue for the year (see Figure A-3).

**Table A-2  
Change in Net Position**

	Governmental Activities		Total % Change
	2012	2011	
<b>REVENUES</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 3,965,176	\$ 3,905,869	1.5 %
Operating Grants and Contributions	5,840,062	5,537,052	5.5
Capital Grants and Contributions	2,748,067	1,420,080	93.5
<u>General Revenues</u>			
Property Taxes	10,747,313	9,772,031	10.0
Unrestricted State Aid	1,219,096	1,894,639	(35.7)
Investment Earnings	39,453	62,929	(37.3)
Other	1,232,383	1,560,553	(21.0)
Total Revenues	<u>25,791,550</u>	<u>24,153,153</u>	6.8
<b>EXPENSES</b>			
General Government	4,870,787	4,839,815	0.6
Public Safety	5,474,805	5,204,171	5.2
Highways and Streets	3,082,694	3,496,880	(11.8)
Sanitation	68,590	77,789	(11.8)
Human Services	4,768,097	4,896,815	(2.6)
Health	2,337,126	2,516,944	(7.1)
Culture and Recreation	173,085	180,127	(3.9)
Conservation of Natural Resources	55,826	59,348	(5.9)
Interest	519,544	542,289	(4.2)
Total Expenses	<u>21,350,554</u>	<u>21,814,178</u>	(2.1)
<b>CHANGE IN NET POSITION</b>	4,440,996	2,338,975	89.9
Net Position - Beginning of Year	63,298,047	60,959,072	3.8
<b>NET POSITION - END OF YEAR</b>	<u>\$ 67,739,043</u>	<u>\$ 63,298,047</u>	7.0

Total revenues surpassed expenses, increasing the net position \$4,440,996 over last year (see Table A-2). This is primarily due to the continued investment by the County into long-term capital assets.

**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

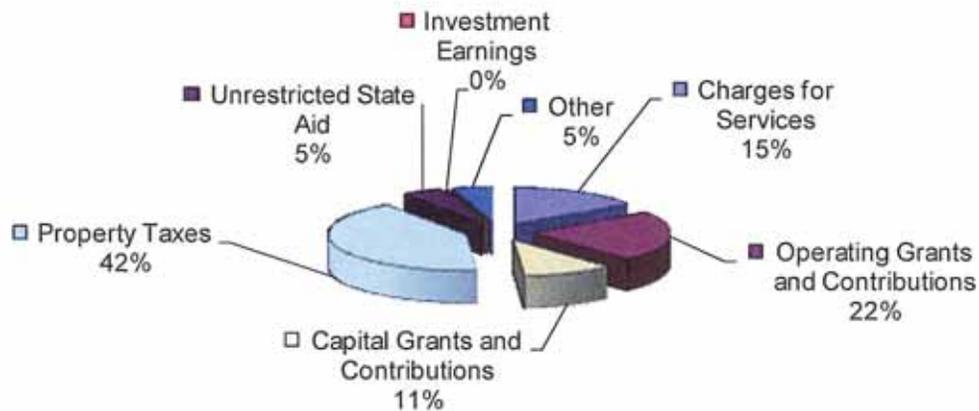
**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)**

**CHANGES IN NET POSITION (CONTINUED)**

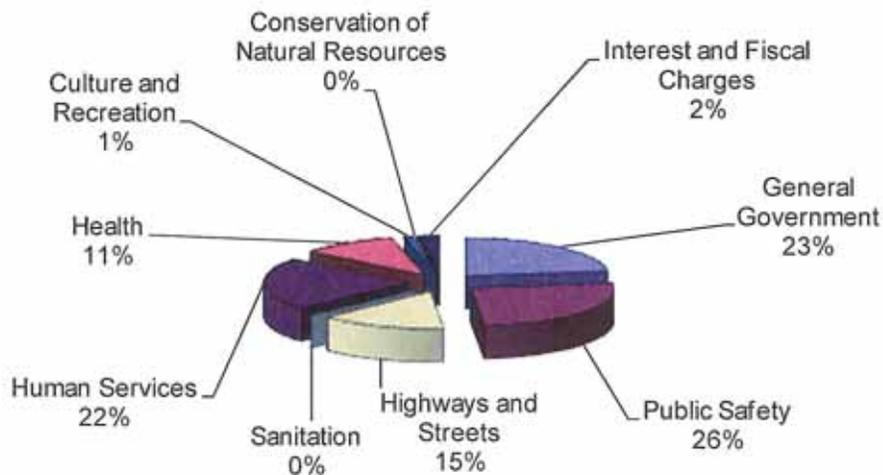
The Government-wide cost of all governmental activities this year was \$21,350,554.

- Some of the cost was paid by the users of the County's programs (\$3,965,176).
- The federal and state governments subsidized certain programs with grants and contributions (\$8,588,129).
- The remainder of the County's governmental activities costs, (\$8,797,249), however, was paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid from the combination of \$10,747,313 in property taxes, \$1,219,096 of state aid, and \$1,271,836 of investment earnings and other general revenues.

**Figure A-3 Sources of County's Revenues for 2012**



**Figure A-4 County's Expenses for 2012**



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**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (CONTINUED)**

**CHANGES IN NET POSITION (CONTINUED)**

**Table A-3  
Expenses and Net (Revenue) Cost of Services**

	Total Cost of Services		Percentage Change	Net Revenue (Cost) of Services		Percentage Change
	2012	2011		2012	2011	
<b>GOVERNMENTAL ACTIVITIES</b>						
General Government	\$ 4,870,787	\$ 4,839,815	0.6 %	\$ (2,012,428)	\$ (2,169,458)	7.2 %
Public Safety	5,474,805	5,204,171	5.2	(4,468,773)	(4,009,308)	(11.5)
Highways and Streets	3,082,694	3,496,880	(11.8)	845,755	(847,829)	199.8
Sanitation	68,590	77,789	(11.8)	(12,640)	(49,814)	74.6
Human Services	4,768,097	4,896,815	(2.6)	(1,838,662)	(2,238,017)	17.8
Health	2,337,126	2,516,944	(7.1)	(562,046)	(854,987)	34.3
Culture and Recreation	173,085	180,127	(3.9)	(173,085)	(180,127)	3.9
Conservation of Natural Resources	55,826	59,348	(5.9)	(55,826)	(59,348)	5.9
Interest and Fiscal Charges on Long-Term Liabilities	519,544	542,289	(4.2)	(519,544)	(542,289)	4.2
<b>Total</b>	<b>\$ 21,350,554</b>	<b>\$ 21,814,178</b>	<b>(2.1)</b>	<b>\$ (8,797,249)</b>	<b>\$ (10,951,177)</b>	<b>19.7</b>

**FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL**

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$13,512,945.

Revenues for the County's governmental funds were \$25,586,043 while total expenditures were \$23,854,489.

**GENERAL FUND**

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

The following schedule presents a summary of General Fund Revenues:

Revenue Source	Year Ended		Change	
	December 31, 2012	December 31, 2011	(Decrease)	Percent
Taxes	\$ 5,503,294	\$ 4,954,333	\$ 548,961	11.1 %
Intergovernmental	3,050,605	3,344,554	(293,949)	(8.8)
Charges for Services	2,465,464	2,383,336	82,128	3.4
Interest	32,623	54,474	(21,851)	(40.1)
Miscellaneous and Other	1,918,262	2,013,001	(94,739)	(4.7)
<b>Total General Fund Revenues</b>	<b>\$ 12,970,248</b>	<b>\$ 12,749,698</b>	<b>\$ 220,550</b>	<b>1.7</b>

Total General Fund revenue increased by \$220,550 or 1.7 percent, from the previous year. The increase is primarily due to the increase in tax revenues.

**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**GENERAL FUND (CONTINUED)**

The following schedule presents a summary of General Fund Expenditures:

**Table A-4  
General Fund Expenditures**

	Year Ended		Change	
	December 31, 2012	December 31, 2011	Increase (Decrease)	Percent
General Government	\$ 4,613,276	\$ 4,622,617	\$ (9,341)	(0.2)%
Public Safety	5,122,125	5,003,173	118,952	2.4
Sanitation	68,590	77,789	(9,199)	(11.8)
Health	2,298,232	2,515,354	(217,122)	(8.6)
Conservation of Natural Resources	55,826	59,327	(3,501)	(5.9)
Intergovernmental	173,085	180,127	(7,042)	(3.9)
Capital Outlay	314,443	135,596	178,847	131.9
Debt Service	68,943	38,800	30,143	77.7
Total Expenditures	<u>\$ 12,714,520</u>	<u>\$ 12,632,783</u>	<u>\$ 81,737</u>	0.6

The General Fund had total fund balance of \$4,171,085 at the end of the current fiscal year. The fund balance of the General Fund increased \$288,848 during the current fiscal year primarily due to a greater increase in revenues over expenditures for the current year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

- Actual revenues were \$1,116,574 more than budget, primarily due to an increase in tax collections and charges for services and an increase in grant funding.
- The actual expenditures were \$863,930 more than budget due primarily to greater than anticipated expenditures within Emergency Services and Health Departments funded by greater than anticipated intergovernmental revenues.
- The County did not make any budget amendments in 2012.

**OTHER MAJOR FUNDS ANALYSIS**

The Road and Bridge Fund had total fund balance of \$2,422,529 at the end of the current fiscal year. The total change in fund balance of the Road and Bridge Fund was an increase of \$969,174 during the current fiscal year primarily due to the timing of construction projects and the receipt of state aids.

The Welfare Fund had total fund balance of \$3,056,280 at the end of the current fiscal year. The fund balance of the Welfare Fund increased \$460,067 during the current fiscal year, which is an increase of 18 percent over the prior year fund balance primarily due to an increase in tax collections and an overall decrease in expenditures.

The Forfeited Tax Fund had total fund balance of \$15,686 at the end of the current fiscal year. The fund balance of the Forfeited Tax Fund increased \$7,022 during the current fiscal year primarily due to an increase in severed mineral interest revenue.

**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**OTHER MAJOR FUNDS ANALYSIS (CONTINUED)**

The Debt Service Fund had total fund balance of \$3,847,365 at the end of the current fiscal year. The fund balance of the Debt Service Fund increased \$2,918,640 during the current fiscal year, which is primarily due to the issuance of a refunding bond during 2012.

**CONSTRUCTION PROJECTS AND DEBT SERVICE**

During 2012, the County completed the construction of multiple road projects, which had an approximate final cost of \$3.3 million. The County had numerous other road projects in progress at the end of 2012.

An annual levy is made to fund the bond payments for all previous bond issues.

**CAPITAL ASSETS**

By the end of 2012, the County had invested approximately \$88,700,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure (see Table A-5). (More detailed information about capital assets can be found in Note 3.A to the financial statements). Total depreciation expense for the year was \$1,919,073.

**Table A-5  
The County's Capital Assets**

	Governmental Activities		Percent Change
	2012	2011	
Land	\$ 3,119,024	\$ 3,119,024	-
Construction-in-Progress	534,209	575,178	(7.1)
Infrastructure	58,481,669	55,204,388	5.9
Buildings	20,814,935	20,814,935	-
Machinery, Equipment, and Vehicles	5,751,763	5,398,960	6.5
Less: Accumulated Depreciation	(20,837,013)	(19,112,359)	9.0
Total	<u>\$ 67,864,587</u>	<u>\$ 66,000,126</u>	2.8

**KANABEC COUNTY  
MORA, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2012**

**LONG-TERM LIABILITIES**

At year-end, the County had \$17,539,754 in long-term liabilities outstanding.

- The County's governmental activities total debt increased \$2,314,538, due primarily to the issuance of refunding bonds during 2012.

