

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

Year Ended December 31, 2011



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

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	1	15
Statement of Activities	2	18
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	20
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	4	22
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	6	25
Proprietary Funds		
Statement of Fund Net Assets	7	27
Statement of Revenues, Expenses, and Changes in Fund Net Assets	8	29
Statement of Cash Flows	9	31
Fiduciary Funds		
Statement of Fiduciary Net Assets	10	33
Discretely Presented Component Units		
Combining Statement of Net Assets	11	34
Combining Statement of Activities	12	36
Notes to the Financial Statements		38

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section (Continued)		
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	114
Public Works Special Revenue Fund	A-2	117
Human Services Special Revenue Fund	A-3	119
Schedule of Funding Progress - Other Postemployment Benefits	A-4	120
Notes to the Required Supplementary Information		121
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	B-1	124
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	B-2	125
Combining Balance Sheet - Nonmajor Special Revenue Funds	B-3	126
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Special Revenue Funds	B-4	127
Budgetary Comparison Schedules		
Library Special Revenue Fund	B-5	128
Public Health Nurse Special Revenue Fund	B-6	129
Bonds and Interest Debt Service Fund	B-7	130
Capital Projects Fund	B-8	131
Fiduciary Funds		132
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	C-1	133
Other Schedules		
Schedule of Deposits and Investments	D-1	136
Balance Sheet - By Ditch - Ditch Special Revenue Fund	D-2	137
Schedule of Intergovernmental Revenue	D-3	141
Schedule of Expenditures of Federal Awards	D-4	143
Notes to the Schedule of Expenditures of Federal Awards		146

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

TABLE OF CONTENTS
(Continued)

	<u>Exhibit</u>	<u>Page</u>
Management and Compliance Section		
Schedule of Findings and Questioned Costs		148
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		156
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		159

This page was left blank intentionally.

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2011

Office	Name	Term Expires
Commissioners		
1st District	Jerry Johnson	January 2013
2nd District	Norm Salto ¹	January 2013
3rd District	Bev Bales	January 2013
4th District	Paul Anderson	January 2013
5th District	Dan Olson	January 2013
Officers		
Elected		
Attorney	Chad Larson	January 2015
Auditor/Treasurer	Char Rosenow	January 2015
County Recorder	Dawn Crouse	January 2015
Registrar of Titles	Dawn Crouse	January 2015
Sheriff	Troy Wolbersen	January 2015
Appointed		
Assessor	A. Keith Albertsen	December 2012
Coordinator	William Schalow	Indefinite
Highway Engineer	David Robley	May 2012
Surveyor	Gary Stevenson	Indefinite
Veteran's Service	Ray Kallstrom	September 2015
Medical Examiner	Mark Spanbauer, M.D.	Indefinite
Director - Social Services	Michael Woods	Indefinite
Director - Public Health	Sandy Tubbs	Indefinite

¹Chair

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Douglas County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Douglas County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Douglas County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Douglas County Hospital, reported as the Hospital Operating Enterprise Fund, which is both a major fund and 98 percent, 98 percent, and 100 percent, respectively, of the assets, net assets, and revenues of the business-type activities. We also did not audit the financial statements of the Housing and Redevelopment Authority of Douglas County, which is 11 percent, 10 percent, and 26 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Douglas County Hospital and the Housing and Redevelopment Authority of Douglas County, are based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Douglas County as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.10., Douglas County has implemented Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 27, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

This page was left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

INTRODUCTION

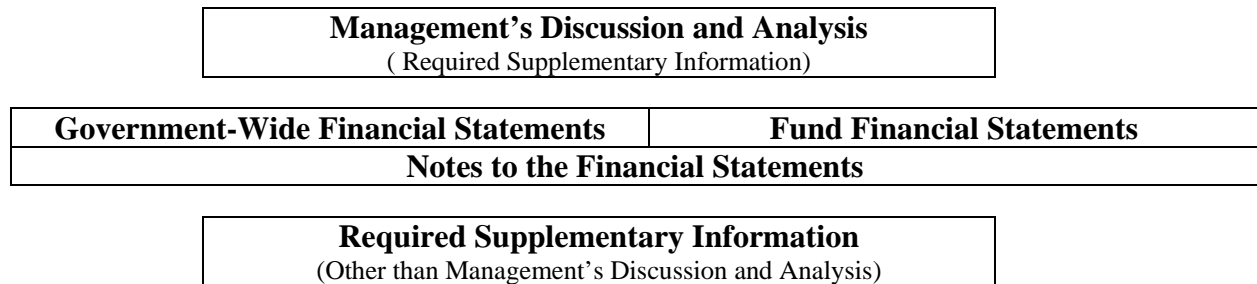
Douglas County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be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