**Table A-6  
The County's Long-Term Liabilities**

	2012	2011	Percent Change
<b>Governmental Activities</b>			
General Obligation Bonds	\$ 15,510,000	\$ 13,165,000	17.8 %
Loans Payable	570,667	544,502	4.8
Termination Benefits Payable	48,066	92,958	(48.3)
Compensated Absences Payable	1,411,021	1,422,756	(0.8)
Total	\$ 17,539,754	\$ 15,225,216	15.2

**FACTORS BEARING ON THE COUNTY'S FUTURE**

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the legislature and the stagnant housing market may decrease revenues. The state of the economy continues to increase the cost of services provided and general expenditures.

**CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Coordinator, or Denise Cooper, County Auditor-Treasurer at (320) 679-6430. The County also recognizes Firstlight Health System as a discrete component unit that issues its own financial statements and notes. If you have any questions concerning Firstlight Health System, contact their finance department at 301 South Hwy 65, Mora, Minnesota 55051.

## **BASIC FINANCIAL STATEMENTS**

**KANABEC COUNTY  
MORA, MINNESOTA  
STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

	Governmental Activities	Discretely Presented Component Unit
<b>ASSETS</b>		
Cash and Pooled Investments	\$ 13,896,793	\$ 15,020,846
Petty Cash and Change Funds	675	-
Taxes Receivable		
Delinquent	986,040	-
Special Assessments Receivable		
Deferred	454,148	-
Delinquent	21,327	-
Accounts Receivable - Net	95,312	6,268,972
Accrued Interest Receivable	13,972	-
Due from Other Governments	1,498,121	-
Prepaid Items	-	1,058,427
Inventories	277,817	925,613
Investment in Joint Ventures	1,491,777	1,751,101
Restricted Assets		
Cash and Pooled Investments	-	2,471,885
Deferred Debt Issue Costs	101,940	287,161
Noncurrent Cash and Investments - Internally Designated	-	4,964,493
Non-Depreciable Capital Assets		
Land	3,119,024	1,996,692
Construction in Progress	534,209	776,269
Depreciable Capital Assets - Net of Depreciation		
Building	18,355,542	9,579,268
Improvements Other Than Buildings	-	636,517
Machinery, Vehicles, Furniture and Equipment	1,732,788	9,060,743
Infrastructure	44,123,024	-
	86,702,509	54,797,987
Total Assets		

See accompanying Notes to the Financial Statements.

	Governmental Activities	Discretely Presented Component Unit
<b>LIABILITIES</b>		
Accounts Payable	\$ 376,453	\$ 3,294,653
Salaries Payable	400,020	2,087,421
Contracts Payable	138,651	-
Due to Other Governments	126,404	-
Accrued Interest Payable	206,631	133,072
Deferred Revenue - Unearned	239,969	-
Early Retirement Incentive Program Payable	48,066	-
Other Current Liabilities	-	337,510
Compensated Absences Payable - Due within One Year	1,273,472	-
General Obligation Bonds Payable - Due within One Year	3,440,000	240,000
Revenue Bonds Payable - Due within One Year	-	595,000
Loans Payable - Due within One Year	59,516	-
Other Postemployment Benefits Liability - Due in More Than One Year	-	319,052
General Obligation Bonds Payable - Due in More Than One Year	12,005,584	2,642,020
Revenue Bonds Payable - Due in More Than One Year	-	10,190,000
Compensated Absences Payable - Due in More Than One Year	137,549	-
Loans Payable - Due in More Than One Year	511,151	-
	<u>18,963,466</u>	<u>19,838,728</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	52,419,002	1,375,761
Restricted for:		
General Government	158,175	-
Public Safety	127,631	-
Highways and Streets	946,068	-
Sanitation	2,230,076	-
Debt Service	3,739,430	-
Operating Expenses	-	10,167,699
Unrestricted	<u>8,118,661</u>	<u>23,415,799</u>
	<u>\$ 67,739,043</u>	<u>\$ 34,959,259</u>

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**KANABEC COUNTY  
MORA, MINNESOTA  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2012**

	Program Revenues				Changes in Net Position	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Kanabec Hospital
<b>FUNCTIONS/PROGRAMS</b>						
<b>PRIMARY GOVERNMENT</b>						
<b>GOVERNMENTAL ACTIVITIES</b>						
General Government	\$ 4,870,787	\$ 2,245,422	\$ 612,937	\$ -	\$ (2,012,428)	\$ -
Public Safety	5,474,805	159,022	847,010	-	(4,468,773)	-
Highways and Streets	3,082,694	112,260	1,068,122	2,748,067	845,755	-
Sanitation	68,590	-	55,950	-	(12,640)	-
Human Services	4,768,097	516,796	2,412,639	-	(1,838,662)	-
Health	2,337,126	931,676	843,404	-	(562,046)	-
Culture and Recreation	173,085	-	-	-	(173,085)	-
Conservation of Natural Resources	55,826	-	-	-	(55,826)	-
Interest	519,544	-	-	-	(519,544)	-
Total Governmental Activities	21,350,554	3,965,176	5,840,062	2,748,067	(8,797,249)	-
<b>COMPONENT UNIT</b>						
Firstlight Health System	47,214,867	47,967,171	-	-	-	752,304
Total Reporting Entity	<u>\$ 68,565,421</u>	<u>\$ 51,932,347</u>	<u>\$ 5,840,062</u>	<u>\$ 2,748,067</u>	(8,797,249)	752,304
<b>GENERAL REVENUES</b>						
Property Taxes					10,747,313	-
Mortgage Registry and Deed Tax					7,520	-
Tax Increments and Excess TIF					6,900	-
Payments in Lieu of Tax					55,103	-
Grants and Contributions not Restricted for a Particular Purpose					1,219,096	-
Investment Earnings					39,453	107,375
Miscellaneous					1,157,248	1,244,546
Gain on the Sale of Capital Assets					5,612	-
Total General Revenues					<u>13,238,245</u>	<u>1,351,921</u>
<b>CHANGE IN NET POSITION</b>					4,440,996	2,104,225
Net Position - Beginning of Year					<u>63,298,047</u>	<u>32,855,034</u>
<b>NET POSITION - END OF POSITION</b>					<u>\$ 67,739,043</u>	<u>\$ 34,959,259</u>

See accompanying Notes to the Financial Statements.

**KANABEC COUNTY  
MORA, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

<b>ASSETS</b>	<u>General</u>	<u>Road and Bridge</u>
Cash and Pooled Investments	\$ 4,463,595	\$ 2,522,849
Petty Cash and Change Funds	500	175
Taxes Receivable - Delinquent	484,823	205,141
Special Assessments Receivable - Delinquent	21,327	-
Special Assessments Receivable - Deferred	454,148	-
Accounts Receivable	95,011	301
Accrued Interest Receivable	12,536	-
Due from Other Funds	25,006	8,110
Due from Other Governments	196,002	1,007,101
Inventories	-	277,817
<b>Total Assets</b>	<b>\$ 5,752,948</b>	<b>\$ 4,021,494</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 148,622	\$ 109,293
Salaries Payable	277,311	39,603
Contracts Payable	-	138,651
Due to Other Funds	8,110	-
Due to Other Governments	81,883	11,420
Deferred Revenue - Unavailable	974,757	1,151,209
Deferred Revenue - Unearned	91,180	148,789
<b>Total Liabilities</b>	<b>1,581,863</b>	<b>1,598,965</b>
<b>FUND BALANCES</b>		
Nonspendable		
Inventory	-	277,817
Restricted		
E-911	53,764	-
CWP Septic Loans	140,836	-
Attorney Forfeited Property	19,895	-
Sheriff's Forfeited Property	73,867	-
Land Office Technology Equipment	194,140	-
Law Library	17,659	-
Recorder's Equipment	120,157	-
Rural Addressing	464	-
SCORE	111,421	-
Landfill Closure/Post Closure	1,739,415	-
Water Planning	44,264	-
Debt Service	-	-
Committed		
Road and Bridge Fund Purposes	-	2,144,712
Welfare Fund Purposes	-	-
Forfeited Tax Fund Purposes	-	-
Regional Rail Fund Purposes	10,980	-
Assigned		
Public Health Copier	7,573	-
Vehicle Pool	43,084	-
Future Capital Equipment	170,335	-
Retiree Accrued Sick Pay	49,108	-
Elections	27,500	-
Sheriff's Contingency	15,229	-
Transit Unemployment	48,917	-
Unassigned	1,282,477	-
<b>Total Fund Balance</b>	<b>4,171,085</b>	<b>2,422,529</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 5,752,948</b>	<b>\$ 4,021,494</b>

See accompanying Notes to the Financial Statements.

Major Funds			Total
Welfare	Forfeited Tax	Debt Service	Governmental Funds
\$ 3,048,734	\$ 15,686	\$ 3,845,929	\$ 13,896,793
-	-	-	675
197,380	-	98,696	986,040
-	-	-	21,327
-	-	-	454,148
-	-	-	95,312
-	-	1,436	13,972
-	-	-	33,116
295,018	-	-	1,498,121
-	-	-	277,817
<u>\$ 3,541,132</u>	<u>\$ 15,686</u>	<u>\$ 3,946,061</u>	<u>\$ 17,277,321</u>
\$ 118,538	\$ -	\$ -	\$ 376,453
83,106	-	-	400,020
-	-	-	138,651
25,006	-	-	33,116
33,101	-	-	126,404
225,101	-	98,696	2,449,763
-	-	-	239,969
<u>484,852</u>	<u>-</u>	<u>98,696</u>	<u>3,764,376</u>
-	-	-	277,817
-	-	-	53,764
-	-	-	140,836
-	-	-	19,895
-	-	-	73,867
-	-	-	194,140
-	-	-	17,659
-	-	-	120,157
-	-	-	464
-	-	-	111,421
-	-	-	1,739,415
-	-	-	44,264
-	-	3,847,365	3,847,365
-	-	-	2,144,712
3,056,280	-	-	3,056,280
-	15,686	-	15,686
-	-	-	10,980
-	-	-	7,573
-	-	-	43,084
-	-	-	170,335
-	-	-	49,108
-	-	-	27,500
-	-	-	15,229
-	-	-	48,917
-	-	-	1,282,477
<u>3,056,280</u>	<u>15,686</u>	<u>3,847,365</u>	<u>13,512,945</u>
<u>\$ 3,541,132</u>	<u>\$ 15,686</u>	<u>\$ 3,946,061</u>	<u>\$ 17,277,321</u>

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

**FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ 13,512,945**

Amounts reported for governmental activities in the statement of net position 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. 67,864,587

Investment in joint ventures are reported in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds. 1,491,777

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the Governmental Funds. 2,449,763

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 Payable	\$ (15,510,000)	
Loans Payable	(570,667)	
Deferred Debt Issue Costs	101,940	
Unamortized Discounts	64,416	
Compensated Absences Payable	(1,411,021)	
Termination Benefits Payable	(48,066)	
Accrued Interest Payable	(206,631)	(17,580,029)

**NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 67,739,043**

**KANABEC COUNTY  
MORA, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	General	Road and Bridge
<b>REVENUES</b>		
Taxes	\$ 5,503,294	\$ 2,152,141
Special Assessments	71,700	-
Licenses and Permits	46,771	23,132
Intergovernmental	3,050,605	3,925,044
Charges for Services	2,465,464	89,128
Fines and Forfeits	8,168	-
Gifts and Contributions	35,943	-
Interest on Investments	32,623	-
Miscellaneous	1,755,680	9,784
Total Revenues	12,970,248	6,199,229
<b>EXPENDITURES</b>		
<b>CURRENT</b>		
General Government	4,613,276	-
Public Safety	5,122,125	-
Highways and Streets	-	2,062,981
Sanitation	68,590	-
Human Services	-	-
Health	2,298,232	-
Conservation	55,826	-
Total Current	12,158,049	2,062,981
<b>INTERGOVERNMENTAL</b>		
Culture and Recreation	173,085	-
<b>CAPITAL OUTLAY</b>		
General Government	122,000	-
Public Safety	192,443	-
Highways and Streets	-	3,152,190
Total Capital Outlay	314,443	3,152,190
<b>DEBT SERVICE</b>		
Principal	58,343	-
Interest	10,600	-
Bond Issue Costs	-	-
Total Debt Service	68,943	-
Total Expenditures	12,714,520	5,215,171
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	255,728	984,058
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In	-	57,000
Transfers Out	(57,000)	-
Loan Proceeds	84,508	-
Proceeds from the Sale of Capital Assets	5,612	-
Bond Proceeds	-	-
Discount on Bonds/Notes Issued	-	-
Total Other Financing Sources (Uses)	33,120	57,000
<b>NET CHANGE IN FUND BALANCES</b>	288,848	1,041,058
Fund Balance - Beginning of Year	3,882,237	1,453,355
Increase (Decrease) in Inventories	-	(71,884)
<b>FUND BALANCE - END OF YEAR</b>	\$ 4,171,085	\$ 2,422,529

See accompanying Notes to the Financial Statements.

Welfare	Forfeited Tax	Debt Service	Total Governmental Funds
\$ 2,123,480	\$ -	\$ 1,032,195	\$ 10,811,110
-	-	-	71,700
-	-	-	69,903
2,617,763	-	81,164	9,674,576
29,652	-	-	2,584,244
-	-	-	8,168
-	-	-	35,943
-	-	6,830	39,453
456,123	69,359	-	2,290,946
<u>5,227,018</u>	<u>69,359</u>	<u>1,120,189</u>	<u>25,586,043</u>
-	62,337	-	4,675,613
-	-	-	5,122,125
-	-	-	2,062,981
-	-	-	68,590
4,766,951	-	-	4,766,951
-	-	-	2,298,232
-	-	-	55,826
<u>4,766,951</u>	<u>62,337</u>	<u>-</u>	<u>19,050,318</u>
-	-	-	173,085
-	-	-	122,000
-	-	-	192,443
-	-	-	3,152,190
-	-	-	3,466,633
-	-	560,000	618,343
-	-	501,143	511,743
-	-	34,367	34,367
-	-	1,095,510	1,164,453
<u>4,766,951</u>	<u>62,337</u>	<u>1,095,510</u>	<u>23,854,489</u>
460,067	7,022	24,679	1,731,554
-	-	-	57,000
-	-	-	(57,000)
-	-	-	84,508
-	-	-	5,612
-	-	2,905,000	2,905,000
-	-	(11,039)	(11,039)
-	-	2,893,961	2,984,081
460,067	7,022	2,918,640	4,715,635
2,596,213	8,664	928,725	8,869,194
-	-	-	(71,884)
<u>\$ 3,056,280</u>	<u>\$ 15,686</u>	<u>\$ 3,847,365</u>	<u>\$ 13,512,945</u>

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

**NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS** **\$ 4,715,635**

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

In the fund level, under the modified accrual basis, distributions of joint venture equity interest are recorded as revenue. In the statement of net position, an asset is reported for the equity interest in joint ventures and distributions (decreases) and increases in joint venture equity are reported in the statement of activities. The change in net position differs from the change in fund balance by the increases and decreases in the investment in joint venture.

Increase in Investment in Joint Venture 337,458

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 depreciation expense.

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Assets Adjustments	\$ 3,783,534	
Current Year Depreciation	<u>(1,919,073)</u>	1,864,461

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (127,741)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The net proceeds for debt issuance are:

Loan Proceeds	(84,508)	
Bond Proceeds	(2,905,000)	
Bond Discount	11,039	
Bond Issue Costs	<u>34,367</u>	(2,944,102)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net position.

Principal Repayments		
General Obligation Bonds	560,000	
CWP Loan	<u>58,343</u>	618,343

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	5,747	
Amortization of Discounts and Deferred Issuance Charges	(13,548)	
Change in Accrued Compensated Absences	11,735	
Change in Termination Benefits	44,892	
Change in Inventories	<u>(71,884)</u>	(23,058)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 4,440,996**

**KANABEC COUNTY  
MORA, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
DECEMBER 31, 2012**

<b>ASSETS</b>	
Cash and Pooled Investments	<u>\$ 711,347</u>
<b>LIABILITIES</b>	
Funds Held in Trust	\$ 248,262
Due to Other Governments	<u>463,085</u>
Total Liabilities	<u>\$ 711,347</u>

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Kanabec County's (County) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) 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). The more significant accounting policies established in GAAP and used by the County are discussed below.

**A. Financial Reporting Entity**

Kanabec County was established March 13, 1858, and is an organized county having the powers, duties, and privileges granted counties by *Minnesota Statutes* §373. As required by accounting principles generally accepted in the United States of America, these financial statements present Kanabec County (Primary Government) and its component unit for which the County is financially accountable. The County is governed by a five-member board of commissioners elected from districts within the County. The board is organized with a chair and vice-chair elected at the annual meeting in January of each year. The County Coordinator, appointed by the board, serves as the clerk of the board but has no vote.

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

As required by generally accepted accounting principles, these financial statements present Kanabec County (the Primary Government) and its component unit. The component unit discussed below is included in the County's reporting entity because of the significance of its operational or financial relationship with the County.

Discretely Presented Component Unit

While part of the reporting entity, a discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. Firstlight Health System (the Hospital), also known as Kanabec Hospital, meets the criteria to be included as a discrete presentation. The Hospital is governed by the Hospital's board of directors as appointed by the County Board. Complete financial statements for the Hospital may be obtained at the Hospital's business office.

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in several joint ventures which are described in Note 6.C. The County also participates in jointly-governed organizations which are described in Note 6.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the Primary Government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

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 that are 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 that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Basic Financial Statements (Continued)

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. The County has no funds which are classified as nonmajor.

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways. Property taxes, committed through the Board approved levy, and restricted intergovernmental revenues are used to finance these projects.

The Welfare Special Revenue Fund is used to account for economic assistance and community social services programs. These programs are funded primarily by property taxes, committed through the Board approved levy, and restricted intergovernmental revenues.

The Forfeited Tax Special Revenue Fund is used to account for all funds collected per state statute for forfeited tax sales and rentals.

The Debt Service Fund is used to account for the payment of principal and interest payments on long-term debt which is financed by property tax revenue restricted through bond documents.

Additionally, the County reports the following fiduciary fund type:

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 agency capacity.

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. Measurement Focus and Basis of Accounting

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

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

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

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 Auditor/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 *Minnesota Statutes* §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.

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

1. Deposits and Investments (Continued)

Kanabec 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 *Minnesota Statutes* §471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables, including those of the discretely presented component unit, if applicable, 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 on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

Significant portions of special assessments receivable are not expected to be collected within one year due to the nature of the receivable.

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Reported inventories are equally offset by nonspendable fund balance to indicate that they do not constitute available spendable resources. Inventories at the government-wide level are recorded as expenses when consumed.

4. Restricted Assets

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. In the case of the initial capitalization of general infrastructure reported in governmental activities, the County chose to include all such items regardless of their acquisition date or amount. The County was able to estimate the historical cost for the initial reporting of these assets through backtrending (estimating the current replacement costs of the infrastructure to be capitalized and using an appropriate price-level index to deflate the costs to the acquisition year or estimated acquisition year).

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

Property, plant, and equipment of the Primary Government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	25-75
Infrastructure	15-75
Machinery, Vehicles, Furniture, and Equipment	3-15

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

6. Compensated Absences

The liability for compensated absences reported in 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 known employee resignations and retirements.

7. Deferred Revenue

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

8. 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 on the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

9. Other Post-Employment Benefits

In 2009, the County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. It was determined that the County's liability under this standard is immaterial, therefore the County has not recorded a liability as of December 31, 2012.

10. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance relate to prepaids, inventories, and long-term receivables, as applicable. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Commissioners. The Board passed a resolution authorizing the County Auditor-Treasurer to assign fund balances and their intended uses. Unassigned fund balance is the residual classification for the County's general fund and includes all spendable amounts not contained in other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the County's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the County's policy to use committed first, then assigned, and finally unassigned amounts.

11. Net Position

Fund equity is classified as net position in the government-wide financial statements and is displayed in three components. The net investment in capital assets is the net value of capital assets reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement for those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is displayed as unrestricted.

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Revenues**

**1. Revenues**

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

**2. Imposed Nonexchange Transactions**

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

**3. Intergovernmental**

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

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

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

E. Revenues (Continued)

3. Intergovernmental (Continued)

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

4. Exchange Transactions

Special assessments levied against benefiting properties are recognized under the modified accrual basis when available to finance current expenditures. Other revenues, such as licenses and permits, charges for services, and investment income are recognized as revenue when earned.

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget at the fund level for the year ended December 31, 2012:

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 12,714,520	\$ 11,850,590	\$ 863,930
Road and Bridge Special Revenue Fund	5,215,171	5,024,515	190,656

These over-expenditures were funded by greater than anticipated revenues and existing fund balance.

KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

A. Assets

1. Deposits and Investments

*Minnesota Statutes* §§118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. *Minnesota Statutes* §118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Custodial Credit Risk - Deposits

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County investment policy requires that collateral or bond be obtained for all uninsured amounts and that necessary documentation be obtained to show compliance with *Minnesota Statutes* for deposits.

*Minnesota Statutes* require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledge must equal 110 percent of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes:

U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letters of credit issue by a Federal Home Loan Bank; and time deposits insured by a federal agency. *Minnesota Statutes* require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

At December 31, 2012, the County's bank balance of deposits was fully insured and collateralized.

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

1. Deposits and Investments (Continued)

*Minnesota Statutes* §§118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (a) 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 *Minnesota Statutes* §118a.04, Subd. 6;
- (b) Mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (c) 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;
- (d) Bankers' acceptances of United States banks;
- (e) 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
- (f) With certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

As of December 31, 2012, the County had the following investments:

Investment Type	Maturity	Fair Value	Rating	Concentration Risk
UBS Money Market	*	\$ 50,416	NR	N/A
Municipal Securities Illinois St.	5/5/2015	311,361	Aa2/AA-	29%
MAGIC Fund	*	730,460	NR	N/A

NR = Not Rated

N/A = Not Subject To Concentration Risk Calculation

\* = No Stated Maturity Date

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

1. Deposits and Investments (Continued)

Interest Rate Risk

Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates. The County has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County investment policy limits investments in short-term securities to those with maturities up to five years.

Credit Risk

*Minnesota Statutes* and the County's investment policy restrict the types of investments that the County may invest in. As of December 31, 2012, none of the County's investment had a rating, as indicated in the table above.

Concentration Credit Risk

The County's investment policy places no limit on the amount the County may invest in any one issuer. More than 5 percent of the County's investments at December 31, 2012 were State of Illinois municipal securities. These investments are 29 percent of the County's total investments.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of failure by the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County limits investments only to the extent that there is SIPC and excess SIPC coverage available.