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$89,622,479, of which \$69,745,789 is invested in capital assets, net of related debt, and \$8,535,503 is restricted to specific purposes/uses by the County.
- Business-type activities have total net assets of \$65,057,124. Invested in capital assets, net of related debt, represents \$28,220,993 of the total; \$2,604,951 of the total business-type net assets is restricted for specific uses.
- Douglas County's net assets (governmental activities and business-type activities) total \$154,679,603 for the year ended December 31, 2011. Invested in capital assets, net of related debt, represents \$97,966,782 of the total; \$11,140,454 of the total net assets is restricted for specific uses, and \$45,572,367 is unrestricted.
- The net cost of Douglas County's governmental activities for the year ended December 31, 2011, was \$23,194,284. General property tax revenues and other revenue sources totaling \$25,742,957 funded the County's governmental net cost of \$23,194,284.
- Douglas County's governmental funds' combined fund balances totaled \$36,168,338 at December 31, 2011. This was an increase of \$6,965,347 over fund balance at December 31, 2010.
- Douglas County's long-term debt increased by \$5,761,991, or 9.0 percent, to \$64,314,076 as of December 31, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

Douglas County's MD&A report serves as an introduction to the basic financial statements. The County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.



Douglas County presents two government-wide financial statements. They are the Statement of Net Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of the County as a whole and present a longer-term view of Douglas County's finances. The County's fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how Douglas County financed these services in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant/major funds. For proprietary activities, these statements provide detailed financial information relating to Douglas County Hospital's operations and facilities. The remaining statement provides financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

The Statement of Net Assets and the Statement of Activities report information about Douglas County as a whole and about its activities in a way that helps the reader determine whether Douglas County's financial condition has improved or declined as a result of the current year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of Douglas County's current year revenues and expenses regardless of when the County receives the revenue or pays the expense. These two statements report the County's net assets and changes in them. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure Douglas County's financial health or financial position. Over time, increases or decreases in the County's net assets are one

indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the County's property tax base and the general economic conditions of the state and County to assess the overall health of Douglas County.

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

- Governmental activities--Douglas County reports its basic services in the "Governmental Activities" column of these reports. The activities reported by the County include general government, public safety, highways and streets, human services, health, culture and recreation, conservation of natural resources, and economic development. Douglas County finances the majority of these activities with local property taxes, state-paid aids, fees, charges for services, and federal and state grants.
- Business-type activities--The Douglas County Hospital charges a fee for services rendered to patients. Revenue is received from patients and third-party payers to help cover most of the costs to operate these facilities and pay for the services provided. The activities of the Hospital are reported here.
- Component units--Douglas County includes two separate legal entities in its report, Pope/Douglas Solid Waste Management and the Douglas County Housing and Redevelopment Authority. These entities are presented in a separate column. Although legally separate, these component units are important because the County is financially accountable for them.

Fund Financial Statements

Douglas County's fund financial statements provide detailed information about the significant funds--not the County as a whole. Significant governmental and proprietary funds may be established by the County to meet requirements of a specific state law; to help control and manage money for a particular purpose/project; or to show that it is meeting specific legal responsibilities and obligations when expending property tax revenues, grants, and/or other funds designated for a specific purpose. Douglas County's two kinds of funds--governmental and proprietary--use different accounting methods.

- Governmental funds--Most of Douglas County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported in our financial statements using an accounting method called modified accrual accounting. This accounting method measures cash and other financial assets that the County can readily convert to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps determine whether there are financial resources

available that can be spent in the near future to finance various programs within Douglas County. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

- Proprietary funds--When the County charges customers for the services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the County's enterprise fund (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the County's other programs and activities, such as the County's Self-Insurance Fund.