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

Primary Government	
Cash and Pooled Investments	\$ 13,896,793
Petty Cash	675
Component Unit	
Kanabec County Hospital	15,020,846
Restricted and Internally Designated Assets	
Cash and Pooled Investments	7,436,378
Agency Funds Cash	<u>711,347</u>
Total Cash and Investments	<u>\$ 37,066,039</u>

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 986,040	\$ -
Special Assessments	475,475	454,148
Accounts	95,312	-
Interest	13,972	-
Due From Other Governments	1,498,121	-
Total Governmental Activities	<u>\$ 3,068,920</u>	<u>\$ 454,148</u>

3. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated				
Land and Right-of-Way	\$ 3,119,024	\$ -	\$ -	\$ 3,119,024
Construction-in-Progress	575,178	3,236,311	(3,277,280)	534,209
Total Capital Assets, Not Being Depreciated	<u>3,694,202</u>	<u>3,236,311</u>	<u>(3,277,280)</u>	<u>3,653,233</u>
Capital Assets, Being Depreciated				
Buildings	20,814,935	-	-	20,814,935
Machinery, Furniture, and Equipment	5,398,960	547,222	(194,419)	5,751,763
Infrastructure	55,204,388	3,277,281	-	58,481,669
Total Capital Assets, Being Depreciated	<u>81,418,283</u>	<u>3,824,503</u>	<u>(194,419)</u>	<u>85,048,367</u>
Less Accumulated Depreciation for				
Buildings	2,150,889	308,504	-	2,459,393
Machinery, Furniture, and Equipment	3,772,024	441,370	(194,419)	4,018,975
Infrastructure	13,189,446	1,169,199	-	14,358,645
Total Accumulated Depreciation	<u>19,112,359</u>	<u>1,919,073</u>	<u>(194,419)</u>	<u>20,837,013</u>
Total Capital Assets, Being Depreciated, Net	<u>62,305,924</u>	<u>1,905,430</u>	<u>-</u>	<u>64,211,354</u>
Governmental Activities Capital Assets, Net	<u>\$ 66,000,126</u>	<u>\$ 5,141,741</u>	<u>\$ (3,277,280)</u>	<u>\$ 67,864,587</u>

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

A. Assets (Continued)

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs of the Primary Government as follows:

<b>Governmental Activities</b>		
General Government	\$	246,382
Public Safety		293,331
Highways and Streets, Including Depreciation of Infrastructure Assets		1,370,364
Health		<u>8,996</u>
Total Depreciation Expense - Governmental Activities	<u>\$</u>	<u>1,919,073</u>

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Welfare Fund	\$ 25,006	Office and Salary Expenses
General Fund	Road and Bridge Fund	<u>8,110</u>	Fees for Services Performed
Total Due To/From Other Funds		<u>\$ 33,116</u>	

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

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

2. Interfund Transfers

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

	Amount	Reason
Transfer from the General Fund to the Road and Bridge Fund	\$ 57,000	Vehicle Pool

C. Liabilities

1. Long-Term Debt

*Governmental Activities*

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2012
<b>General Obligation Bonds</b>					
2012A General Obligation Refunding Bonds	2019	\$460,000 - \$510,000	.40 - 1.05	\$ 2,905,000	\$ 2,905,000
2008A G.O. Bonds	2028	\$80,000 - \$530,000	3.00 - 4.25	5,000,000	4,650,000
2007A G.O. Bonds	2028	\$60,000 - \$540,000	3.40 - 4.20	5,000,000	4,685,000
2005 General Obligation Refunding Bonds	2019	\$330,000 - \$535,000	3.00 - 3.75	5,060,000	3,270,000
Subtotal					15,510,000
Less: Unamortized Discounts					(64,416)
Total General Obligation Bonds					<u>\$ 15,445,584</u>
<b>Loans Payable</b>					
Clean Water Partnership Loans	2020	\$5,060- \$11,308	2.00	603,243	<u>\$ 570,667</u>

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

C. Liabilities (Continued)

2. Debt Service Requirements

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

*Governmental Activities*

Year Ending December 31	General Obligation Bonds		CWP Loans	
	Principal	Interest	Principal	Interest
2013	\$ 3,440,000	\$ 446,801	\$ 59,516	\$ 9,427
2014	635,000	388,139	60,713	8,231
2015	650,000	379,698	61,932	7,011
2016	655,000	370,605	63,177	5,430
2017	665,000	360,856	64,447	4,603
2018-2022	3,715,000	1,547,754	176,374	9,003
2023-2027	4,680,000	732,716	-	-
2028-2032	1,070,000	22,603	-	-
Total	<u>\$ 15,510,000</u>	<u>\$ 4,249,172</u>	<u>\$ 486,159</u>	<u>\$ 43,705</u>

Loans payable to the PCA of \$84,508 do not have fixed amortization schedules at December 31, 2012, and are not included in the table above.

3. Changes in Long-Term Liabilities

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

*Governmental Activities*

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
General Obligation Bonds	\$ 13,165,000	\$ 2,905,000	\$ 560,000	\$ 15,510,000	\$ 3,440,000
Loans Payable	544,502	84,508	58,343	570,667	59,516
Early Retirement Incentive Program Payable	92,958	13,768	58,660	48,066	48,066
Compensated Absences Payable	1,422,756	745,656	757,391	1,411,021	1,273,472
Governmental Activity Long-Term Liabilities	<u>\$ 15,225,216</u>	<u>\$ 3,748,932</u>	<u>\$ 1,434,394</u>	<u>\$ 17,539,754</u>	<u>\$ 4,821,054</u>

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities (Continued)

On November 7, 2012, the County issued General Obligation Refunding Bonds Series 2012A in the amount of \$2,905,000 with interest rates of 3.00-3.75%. These bond proceeds will be used to redeem the 2014 through 2019 maturities of the General Obligation Refunding Bonds Series 2005A beginning February 1, 2013.

As a result of this refunding, the County will decrease its debt service requirements \$244,385, resulting in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$237,887.

The General Obligation Bonds are liquidated by the debt service fund, and the loans payable and compensated absences are liquidated by the general fund.

The County participates in a program that resulted in entering into several loan agreements with the Minnesota Pollution Control Agency for financing septic systems. The revolving loans are secured by special assessments placed on the individual parcels requesting repair of septic systems.

4. Early Retirement Incentive Program

The Kanabec County Early Retirement Incentive Program (ERIP) was designed to provide employees who wished to retire/resign an option to do so by offering some extra financial incentive by paying 24 months of single coverage health insurance. This program was intended to aid the County in reducing expenditures in order to respond in part to the current budget challenges. This was a one-time offer and the deadlines were firm. Further information on the liability balance can be found in the table contained in Note 3.C.3.

Participation in the ERIP was completely voluntary and resulted in nine employees retiring early under this program.

**NOTE 4 DEFINED BENEFIT PENSION PLANS**

A. Plan Description

All full-time and certain part-time employees of Kanabec County are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), the Public Employees Police and Fire Fund (PEPFF), and the Local Government Correctional Service Retirement Fund, called the Public Employees Correctional Fund (PECF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

**KANABEC COUNTY  
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**NOTE 4    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

A. Plan Description (Continued)

GERF 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. All police officers, fire-fighters and peace officers who qualify for membership by statute are covered by the PEPFF. 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 jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates are covered by the PECF.

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, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's 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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining 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 PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. The annuity accrual rate is 1.9 percent for each year of service for PECF members. For all PEPFF members, PECF members, and GERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and PECF members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**B. Plan Description (Continued)**

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree--no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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 receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF, PEPFF, and PECF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

**C. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. 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. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.60 percent of their annual covered salary in 2012. PECF members are required to contribute 5.83 percent of their annual covered salary. Kanabec County is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan GERF members, 7.25 percent for Coordinated Plan GERF members, 14.40 percent for PEPFF members, and 8.75 percent for PECF members.

**KANABEC COUNTY  
MORA, MINNESOTA  
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**NOTE 4 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

C. Funding Policy (Continued)

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

	General Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2012	\$ 452,859	\$ 149,268	\$ 104,943
2011	461,799	157,100	103,528
2010	450,022	145,777	102,376

The County's contributions were equal to the contractually required contributions for each year as set by state statute.

**NOTE 5 DEFINED CONTRIBUTION PLAN**

Two County Commissioners of Kanabec County are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP 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. *Minnesota Statutes*, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee 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 two percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

	Contribution Amount		Percentage of Covered Payroll		Required Rates
	Employee	Employer	Employee	Employer	
2012	\$ 5,028	\$ 5,028	5.0%	5.0%	5.0%
2011	4,689	4,689	5.0	5.0	5.0
2010	5,183	5,183	5.0	5.0	5.0

**KANABEC COUNTY  
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NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 6 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 for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risks of loss, 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 four 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. 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. The 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. Contingent Liabilities**

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

The County is a defendant in various lawsuits and has received notice of other possible claims. Although the outcome of these lawsuits and other possible claims is not presently determinable, in the opinion of the county attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

KANABEC COUNTY  
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**NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)**

C. Joint Ventures

Kanabec/Pine Community Health Services

The Kanabec/Pine Community Health Services (CHS) was established by a joint powers agreement in 1990 to contract for the procurement of efficient health care services for the participating counties. Both Pine County and Kanabec County appoint three members to the CHS Board with at least one of those appointees being a county board member. Financial responsibility of the County includes providing administrative cost reimbursements and grant financing to the CHS Board. Separate financial information is available at 18 North Vine Street, Mora, MN 55051.

East Central Solid Waste Commission

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

Each County's proportionate share of the total operating costs is based on the most recent census data available and is to adjust upon the admission of additional counties or the withdrawal of counties. The Commission will remain in existence so long as two or more counties remain as parties to the agreement or until July 1, 2026. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the counties based on their respective ratios set by the most recent census data. Complete financial statements of the East Central Solid Waste Commission can be obtained at 1756 – 180<sup>th</sup> Avenue, Mora, Minnesota 55051.

KANABEC COUNTY  
MORA, MINNESOTA  
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**NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)**

C. Joint Ventures (Continued)

East Central Regional Library

The East Central Regional Library was established by a joint powers agreement among Aitkin, Chisago, Isanti, Kanabec, Mille Lacs, and Pine Counties to provide an efficient and improved regional public library service. The Library Board comprises 18 members, one County board member, and two appointees from each member county.

During 2012, the County paid \$170,142 to the East Central Regional Library. Complete financial statements of the East Central Regional Library can be obtained at 244 South Birch, Cambridge, Minnesota 55008.

Snake River Watershed Management Board (SRWMB)

The Snake River Watershed Management Board was established in April 1993, pursuant to *Minnesota Statutes* §471.59, as a joint powers entity. Its purpose is to coordinate the member county water plans and to develop objectives to promote sound hydrologic management of the water and related land resources. It comprises four member counties, Aitkin, Kanabec, Mille Lacs, and Pine. Financial responsibility exists because once the SRWMB has established a budget and determined which projects will be undertaken, each member county is required by the agreement to provide appropriate financial support. The SRWMB establishes an annual budget and participation in the administrative costs is: Aitkin County 20.8 percent, Kanabec County 49.5 percent, Mille Lacs County 9.2 percent, and Pine County 20.5 percent.

During 2012, the County paid \$24,072 for the SRWMB operations. Kanabec County is the fiscal agent and records the SRWMB's activities in an agency fund. Separate financial information can be obtained from the Snake River Watershed Management Board.

**KANABEC COUNTY  
MORA, MINNESOTA  
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**NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)**

C. Joint Ventures (Continued)

Kanabec County Economic Development Commission

The Kanabec County Economic Development Commission was established in July 1996, pursuant to *Minnesota Statutes* §471.59 as a joint powers entity. Its purpose is to facilitate economic development within the City of Mora, Kanabec County, and the boundaries of Independent School District 332. The board consists of five members: two appointed by the City of Mora, two appointed by Kanabec County, and one appointed by Independent School District 332.

Funding for the Commission is provided by members' contributions. The City of Mora is the fiscal agent and records the Commission's activities in a special revenue fund. Separate financial information is not available.

South Country Health Alliance

South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under *Minnesota Statutes* §471.59. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties became members. Freeborn, Cass, Crow Wing, and Mower Counties have since withdrawn. The agreement was in accordance with Section 256B.692, which allows the formation of a board of directors to operate, control, and manage all matters concerning the participating member counties' health care functions, referred to as county-based purchasing.

The purpose of SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2012 was \$1,491,777. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are included in the government-wide statement of activities as Human Services. The County did not receive any distributions from the SCHA during 2012 and does not anticipate any further distributions at this time.

Complete financial statements for the SCHA may be obtained from its fiscal agent at 630 Florence Avenue, P.O. Box 890, Owatonna, Minnesota 55060-0890.

**KANABEC COUNTY  
MORA, MINNESOTA  
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**NOTE 6 SUMMARY OF SIGNIFICANT CONTINGENCIES AND OTHER ITEMS (CONTINUED)**

D. Jointly-Governed Organizations

Kanabec County Collaborative

The Kanabec County Collaborative was established pursuant to *Minnesota Statutes* §121.8355 (now 124D.23). The members of the Collaborative include Kanabec County Social Services; Kanabec County Corrections; Kanabec County Public Health, Community Action Agency and Head Start; Mora School District; and Ogilvie School District. The purpose of the Collaborative is to expand prevention and early intervention services for children and families.

Control of the Kanabec County Collaborative is vested in the Executive Committee which consists of a collaborative coordinator and a voting representative of each member agency. Separate financial statements are not available.

**NOTE 7 SUBSEQUENT EVENTS**

On July 1, 2013 the County issued \$9,045,000 General Obligation Crossover Refunding Bonds, Series 2013A. This issuance will refund the outstanding portions of the 2007A General Obligation Jail Bonds and 2008A General Obligation Jail Bonds resulting in an actual savings of \$534,924 and a net present value savings of \$535,520 over the remaining life of the bonds.

**NOTE 8 COMPONENT UNIT DISCLOSURES**

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented component unit, Firstlight Health System (the Hospital)(the Organization), has the following significant accounting policies:

1. Reporting Entities

The Hospital is governed by a board of directors who are appointed by the Board of County Commissioners.

2. Method of Accounting

The Hospital reports in accordance with the "Audit and Accounting Guide for Health Care Organizations" published by the American Institute of Certified Public Accountants which prescribes accounting and reporting policies, some of which are unique to providers of health care services.

**KANABEC COUNTY  
MORA, MINNESOTA  
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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

A. Summary of Significant Accounting Policies (Continued)

3. Proprietary Fund Accounting

The Hospital's one fund is presented as a proprietary fund and is accounted for on the accrual basis. Substantially all revenue and expenses are subject to accrual.

4. Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents are considered to be highly liquid investments with an original maturity of ninety days or less and exclude noncurrent cash and investments. Cash and cash equivalents held by trustee for operating expenses is cash required to be held by the Hospital for operations under the arrangements of the Health Facilities Bonds.

5. Inventories

Inventories are stated at cost (principally on the first-in, first-out basis) not in excess of market value. Market value is determined by comparison with recent purchases.

6. Accounts Receivable

Patient receivables are shown at the amount expected to be collectable after determining the allowance for doubtful accounts and contractual adjustments from third-party payers.

The Hospital provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Services are sold on an unsecured basis. Payment is required 30 days after receipt of invoice. Accounts past due more than 90 days are individually analyzed for collectability. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. At December 31, 2012, the allowance for doubtful account was \$1,939,000. When all collection efforts have been exhausted, the account is written-off against the related allowance.

7. Capital Assets

Capital Assets are stated at cost, if purchased or at fair market value on the date received, if donated, less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the property.

**KANABEC COUNTY  
MORA, MINNESOTA  
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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

A. Summary of Significant Accounting Policies (Continued)

8. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

9. Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets, consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Organization. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

B. Detailed Notes on All Funds

1. Assets

Deposits

The Hospital deposits in banks at December 31, 2012 were covered by federal depository insurance or by collateral held by the Organization's custodial bank in the Hospital's name.

As of December 31, 2012, the Hospital had total cash and investments of \$22,457,224 of which \$6,601,378 was classified as noncurrent.

**KANABEC COUNTY  
MORA, MINNESOTA  
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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

B. Detailed Notes on All Funds (Continued)

1. Assets (Continued)

Receivables

Patient accounts receivable reported as current assets by the Hospital at December 31, 2012 consist of these amounts:

Receivable from Patients and Their Insurance Carriers	\$ 4,803,786
Receivable from Medicare	2,326,668
Receivable from Medicaid	882,131
Total Patient Accounts Receivable	<u>8,012,585</u>
Less: Allowance for Uncollectible Amounts	(1,939,000)
Net Patient Accounts Receivable	<u>\$ 6,073,585</u>

Capital Assets

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

	Balance December 31, 2011	Additions and Transfers	Retirements	Balance December 31, 2012
Capital Assets, not being				
Depreciated				
Land	\$ 1,947,892	\$ 48,800	\$ -	\$ 1,996,692
Construction-in-Progress	128,348	647,921	-	776,269
Total Capital Assets Not Being				
Depreciated	2,076,240	696,721	-	2,772,961
Capital Assets Depreciated				
Land Improvements	1,335,113	-	-	1,335,113
Buildings	16,797,821	33,089	-	16,830,910
Fixed Equipment	9,992,181	7,980	-	10,000,161
Movable Equipment	11,565,836	760,524	(33,535)	12,292,825
Ambulance and Minor Equipment	509,972	166,836	-	676,808
Total Capital Assets being				
Depreciated	40,200,923	968,429	(33,535)	41,135,817
Less: Accumulated				
Depreciation for				
Land Improvements	621,438	77,158	-	698,596
Buildings	6,426,435	825,207	-	7,251,642
Fixed Equipment	4,209,965	506,784	-	4,716,749
Movable Equipment	7,708,184	1,098,550	(33,535)	8,773,199
Ambulance and Minor Equipment	366,708	52,395	-	419,103
Total Accumulated Depreciation	<u>19,332,730</u>	<u>2,560,094</u>	<u>(33,535)</u>	<u>21,859,289</u>
Capital Assets, Net	<u>\$ 22,944,433</u>	<u>\$ (894,944)</u>	<u>\$ -</u>	<u>\$ 22,049,489</u>

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Long-Term Debt

Long-term debt outstanding at December 31, 2012, consists of the following:

Gross Revenue Health Facilities Bonds, Series 2006A, Due in Varying Annual Installments of \$240,000 to \$970,000 including Interest Ranging from 4.0% to 4.75% to February 1, 2026, Secured by the Revenue of Kanabec Hospital.	\$ 6,665,000
Gross Revenue Health Facilities Bonds, Series 2003B refinanced to Series 2012C, Due in Varying Annual Installment of \$240,000 to \$310,000 including interest rate of 2.6% to February 1, 2023, Secured by the Revenue of FirstLight Health System.	4,120,000
General Obligation Medical Facilities Bonds, Series 2001 refinanced to Series 2012B, Due in Varying Annual Installments of \$240,000 to \$310,000 including Interest Ranging from .35% to 1.6% to May 1, 2022, Secured by the Revenue and Taxing Powers of Kanabec County.	<u>2,900,000</u>
Total	13,685,000
Less: Current Maturities	(835,000)
Unamortized Bond Discount	<u>(17,980)</u>
Total Long-Term Portion	<u><u>\$ 12,832,020</u></u>

**KANABEC COUNTY  
MORA, MINNESOTA  
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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

B. Detailed Notes on All Funds (Continued)

2. Liabilities (Continued)

Long-Term Debt (Continued)

The following schedule summarizes the changes related to debt outstanding at December 31, 2012:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due in One Year
General Obligation Bonds	\$ 2,505,000	\$ 2,900,000	\$ 2,505,000	\$ 2,900,000	\$ 240,000
Revenue Bonds	10,655,000	4,120,000	3,990,000	10,785,000	595,000
Bond Discount	-	(17,980)	-	(17,980)	-
Other Postemployment Benefits	255,628	118,256	54,832	319,052	-
Total	<u>\$ 13,415,628</u>	<u>\$ 7,120,276</u>	<u>\$ 6,549,832</u>	<u>\$ 13,986,072</u>	<u>\$ 835,000</u>

Following is a maturity schedule of long-term debt as of December 31, 2012:

Year Ending December 31	Long-Term Debt	
	Principal	Interest
2013	\$ 835,000	\$ 380,212
2014	920,000	397,130
2015	940,000	372,218
2016	970,000	345,473
2017	995,000	317,333
2018-2022	5,395,000	1,171,972
2023-2027	<u>3,630,000</u>	<u>347,201</u>
Total	<u>\$ 13,685,000</u>	<u>\$ 3,331,539</u>

**KANABEC COUNTY  
MORA, MINNESOTA  
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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

**C. Employee Retirement Systems and Pension Plans**

All full-time and certain part-time employees of Hospital are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA) as described in Note 4. The Hospital's contributions to PERA for the years ended December 31, 2012, 2011, and 2010 were \$1,191,101, \$1,116,823, and \$987,308, respectively, and such amounts equal the required contributions for each year.

**D. Other Postemployment Benefits**

The Hospital administers a single-employer defined benefit healthcare plan. The plan provides healthcare insurance for eligible retirees and their spouses through the Hospital's group health insurance plan, which covers both active and retired members. The healthcare plan does not issue a publicly available financial report.

The Hospital does not contribute to the cost of premiums for eligible retired plan members and their spouses. Because the actual cost for retirees is higher than the average per-person premium for the entire group, the difference gives rise to an implicit rate subsidy. The Hospital pays the difference between the actual and apparent cost.

As of December 31, 2008, the Hospital implemented the requirements of Governmental Accounting Standards Board (GASB) No. 45. Qualified employees may chose to participate in the Hospital's insurance plan after retirement, with no contribution from the Hospital. The Hospital provides these benefits to retirees as required by *Minnesota Statutes* §471.61 subdivision 2b. As of December 31, 2012, 2 retirees were receiving benefits from the Hospital's health plan.

Annual OPEB Cost and Net OPEB Obligation

The Hospital's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years.

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**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

**D. Other Postemployment Benefits (Continued)**

Annual OPEB Cost and Net OPEB Obligation (Continued)

The following table shows the components of the Hospital's annual OPEB cost as of December 31, 2012, the amount actually contributed to the insurance plan, and changes in the Hospital's net OPEB obligation:

Net OPEB, Beginning of Year	\$	255,628
Activity During the Year:		
Annual Required Contribution (ARC)		106,753
Interest on Net OPEB Obligation		11,503
Adjustment to ARC		(15,748)
Annual OPEB Cost		<u>102,508</u>
Contributions During the Fiscal Year		<u>39,084</u>
Increase in Net OPEB Obligation		<u>63,424</u>
Net OPEB, End of Year	\$	<u>319,052</u>

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation consist of the following at December 31, 2012:

	Annual OPEB Cost	Employer Contribution	Percentage Contribution	Net OPEB Obligation
December 31, 2012	\$ 102,508	\$ 39,084	38.1	\$ 319,052
December 31, 2011	100,724	42,946	42.6	255,628
December 31, 2010	101,978	27,055	26.5	197,850

Funding Status

The Hospital currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

Actuarial Valuation date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2012	\$ -	\$ 625,492	\$ 625,492	0.0%	\$ 15,752,639	4.0%

KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012

**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

D. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funding status of the health insurance plan and the annual required contributions of the Hospital are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the January 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the Hospital. The annual healthcare cost trend rate is 8.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after eight years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open 30-year period.

E. Investment in Joint Ventures

Central Minnesota Diagnostic, Inc. (CMDI)

During 1985, Firstlight Health System and other hospitals (all of which are unrelated parties to Firstlight Health System) formed a nonprofit corporation known as Central Minnesota Diagnostic, Inc. (CMDI). CMDI was organized to provide certain agreed upon shared services to those hospitals who are members of this corporation.

CMDI provides the equipment for CT scans, ultrasound, MRI, mammography services, and other services for Firstlight Health System patients. Firstlight Health System billed and collected the revenue for these services to patients and reimbursed CMDI \$769,027 in 2012 for the use of the equipment. Accounts payable to CMDI for these services at December 31, 2012 amounted to \$151,191.