REPORTING THE COUNTY'S FIDUCIARY RESPONSIBILITIES

Douglas County is the trustee, or fiduciary, over assets, which can be used only for the trust beneficiaries based on the trust arrangement. The County reports all of its fiduciary activities in separate Statements of Fiduciary Net Assets. These activities have been excluded from the County's other financial statements because the County cannot use these assets to finance its operations. Douglas County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other Assets	\$ 40,918,441	\$ 35,619,643	\$ 50,476,249	\$ 47,990,791	\$ 91,394,690	\$ 83,610,434
Capital assets	95,540,942	93,464,295	50,615,429	50,337,896	146,156,371	143,802,191
Total Assets	\$ 136,459,383	\$ 129,083,938	\$ 101,091,678	\$ 98,328,687	\$ 237,551,061	\$ 227,412,625
Liabilities						
Long-term liabilities	\$ 37,535,658	\$ 29,607,935	\$ 27,901,046	\$ 28,088,288	\$ 65,436,704	\$ 57,696,223
Other liabilities	9,301,246	11,982,246	8,133,508	7,959,909	17,434,754	19,942,155
Total Liabilities	\$ 46,836,904	\$ 41,590,181	\$ 36,034,554	\$ 36,048,197	\$ 82,871,458	\$ 77,638,378
Net Assets						
Invested in capital assets, net of debt	\$ 69,745,789	\$ 74,709,939	\$ 28,220,993	\$ 25,845,276	\$ 97,966,782	\$ 100,555,215
Restricted	8,535,503	7,959,682	2,604,951	2,605,851	11,140,454	10,565,533
Unrestricted	11,341,187	4,824,136	34,231,180	33,829,363	45,572,367	38,653,499
Total Net Assets	\$ 89,622,479	\$ 87,493,757	\$ 65,057,124	\$ 62,280,490	\$ 154,679,603	\$ 149,774,247

(Unaudited)