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 8 COMPONENT UNIT DISCLOSURES (CONTINUED)**

E. Investment in Joint Ventures (Continued)

Central Minnesota Diagnostic, Inc. (CMDI) (Continued)

Summarized financial information from the financial statements of CMDI at December 31, 2012 and for the year then ended is presented below:

Total Assets	<u>\$ 49,996,856</u>
Total Liabilities	\$ 10,825,797
Members' Equity	
Retained Earnings	<u>39,171,059</u>
Total Liabilities and Members' Equity	<u>\$ 49,996,856</u>
Total Operating Revenue	<u>\$ 36,623,728</u>
Net Income	<u>\$ 11,877,208</u>

SISU Medical Solutions, LLC

The Hospital is one of nine equal hospital members of SISU Medical Solutions, a Minnesota Limited Liability Company. Its principal business is managing health care information systems for its members and other health care organizations in Northern Minnesota. The majority of its revenue is from related-parties, principally SISU Medical Systems and member organizations.

SISU Medical Systems

The Hospital is a member hospital of SISU Medical System, a Minnesota nonprofit corporation. SISU Medical System obtained tax-free financing of approximately \$5,100,000 to purchase a computer network.

Firstlight Health System's investment in the Joint Ventures of CMDI, SISU Medical Solutions, LLC and SISU Medical Systems consists of the following at December 31, 2012:

Balance, Beginning of Year	\$ 1,650,947
Equity in Net Income of Joint Venture	629,240
Less: Cash Distributions	<u>(529,086)</u>
Balance, End of Year	<u>\$ 1,751,101</u>

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**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER THAN MD&A**

**KANABEC COUNTY  
MORA, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 5,203,548	\$ 5,203,548	\$ 5,503,294	\$ 299,746
Special Assessments	1,200	1,200	71,700	70,500
Licenses and Permits	53,150	53,150	46,771	(6,379)
Intergovernmental	2,809,483	2,809,483	3,050,605	241,122
Charges for Services	2,186,160	2,186,160	2,465,464	279,304
Fines and Forfeits	1,500	1,500	8,168	6,668
Gifts and Contributions	49,400	49,400	35,943	(13,457)
Investments Earnings	39,750	39,750	32,623	(7,127)
Miscellaneous	1,509,483	1,509,483	1,755,680	246,197
Total Revenues	<u>11,853,674</u>	<u>11,853,674</u>	<u>12,970,248</u>	<u>1,116,574</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>GENERAL GOVERNMENT</b>				
Commissioners	166,154	166,154	161,802	4,352
Courts	48,350	48,350	34,126	14,224
Law Library	15,250	15,250	22,873	(7,623)
County Administration	311,105	311,105	349,518	(38,413)
County Auditor-Treasurer	530,370	530,370	574,287	(43,917)
County Assessor	234,459	234,459	284,545	(50,086)
Elections	44,300	44,300	32,044	12,256
Data Processing	281,476	281,476	254,603	26,873
Attorney	584,362	584,362	579,212	5,150
Recorder	137,849	137,849	186,252	(48,403)
Surveyor	15,000	15,000	16,800	(1,800)
Planning and Zoning	253,820	253,820	205,286	48,534
Buildings and Plant	521,881	521,881	466,804	55,077
Veterans Service Officer	3,280	3,280	2,319	961
Other General Government	301,905	301,905	317,626	(15,721)
Regional Rail Authority	-	-	2,239	(2,239)
Public Transit	1,091,920	1,091,920	1,122,940	(31,020)
Total General Government	<u>4,541,481</u>	<u>4,541,481</u>	<u>4,613,276</u>	<u>(71,795)</u>
<b>PUBLIC SAFETY</b>				
Sheriff	1,807,258	1,807,258	1,721,213	86,045
Boat and Water Safety	11,855	11,855	15,519	(3,664)
Emergency Services	68,683	68,683	467,993	(399,310)
Coroner	40,000	40,000	31,252	8,748
E-911 System	89,500	89,500	27,691	61,809
County Jail	2,321,945	2,321,945	2,424,274	(102,329)
Probation and Parole	424,789	424,789	431,015	(6,226)
ATV Program	4,445	4,445	3,168	1,277
Total Public Safety	<u>4,768,475</u>	<u>4,768,475</u>	<u>5,122,125</u>	<u>(353,650)</u>

*The Notes to the Required Supplementary Information are an Integral Part of this Schedule.*

**KANABEC COUNTY  
MORA, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>EXPENDITURES (Continued)</b>				
<b>CURRENT (Continued)</b>				
<b>SANITATION</b>				
Solid Waste	\$ 88,718	\$ 88,718	\$ 68,590	\$ 20,128
<b>HEALTH</b>				
Nursing Service	2,030,028	2,030,028	2,298,232	(268,204)
<b>CONSERVATION OF NATURAL RESOURCES</b>				
County Extension	62,773	62,773	55,826	6,947
<b>INTERGOVERNMENTAL</b>				
Culture and Recreation	173,275	173,275	173,085	190
<b>CAPITAL OUTLAY</b>				
General Government	80,900	80,900	122,000	(41,100)
Public Safety	104,940	104,940	192,443	(87,503)
Total Capital Outlay	<u>185,840</u>	<u>185,840</u>	<u>314,443</u>	<u>(128,603)</u>
<b>DEBT SERVICE</b>				
Principal Retirement	-	-	58,343	(58,343)
Interest	-	-	10,600	(10,600)
Total Debt Service	<u>-</u>	<u>-</u>	<u>68,943</u>	<u>(68,943)</u>
Total Expenditures	<u>11,850,590</u>	<u>11,850,590</u>	<u>12,714,520</u>	<u>(863,930)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	3,084	3,084	255,728	252,644
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer Out	(119,492)	(119,492)	(57,000)	62,492
Loan Proceeds	-	-	84,508	84,508
Proceeds from the Sale of Capital Assets	-	-	5,612	5,612
Total Other Financing Sources (Uses)	<u>(119,492)</u>	<u>(119,492)</u>	<u>33,120</u>	<u>152,612</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (116,408)</u>	<u>\$ (116,408)</u>	288,848	<u>\$ 405,256</u>
Fund Balance - Beginning of Year			<u>3,882,237</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 4,171,085</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY  
MORA, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 2,343,064	\$ 2,343,064	\$ 2,152,141	\$ (190,923)
Licenses and Permits	22,000	22,000	23,132	1,132
Intergovernmental	2,280,000	2,280,000	3,925,044	1,645,044
Charges for Services	-	-	89,128	89,128
Miscellaneous	130,500	130,500	9,784	(120,716)
<b>Total Revenues</b>	<u>4,775,564</u>	<u>4,775,564</u>	<u>6,199,229</u>	<u>1,423,665</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
<b>HIGHWAY AND STREETS</b>				
Administration	216,900	216,900	213,687	3,213
Maintenance	1,699,500	1,699,500	597,448	1,102,052
Construction	205,500	205,500	109,019	96,481
Equipment and Maintenance Shops	631,600	631,600	541,926	89,674
Unallocated - Highways and Streets	700,015	700,015	600,901	99,114
<b>Total Current</b>	<u>3,453,515</u>	<u>3,453,515</u>	<u>2,062,981</u>	<u>1,390,534</u>
<b>CAPITAL OUTLAY</b>	<u>1,571,000</u>	<u>1,571,000</u>	<u>3,152,190</u>	<u>(1,581,190)</u>
<b>Total Expenditures</b>	<u>5,024,515</u>	<u>5,024,515</u>	<u>5,215,171</u>	<u>(190,656)</u>
<b>EXCESS OF REVENUES OVER (UNDER)     EXPENDITURES</b>	(248,951)	(248,951)	984,058	1,233,009
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer In	<u>57,000</u>	<u>57,000</u>	<u>57,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (191,951)</u>	<u>\$ (191,951)</u>	1,041,058	<u>\$ 1,233,009</u>
Fund Balance - Beginning of Year			1,453,355	
<b>INCREASE (DECREASE) IN INVENTORIES</b>			<u>\$ (71,884)</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 2,422,529</u>	

The Notes to the Required Supplementary Information are an Integral Part of this Schedule.

**KANABEC COUNTY  
MORA, MINNESOTA  
BUDGETARY COMPARISON SCHEDULE  
WELFARE SPECIAL REVENUE FUND  
YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 2,314,914	\$ 2,314,914	\$ 2,123,480	\$ (191,434)
Intergovernmental	2,398,772	2,398,772	2,617,763	218,991
Charges for Services	30,000	30,000	29,652	(348)
Miscellaneous	353,100	353,100	456,123	103,023
Total Revenues	<u>5,096,786</u>	<u>5,096,786</u>	5,227,018	130,232
<b>EXPENDITURES</b>				
<b>    CURRENT</b>				
<b>        HUMAN SERVICES</b>				
Income Maintenance	1,741,342	1,741,342	1,659,004	82,338
Social Services	3,449,126	3,449,126	3,107,947	341,179
Total Human Services	<u>5,190,468</u>	<u>5,190,468</u>	<u>4,766,951</u>	<u>423,517</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (93,682)</u>	<u>\$ (93,682)</u>	460,067	<u>\$ 553,749</u>
Fund Balance - Beginning of Year			<u>2,596,213</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 3,056,280</u>	

*The Notes to the Required Supplementary Information are an Integral Part of this Schedule.*

**KANABEC COUNTY  
MORA, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2012**

**I. BUDGETARY INFORMATION**

The Board of County Commissioners adopts an annual budget for the following major funds: The General Fund, Road and Bridge Special Revenue Fund, and Welfare Special Revenue Fund. These budgets are prepared on the modified accrual basis of accounting. Annual budgets are not adopted for the Forfeited Tax Special Revenue Fund, Debt Service Fund, and Capital Projects Fund.

Based on a process established by the Board of County Commissioners, all departments of the County submit requests for appropriations to the County Coordinator each year. After review, analysis and discussions with the departments, the County Coordinator's proposed budget is presented to the Board of County Commissioners for review. The Board of County Commissioners holds public hearings and a final budget must be prepared and adopted no later than December 31.

The overall budget is prepared by fund, function, and department. The legal level of budgetary control – the level at which expenditures may not legally exceed appropriations – is the fund level. Budgets may be amended during the year with proper approval.

Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reported as restrictions of fund balances and do not constitute expenditures or liabilities because the commitments will be re-apportioned and honored during the subsequent year.

**II. EXCESS OF EXPENDITURES OVER BUDGET**

The following funds had expenditures in excess of budget at the fund level for the year ended December 31, 2012:

	<u>Actual</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 12,714,520	\$ 11,850,590	\$ 863,930
Road and Bridge Special Revenue Fund	5,215,171	5,024,515	190,656

These over-expenditures were funded by greater than anticipated revenues and existing fund balance.

## **SUPPLEMENTARY INFORMATION**



**KANABEC COUNTY  
MORA, MINNESOTA**

**Agency Funds**

**Kanabec County Collaborative**

The Kanabec County Collaborative Fund is used to account for monies passed through to the Kanabec County Collaborative.

**Kanabec/Pine Community Health Services**

The Kanabec/Pine Community Health Services Fund is used to account for the receipts and payment of state and federal grants for a two-county service area.

**Knife Lake Improvement District**

The Knife Lake Improvement District Fund is used to account for collection and payment of contributions to the Knife Lake Improvement District.

**Mortgage Registry and State Deed Tax**

The Mortgage Registry and State Deed Tax Fund are used to account for the collection and payment of mortgage registry and state deed tax.

**Taxes and Penalties**

The Taxes and Penalties Fund is used to account for the collection and distribution of property taxes within the County for all municipalities.

**Prepaid Tax**

The Prepaid Tax Fund is used to account for the collection and payment of prepaid taxes.

**Snake River Watershed Management Board**

The Snake River Watershed Management Board Fund is used to account for activities performed as a fiscal agent.

**State Revenue**

The State Revenue Fund is used for transfers of the state share of mortgage registry tax.

**Town and Road**

The Town and Road Fund are used to account for collection of state town road funds and their distribution to townships.

**Withholding Tax and Social Security**

The Withholding Tax and Social Security Fund is used to account for income tax and FICA deductions withheld from the salaries of County employees.

**Employees Benefit Fund**

The Employees Benefit Fund is used to account for receipts and disbursements used withheld for employee benefit programs.

**Jail Inmate**

The Jail Inmate Fund is used to account for receipts and disbursements relating to jail inmates.

**Over Remittance**

The Over Remittance Fund is used to account for receipts and disbursements related to over payments received by the County.

**Social Welfare**

The Social Welfare Fund is used to account for the receipts and disbursements related to the County's Social Welfare program.

**Wellness Committee**

The Wellness Committee Fund is used to account for the receipts and disbursements related to the County's Wellness program.

**KANABEC COUNTY  
MORA, MINNESOTA  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<b>KANABEC COUNTY COLLABORATIVE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 62,406	\$ 80,392	\$ 45,722	\$ 97,076
<b>LIABILITIES</b>				
Due to Other Governments	\$ 62,406	\$ 80,392	\$ 45,722	\$ 97,076
<b>KANABEC/PINE COMMUNITY HEALTH SERVICES</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 146,287	\$ 828,897	\$ 915,575	\$ 59,609
<b>LIABILITIES</b>				
Due to Other Governments	\$ 146,287	\$ 828,897	\$ 915,575	\$ 59,609
<b>KNIFE LAKE IMPROVEMENT DISTRICT</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 119,273	\$ 51,030	\$ 39,657	\$ 130,646
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 119,273	\$ 51,030	\$ 39,657	\$ 130,646
<b>MORTGAGE REGISTRY AND STATE DEED TAX</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 12,790	\$ 267,897	\$ 250,660	\$ 30,027
<b>LIABILITIES</b>				
Due to Other Governments	\$ 12,790	\$ 267,897	\$ 250,660	\$ 30,027

**KANABEC COUNTY  
MORA, MINNESOTA  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)  
ALL AGENCY FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<b>TAXES AND PENALTIES</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	<u>\$ 200,893</u>	<u>\$ 16,994,312</u>	<u>\$ 17,048,523</u>	<u>\$ 146,682</u>
<b>LIABILITIES</b>				
Due to Other Governments	<u>\$ 200,893</u>	<u>\$ 16,994,312</u>	<u>\$ 17,048,523</u>	<u>\$ 146,682</u>
<b>PREPAID TAX</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	<u>\$ 21,929</u>	<u>\$ 77,995</u>	<u>\$ 60,286</u>	<u>\$ 39,638</u>
<b>LIABILITIES</b>				
Due to Other Governments	<u>\$ 21,929</u>	<u>\$ 77,995</u>	<u>\$ 60,286</u>	<u>\$ 39,638</u>
<b>SNAKE RIVER WATERSHED MANAGEMENT BOARD</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	<u>\$ 60,348</u>	<u>\$ 96,913</u>	<u>\$ 70,822</u>	<u>\$ 86,439</u>
<b>LIABILITIES</b>				
Due to Other Governments	<u>\$ 60,348</u>	<u>\$ 96,913</u>	<u>\$ 70,822</u>	<u>\$ 86,439</u>
<b>STATE REVENUE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	<u>\$ 2,942</u>	<u>\$ 5,442</u>	<u>\$ 4,845</u>	<u>\$ 3,539</u>
<b>LIABILITIES</b>				
Due to Other Governments	<u>\$ 2,942</u>	<u>\$ 5,442</u>	<u>\$ 4,845</u>	<u>\$ 3,539</u>

**KANABEC COUNTY  
MORA, MINNESOTA  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)  
ALL AGENCY FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<b>TOWN AND ROAD</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 3,229	\$ 142,230	\$ 145,384	\$ 75
<b>LIABILITIES</b>				
Due to Other Governments	\$ 3,229	\$ 142,230	\$ 145,384	\$ 75
<b>WITHHOLDING TAX AND SOCIAL SECURITY</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 81,092	\$ 6,640,188	\$ 6,721,280	\$ -
<b>LIABILITIES</b>				
Due to Other Governments	\$ 81,092	\$ 6,640,188	\$ 6,721,280	\$ -
<b>EMPLOYEES BENEFIT FUND</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 378,694	\$ 1,360	\$ 335,251	\$ 44,803
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 378,694	\$ 1,360	\$ 335,251	\$ 44,803
<b>JAIL INMATE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 46,280	\$ 70,661	\$ 83,315	\$ 33,626
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 46,280	\$ 70,661	\$ 83,315	\$ 33,626

**KANABEC COUNTY  
MORA, MINNESOTA  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)  
ALL AGENCY FUNDS  
YEAR ENDED DECEMBER 31, 2012**

	Balance January 1	Additions	Deductions	Balance December 31
<b>OVER REMITTANCE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ -	\$ 173,310	\$ 173,310	\$ -
<b>LIABILITIES</b>				
Funds Held in Trust	\$ -	\$ 173,310	\$ 173,310	\$ -
<b>SOCIAL WELFARE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 26,760	\$ 280,664	\$ 268,777	\$ 38,647
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 26,760	\$ 280,664	\$ 268,777	\$ 38,647
<b>WELLNESS COMMITTEE</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ -	\$ 2,351	\$ 1,811	540
<b>LIABILITIES</b>				
Funds Held in Trust	\$ -	\$ 2,351	\$ 1,811	\$ 540
<b>TOTAL ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
Cash and Pooled Investments	\$ 1,162,923	\$ 25,713,642	\$ 26,165,218	\$ 711,347
<b>LIABILITIES</b>				
Funds Held in Trust	\$ 571,007	\$ 579,376	\$ 902,121	\$ 248,262
Due to Other Governments	591,916	25,134,266	25,263,097	463,085
Total Liabilities	\$ 1,162,923	\$ 25,713,642	\$ 26,165,218	\$ 711,347

**KANABEC COUNTY  
MORA, MINNESOTA  
SCHEDULE OF INTERGOVERNMENTAL REVENUE  
YEAR ENDED DECEMBER 31, 2012**

	General	Road and Bridge	Welfare	Debt Service	Total
<b>SHARED REVENUE</b>					
State					
Highway Users Tax	\$ -	\$ 2,746,803	\$ -	\$ -	\$ 2,746,803
Market Value Credit - Agriculture	112,069	44,959	44,521	17,764	219,313
PERA Rate Reimbursement	11,323	4,136	6,042	-	21,501
Disparity Reduction Aid	2,184	876	868	346	4,274
Police Aid	88,458	-	-	-	88,458
County Program Aid	394,986	158,458	156,913	62,610	772,967
E-911	89,230	-	-	-	89,230
Total Shared Revenue	698,250	2,955,232	208,344	80,720	3,942,546
<b>REIMBURSEMENT FOR SERVICES</b>					
Human Services	-	-	401,833	-	401,833
<b>PAYMENTS</b>					
Local					
Local	2,273	-	-	-	2,273
Payments in Lieu of Taxes	52,438	1,119	1,102	444	55,103
Total Payments	54,711	1,119	1,102	444	57,376
<b>GRANTS</b>					
State					
Minnesota Department/Board of					
Corrections	126,416	-	-	-	126,416
Health	206,267	-	-	-	206,267
Natural Resources	23,418	-	-	-	23,418
Human Services	183,786	-	684,093	-	867,879
Peace Officers Board	6,974	-	-	-	6,974
Pollution Control Agency	55,950	-	-	-	55,950
Water and Soil Board	63,205	-	-	-	63,205
Transportation	270,348	-	-	-	270,348
Public Safety	3,787	-	-	-	3,787
Veteran Affairs	2,298	-	-	-	2,298
Total State Grants	942,449	-	684,093	-	1,626,542
Federal					
Department of					
Agriculture	112,860	-	98,248	-	211,108
Justice	163,615	-	-	-	163,615
Transportation	152,662	968,693	-	-	1,121,355
Homeland Security	400,426	-	-	-	400,426
Health and Human Services	525,632	-	1,224,143	-	1,749,775
Total Federal Grants	1,355,195	968,693	1,322,391	-	3,646,279
Total State and Federal Grants	2,297,644	968,693	2,006,484	-	5,272,821
Total Intergovernmental Revenue	<u>\$ 3,050,605</u>	<u>\$ 3,925,044</u>	<u>\$ 2,617,763</u>	<u>\$ 81,164</u>	<u>\$ 9,674,576</u>

**REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*  
AND SINGLE AUDIT (A-133)**



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

Board of County Commissioners  
Kanabec County  
Mora, Minnesota

We have audited, in accordance with the 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kanabec County (the County), Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Kanabec County's basic financial statements, and have issued our report thereon dated August 9, 2013.

The County's basic financial statements include the operations of Firstlight Health System for the year ended December 31, 2012. Our audit, described below did not include the operations of Firstlight Health System because the component unit engaged for their own separate audit in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Kanabec County's internal control over financial reporting (internal control) 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 Kanabec County's internal control. Accordingly, we do not express an opinion on the effectiveness of Kanabec County's internal control.

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

**Internal Control Over Financial Reporting (Continued)**

A *deficiency in internal control* 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 06-1 through 06-4 to be material weaknesses.

**Compliance and Other Matters**

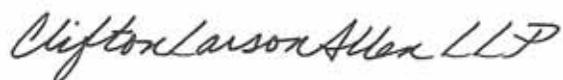
As part of obtaining reasonable assurance about whether Kanabec County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

**Kanabec County's Response to Findings**

Kanabec County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Kanabec County's responses were not subjected to 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 and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kanabec County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
August 9, 2013

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

Board of County Commissioners  
Kanabec County  
Mora, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited Kanabec County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Kanabec County's major federal programs for the year ended December 31, 2012. Kanabec County's major federal programs are identified in the summary of auditors' 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 its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Kanabec 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 Kanabec 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 Kanabec County's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Kanabec 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.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 12-2. Our opinion on each major federal program is not modified with respect to the matter.

### **Kanabec County's Response to Findings**

Kanabec County's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Kanabec County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control Over Compliance**

Management of Kanabec 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 Kanabec 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 an 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 Kanabec County's internal control over compliance.

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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 12-3 to be a material weakness.

**Report on Internal Control Over Compliance (Continued)**

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 12-2 to be a significant deficiency.

**Kanabec County's Response to Findings**

Kanabec 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. Kanabec County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
August 9, 2013

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**KANABEC COUNTY, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2012**

**SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Kanabec County, Minnesota.
2. Deficiencies in internal control were disclosed during the audit of the basic financial statements for the County and reported in the "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*". Findings 06-1 through 06-4 are considered to be material weaknesses.
3. No instances of noncompliance material to the basic financial statements of the County were disclosed during the audit.
4. Instances involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Independent Auditors' Report on Compliance with Requirements that Could have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in accordance with OMB Circular A-133". We consider 12-3 to be a material weakness and 12-2 to be a significant deficiency.
5. The auditors' report on compliance for the major federal award programs for the County expresses an unqualified opinion on the major federal programs.
6. Audit finding 12-2 relative to the major federal award programs for the County was disclosed during the audit that is required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as a major program were:

Highway Planning and Construction Cluster	CFDA No. 20.205
Temporary Assistance for Needy Families Cluster	CFDA No. 93.558, 93.714
Medical Assistance (Medicaid Cluster)	CFDA No. 93.778
Homeland Security Grant	CFDA No. 97.067
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The County did not qualify, under federal guidelines, as a low-risk auditee.

**KANABEC COUNTY, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012**

**MATERIAL WEAKNESS (FINANCIAL REPORTING)**

**06-1 SEGREGATION OF DUTIES**

**Criteria:** County management should constantly be aware of the need to have adequate segregation of duties regarding the processing of transactions for the County. In addition, County management should be aware that the concentration of duties and responsibilities in one or a very few individuals is not desirable from an internal control perspective.