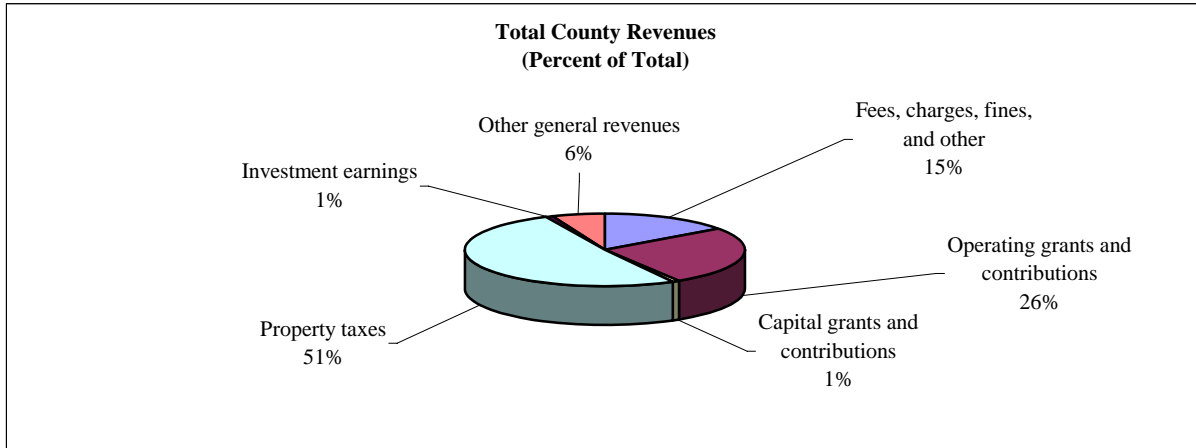
Page 8

Douglas County's total net assets as of December 31, 2011 were \$154,679,603. The governmental activities' unrestricted net assets totaling \$11,341,187 are available to finance the day-to-day operations of the governmental activities of Douglas County. The remaining unrestricted net assets totaling \$34,231,180 are available to finance the day-to-day operations of the business-type activities of the County.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 6,724,738	\$ 6,434,595	\$ 85,429,449	\$ 77,836,344	\$ 92,154,187	\$ 84,270,939
Operating grants and contributions	11,485,711	10,966,224	170,903	167,519	11,656,614	11,133,743
Capital grants and contributions	357,781	-	29,651	-	387,432	-
General revenues						
Property taxes	22,160,610	22,089,715	-	-	22,160,610	22,089,715
Other taxes	343,869	323,839	-	-	343,869	323,839
Grants and contributions	1,769,227	1,770,052	-	-	1,769,227	1,770,052
Investment earnings	493,108	479,959	419,951	786,178	913,059	1,266,137
Other general revenues	540,359	453,606	-	-	540,359	453,606
Gain on sale of capital asset	15,833	-	-	-	15,833	-
Total Revenues	\$ 43,891,236	\$ 42,517,990	\$ 86,049,954	\$ 78,790,041	\$ 129,941,190	\$ 121,308,031
Expenses						
General government	\$ 9,122,314	\$ 7,395,099	\$ -	\$ -	\$ 9,122,314	\$ 7,395,099
Public safety	9,054,400	8,041,515	-	-	9,054,400	8,041,515
Highways and streets	7,877,757	6,667,706	-	-	7,877,757	6,667,706
Human services	7,657,486	7,861,769	-	-	7,657,486	7,861,769
Health	4,472,364	4,526,319	-	-	4,472,364	4,526,319
Culture and recreation	1,424,471	1,416,289	-	-	1,424,471	1,416,289
Conservation of natural resources	715,964	553,650	-	-	715,964	553,650
Economic development	48,045	48,045	-	-	48,045	48,045
Interest	1,389,713	1,243,854	-	-	1,389,713	1,243,854
Hospital	-	-	83,273,320	74,555,524	83,273,320	74,555,524
Total Expenses	\$ 41,762,514	\$ 37,754,246	\$ 83,273,320	\$ 74,555,524	\$ 125,035,834	\$ 112,309,770
Increase in Net Assets	\$ 2,128,722	\$ 4,763,744	\$ 2,776,634	\$ 4,234,517	\$ 4,905,356	\$ 8,998,261
Net Assets - January 1	87,493,757	82,730,013	62,280,490	58,045,973	149,774,247	140,775,986
Net Assets - December 31	<u>\$ 89,622,479</u>	<u>\$ 87,493,757</u>	<u>\$ 65,057,124</u>	<u>\$ 62,280,490</u>	<u>\$ 154,679,603</u>	<u>\$ 149,774,247</u>

Douglas County's total revenues for the year ended December 31, 2011, were \$129,941,190. The total cost of the County's programs and services for the year ended December 31, 2011, was \$125,035,834. The net assets for the County's governmental activities increased by \$2,128,722 mainly due to construction of additional infrastructure.



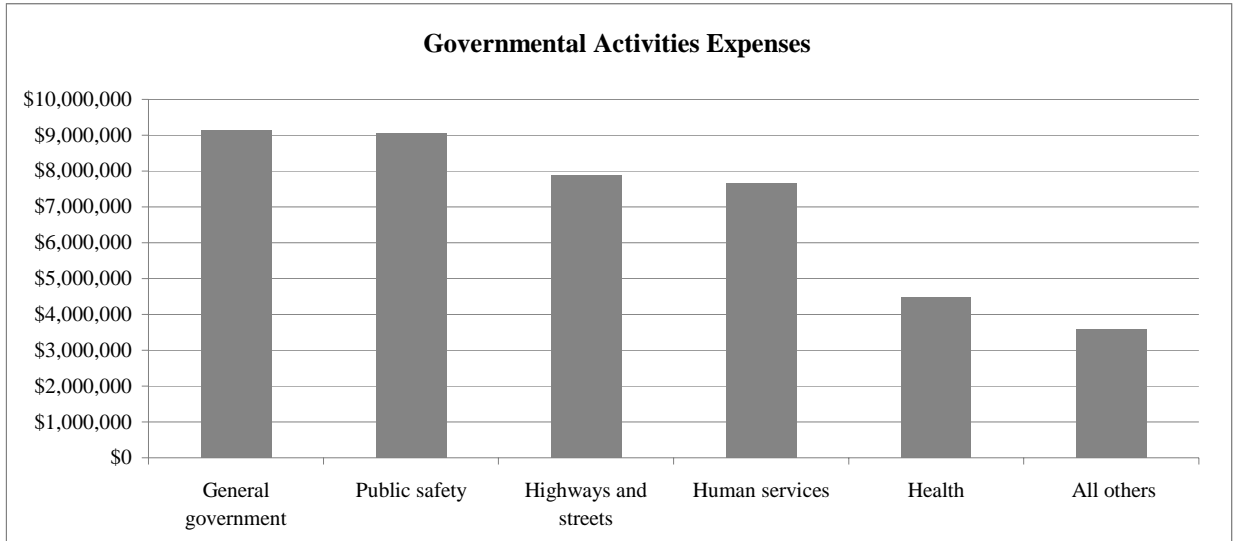
Governmental Activities

Revenues for Douglas County’s governmental activities for the year ended December 31, 2011, were \$43,891,236. The County’s cost for all governmental activities for the year ended December 31, 2011, was \$41,762,514. As shown in the Statement of Activities, the amount that Douglas County taxpayers ultimately financed for these governmental activities through local property taxation was \$22,160,610, because \$6,724,738 of the cost was paid by those who directly benefited from the programs, and \$11,843,492 was paid by other governments and organizations that subsidized certain programs with grants and contributions. Douglas County paid for the remaining “public benefit” portion of governmental activities with \$3,162,396 in general revenues, primarily grants and contributions, which were not restricted to specific programs or services, and with other revenues, such as interest income, mortgage registration tax, and deed tax.

Table 3 presents the cost of each of Douglas County’s five largest program functions, as well as each function’s net cost (total cost, less revenues generated by the activities). The net cost shows the financial burden placed on Douglas County’s taxpayers by each of these functions. The net cost of services increased 14.0 percent.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Program expenses				
General government	\$ 9,122,314	\$ 7,395,099	\$ 7,590,972	\$ 5,839,274
Public safety	9,054,400	8,041,515	7,472,383	6,592,215
Highways and streets	7,877,757	6,667,706	2,013,812	1,723,880
Human services	7,657,486	7,861,769	3,469,265	3,702,551
Health	4,472,364	4,526,319	(81,880)	(116,172)
All others	3,578,193	3,261,838	2,729,732	2,611,679
Total Program Expenses	\$ 41,762,514	\$ 37,754,246	\$ 23,194,284	\$ 20,353,427



Business-Type Activities

Revenues of Douglas County’s business-type activities (see Table 2) for the year ended December 31, 2011, were \$86,049,954; expenses were \$83,273,320, resulting in an increase in net assets of \$2,776,634. The primary component of this increase was increased revenues due to an overall price increase at Douglas County Hospital in 2011 and the integration with Heartland Orthopedic Specialists.

The County’s Funds

As Douglas County completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$36,168,338, which is above last year’s total of \$29,202,991. Included in this year’s total fund balance is a surplus of \$8,860,916 in the County’s General Fund. The majority of this surplus is restricted or assigned for future obligations. The General Fund’s fund balance increased by \$119,109. The Capital Projects Fund’s fund balance increased \$5,765,601 as a result of the sale of 2011 General Obligation Law Enforcement Center Bonds to remodel the north and south ends of the Services Center facility which will be completed in 2012.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Douglas County Board of Commissioners, over the course of a budget year, may amend/revise the County’s General Fund budget; in 2011, the County Board of Commissioners made minor budgetary amendments/revisions. The minor changes made to the budget as originally adopted on December 28, 2010, by the County Board of Commissioners fall into one of three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and final agreement reached on employee contracts.

In the County's General Fund, the actual revenues were above the expected revenues by \$1,284,230, mostly due to receiving more miscellaneous revenue than anticipated and more fees for services rendered. Total actual expenditures in the County's General Fund exceeded the budgeted expenditures by \$753,547.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, Douglas County had \$146,156,371 invested in a broad range of capital assets, net of depreciation. This investment in capital assets includes land, buildings, highways and streets, and equipment (see Table 4). This amount represents a net increase (including additions and deductions) of \$2,354,180, or 1.6 percent, over last year. The increase in capital assets was mostly due to the remodel of the north and south ends of the Services Center facility and continued infrastructure construction.

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 4,619,992	\$ 4,070,913	\$ 91,330	\$ 91,330	\$ 4,711,322	\$ 4,162,243
Construction in progress	3,644,462	4,528,641	157,857	64,870	3,802,319	4,593,511
Buildings	28,382,690	29,354,527	39,285,018	40,308,389	67,667,708	69,662,916
Land and building improvements	1,330,552	1,467,879	1,960,048	2,137,902	3,290,600	3,605,781
Machinery, furniture, and equipment	4,201,367	3,917,372	9,121,176	7,735,405	13,322,543	11,652,777
Infrastructure	53,361,879	50,124,963	-	-	53,361,879	50,124,963
Totals	\$ 95,540,942	\$ 93,464,295	\$ 50,615,429	\$ 50,337,896	\$ 146,156,371	\$ 143,802,191

This year's major additions include continued infrastructure construction on various highways (both completed and construction in progress), the completion of Courts Holding and the construction in progress on the Services Center project.