**Condition:** Adequate segregation of the accounting functions necessary to ensure adequate internal accounting control is not in place in a number of departments throughout the County.

**Cause:** The County has a limited number of personnel within several County departments.

**Effect:** The lack of adequate segregation of duties can result in incorrect financial information, failure to detect misstatements or misappropriations, and lack of adherence to the County's procedures.

**Recommendation:** We recommend County management be aware of the lack of segregation of duties within the accounting functions and provide oversight to ensure the internal control policies and procedures are being implemented by organization staff.

**CLIENT RESPONSE:**

*The County will continue to review the accounting functions of all affected departments to segregate them as it is cost beneficial.*

**06-2 AUDIT ADJUSTMENTS**

**Criteria:** County management is responsible for establishing and maintaining internal controls for the proper recording of all County's receipts and disbursements, including reclassifications between funds and recording of accruals.

**Condition:** As part of the audit, we proposed account reclassification entries relating to the coding of receipts and disbursements, accruals, capital asset adjustments, and other reclassifications. These entries indicate a lack of controls over the year-end financial reporting process. The absence of this control procedure is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the County's internal control.

**Cause:** The County has a limited number of personnel.

**Effect:** The design of the internal controls over recording receipts and disbursement, including reclassifications, could affect the ability of the County to detect or prevent a misappropriation of assets or fraudulent activity.

**Recommendation:** We recommend County management be consistently aware of all procedures and processes involved in recording receipts, disbursements, and reclassifications, and develop internal control policies to ensure proper recording of these items.

**CLIENT RESPONSE:**

*The County will continue to work at eliminating the need for audit adjustments.*

KANABEC COUNTY, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012

**MATERIAL WEAKNESS (FINANCIAL REPORTING) – (CONTINUED)**

**06-3 FINANCIAL REPORTING PROCESS**

**Criteria:** County management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation of the financial statements in accordance applicable accounting and reporting standards.

**Condition:** As part of the audit, management requested us to prepare a draft of the financial statements, including the related notes to the financial statements.

**Cause:** The County has a limited number of personnel.

**Effect:** The design of the controls over the financial reporting process would affect the ability of the County to report their financial data consistently with the assertions of management in the financial statements.

**Recommendation:** We recommend that County management be aware of the responsibilities regarding financial reporting and continue to evaluate the cost/benefit of outsourcing this function. If management chooses to undertake these financial reporting responsibilities, a number of policies, procedures, and reviews will need to be developed and implemented.

**CLIENT RESPONSE:**

*The County understands this is required communications for the preparation of the financial statements and will continue to work at this area to achieve the overall goal.*

**06-4 TIMELY DEPOSITS**

**Criteria:** Standard internal control procedures recommend that deposits should be made on a daily basis.

**Condition:** Various departments in the County do not deposit on a daily basis.

**Cause:** Past practice.

**Effect:** The County's failure to make daily deposits increases the risk that fraud could occur and not be detected in a timely manner.

**Recommendation:** We recommend the departments deposit their collections with the County Auditor-Treasurer office on a daily basis in order to minimize the risk of misappropriation of assets.

**CLIENT RESPONSE:**

*County management will work with the affected to departments to ensure departments are depositing on a timely basis to limit the County's exposure to the potential of misappropriation of assets.*

KANABEC COUNTY, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012

**MATERIAL WEAKNESS (FINANCIAL REPORTING) – (CONTINUED)**

**PREVIOUSLY REPORTED ITEMS RESOLVED**

**10-1 APPROVAL OF DISBURSEMENTS**

We were not presented with supporting documentation to demonstrate supervisory approval for four of 40 disbursements tested.

**RESOLUTION**

No similar issues were noted in our testing of disbursements in 2012.

**11-1 APPROVAL OF PAYROLL**

We were not presented with supporting documentation to demonstrate supervisory approval for three of 40 payroll disbursements tested.

**RESOLUTION**

No similar issues were noted in our testing of payroll disbursements in 2012.

**OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE**

**08-3 UNCLAIMED PROPERTY**

**Criteria:** *Minnesota Statutes* §345.41 requires the County to report and pay or deliver to the State Commissioner of Commerce any unclaimed or uncashed checks held for more than three years.

**Condition:** The County has held unclaimed or uncashed checks for more than three years.

**Cause:** Unknown.

**Effect:** The County is not in compliance with state statutes.

**Recommendation:** The County should turn over any unclaimed or uncashed checks held for more than three years to the State Commissioner of Commerce in compliance with the requirements of *Minnesota Statutes* §345.41.

**CLIENT RESPONSE:**

*The County continues to work at resolving this comment. Due to recent staff turnover in the Auditor/Treasurer's office, this has been delayed.*

**KANABEC COUNTY, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012**

**OTHER ITEMS FOR CONSIDERATION – MINNESOTA LEGAL COMPLIANCE (CONTINUED)**

12-1 Commissioner Salary Approval

**Criteria:** *Minnesota Statutes* §375.055 requires the County Board to approve their salaries prior to January 1 of the year in which it is to take effect.

**Condition:** The County Board did not approve their salaries until January 8, 2012 for use during 2012.

**Cause:** Unknown.

**Effect:** The County is not in compliance with state statutes.

**Recommendation:** The County Board should approve a resolution prior to the first of January in the year it is to be effective.

**CLIENT RESPONSE:**

*The County board will work at resolving this comment by making a timely resolution going forward.*

**MAJOR PROGRAM – MATERIAL WEAKNESS**

12-3 HOMELAND SECURITY GRANT (DEPARTMENT OF PUBLIC SAFETY – 2012 CFDA # 97.067)

**Criteria:** Standard internal control procedures recommend grant reports should be reviewed and documented prior to submittal to the state and federal agencies. Standard internal control procedures also recommend that the County verify vendors have not been suspended or debarred prior to signing a contract or making payment to the vendor.

**Condition and Context:** During our testing of compliance over vendor contracts and grant reporting, it was noted there was no control process in place to ensure that the County is in compliance with the requirements of Reporting and Procurement, Suspension and Debarment.

**Cause:** The Fiscal Agent was unaware of the requirement and relied on the fact that the vendors used were either approved by the state for conference locations, or were very large and well known. Also, the program manager was unaware of the requirement to review reports prior to submission.

**Effect:** The County may not be in compliance with the requirements of the Federal program.

**Recommendation:** We recommend the County develop and implement a process to provide for and to document the review of reports prior to submittal to state and federal agencies. We also recommend the County develop and implement a process to ensure vendors are not suspended or debarred from contracts involving the use of federal funds.

**CORRECTIVE ACTION PLAN:**

**Contact Person:** Denise Cooper, County Auditor/Treasurer

**Corrective Action Planned:** The County will begin working with program managers with the information and resources needed for all grant programs and seeking a knowledgeable individual to review reports prior to submission.

**Anticipated Completion Date:** December 31, 2013.

**KANABEC COUNTY, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012**

**MAJOR PROGRAM – COMPLIANCE AND SIGNIFICANT DEFICIENCY**

12-2 MEDICAL ASSISTANCE (DEPARTMENT OF HUMAN SERVICES – 2012 CFDA # 93.778)

**Criteria:** Medical Assistance program requirements require grantees to verify program applicants are either a US citizen or a qualified resident alien.

**Condition and Context:** During our testing of compliance requirements related to eligibility for Medical Assistance it was noted that 1 of 40 case files tested, the County was not able to provide adequate documentation for citizenship verification.

**Cause:** The County did not retain an applicant's citizenship verification documentation after the applicant had benefits expanded from food support to Medical Assistance.

**Effect:** The County was not in compliance with the program requirements.

**Recommendation:** We recommend the County take proper steps to ensure that all program participants have had their eligibility properly documented.

**CORRECTIVE ACTION PLAN:**

**Contact Person:** Wendy Thompson, Director of Health and Human Services

**Corrective Action Planned:** The Health and Human Services department will review all case files prior to authorization of benefits to applicants.

**Anticipated Completion Date:** December 31, 2013.

**KANABEC COUNTY  
MORA, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2012**

<b>Federal Grantor Pass Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Kanabec/Pine Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 112,860
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Supplemental Nutrition Assistance Program (SNAP Cluster)	10.561	<u>98,248</u>
Total Department of Agriculture		211,108
<b>U.S. Department of Justice</b>		
Direct		
Bulletproof Vest Partnership Program	16.607	3,795
ARRA - Assistance to Rural Law Enforcement to Combat Crime	16.810	<u>159,820</u>
Total Department of Justice		163,615
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction (Highway Planning and Construction Cluster)	20.205	968,693
Formula Grants for Other Than Urbanized Areas	20.509	133,272
Passed Through Minnesota Department of Public Safety State and Community Highway Safety (Highway Safety Cluster)	20.600	7,902
Occupant Protection Incentive Grants (Highway Safety Cluster)	20.602	6,000
Minimum Penalties for Repeat Offenders for DWI	20.608	3,825
Safety Belt Performance Grants (Highway Safety Cluster)	20.609	<u>1,663</u>
Total Department of Transportation		1,121,355
<b>U.S. Department of Health and Human Services</b>		
Passed Through the Minnesota Council on Aging Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	34,971
Passed Through Kanabec/Pine Community Health Services Center for Disease Control and Prevention Investigations and Tech. Assistance	93.283	19,233
Maternal and Child Health Services Block Grant	93.994	23,956
Passed Through Minnesota Department of Health Temporary Assistance for Needy Families (TANF Cluster)	93.558	24,619

*The Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.*

**KANABEC COUNTY  
MORA, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass Through Agency Grant Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	\$ 176,478
Promoting Safe and Stable Families	93.556	10,960
Temporary Assistance for Needy Families (TANF Cluster)	93.558	211,062
Title IV-D Child Support	93.563	338,824
Refugee and Energy Assistance Grant	93.566	248
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)	93.596	4,385
Stephanie Tubbs Jones Child Welfare Services Program	93.645	483
Foster Care Title IV-E	93.658	76,475
Social Services Block Grant	93.667	105,778
Chafee Foster Care Independent Living	93.674	14,182
ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (TANF Cluster)	93.714	16,581
Medical Assistance (Medicaid Cluster)	93.778	531,614
Direct		
Drug-Free Communities Support Program Grants	93.276	<u>159,926</u>
Total Department of Health and Human Services		1,749,775
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	5,571
Passed Through Minnesota Department of Public Safety Emergency Management Performance Grant	97.042	16,700
Homeland Security Grant Program	97.067	<u>378,155</u>
Total Department of Homeland Security		<u>400,426</u>
Total Cash Type Federal Awards		<u><u>\$ 3,646,279</u></u>

*The Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.*

**KANABEC COUNTY  
MORA, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012**

**Notes:**

1. The Schedule of Expenditures of Federal Awards presents the federal award programs expended by Kanabec County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Kanabec 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*.
3. 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. During 2012, Kanabec County did not pass any federal money to subrecipients.
5. ARRA denotes the program has received funding provided by the American Recovery and Reinvestment Act of 2009.

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## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of County Commissioners  
Kanabec County  
Mora, Minnesota

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 accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kanabec County, Minnesota, as of and for the year ended December 31, 2012, and the notes to the financial statements and have issued our report thereon dated August 9, 2013.

The County's basic financial statements include the operations of the Firstlight Health System for the year ended December 31, 2012. Our audit, described below, did not include the operations of the Firstlight Health System because the component unit engaged for their own separate audit that included provision of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers seven main 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.

In connection with our audit, nothing came to our attention that caused us to believe that Kanabec County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivision* except for the item described in detail in the attached Schedule of Findings and Questioned Costs as finding 08-3 and 12-1. 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 Kanabec County's noncompliance with the above-referenced provisions.

Kanabec County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Kanabec County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Brainerd, Minnesota  
August 9, 2013



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