The Services Center project is being funded by the sale of General Obligation Law Enforcement Center Bonds for the Law Enforcement Center and 800 megahertz and General Obligation Courthouse Bonds for the pool demolition, asbestos abatement and south end remodel for Social Services and Public Health.

The County's Capital Projects Fund has \$9,451,706 of available fund balance to be used to finance future capital expenditures. Planned projects for 2012 include road reconstruction, the Central Pool demolition and south end reconstruction, the law enforcement center remodel and 800 megahertz. More detailed information about Douglas County's capital assets can be found in Note 3.A.3. to the Douglas County financial statements.

Debt

As of December 31, 2011, Douglas County had \$64,314,076 in long-term obligations, compared with \$58,552,085 as of December 31, 2010--an increase of 9.8 percent--as shown in Table 5.

**Table 5
Outstanding Debt at Year-End**

Bonds Payable	Governmental Activities		Business-Type Activities		Primary Government	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$ 32,295,000	\$ 26,215,000	\$ -	\$ -	\$ 32,295,000	\$ 26,215,000
HRA Lease Revenue Bonds	6,410,000	6,645,000	-	-	6,410,000	6,645,000
Gross Revenue Healthcare Facilities Bonds	-	-	24,935,000	25,310,000	24,935,000	25,310,000
Loans	203,146	161,095	-	-	203,146	161,095
Lease Purchases	470,930	220,990	-	-	470,930	220,990
Totals	<u>\$ 39,379,076</u>	<u>\$ 33,242,085</u>	<u>\$ 24,935,000</u>	<u>\$ 25,310,000</u>	<u>\$ 64,314,076</u>	<u>\$ 58,552,085</u>

New debt resulted from the sale of General Obligation Law Enforcement Center Bonds in the amount of \$8,965,000, General Obligation Courthouse Bonds in the amount of \$875,000 and a Sewer Clean Water Partnership with the State of Minnesota Pollution Control Agency in the amount of \$62,009.

Douglas County's rating from Standard and Poor's is a "AA." The state limits the amount of net debt that a county can issue to three percent of the market value of all taxable property in the county. The County's outstanding net debt is significantly below this \$148,487,010 state-imposed limit.

Other obligations include compensated absences. Douglas County's notes to the financial statements provide detailed information about the County's long-term liabilities.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for the business-type activities.

- The County has and will continue to experience numerous program and funding changes as a result of state and federal mandates and decreased funding levels.
- Douglas County's net tax capacity rates have not seen significant change, even though the overall net tax levy has continued to increase. This is due in great part to Douglas County's strong tax base. It has a strong seasonal, residential, commercial/industrial, and agricultural base. Keeping this tax base vital and healthy is very important to the County's overall financial health and condition.

- Douglas County's average unemployment rate for 2011 and 2010 is 5.2 percent and 6.57 percent, respectively. The unemployment rate for June, 2012 is 4.7 percent. If the unemployment rate should rise, there could be an impact on the level of services requested by Douglas County residents. This information was taken from the Minnesota Department of Employment and Economic Development website for Douglas County unemployment statistics.
- The 2012 net property tax levies will increase 5.73 percent over 2011.
- Other factors the County took into consideration include:
 - planning for facility needs;
 - land development and regulation issues; and
 - a greater demand for services, which has resulted from the growth that Douglas County has been experiencing.
- Reviewing revenue sources and considering cost-effective and efficient means for the delivery of Douglas County programs and services will influence the development of future budgets.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Douglas County's financial report provides citizens, taxpayers, customers, investors, and creditors with a general overview of Douglas County's finances and shows the County's accountability for the money it receives and spends. If you have questions about this report or need additional financial information, contact Char Rosenow, Douglas County Auditor/Treasurer or Don Kuismi, Assistant Auditor/Treasurer, at 320-762-3077, or Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 1

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

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current assets				
Cash and pooled investments	\$ 34,024,663	\$ 5,256,413	\$ 39,281,076	\$ 5,772,526
Petty cash and change funds	6,530	865	7,395	300
Departmental cash	2,142	40,000	42,142	-
Cash with fiscal agent	294,361	-	294,361	-
Cash with escrow agent	2,612,157	-	2,612,157	-
Investments	245,115	6,789,754	7,034,869	-
Taxes receivable				
Current - net	422,576	-	422,576	-
Prior - net	284,501	-	284,501	-
Special assessments receivable				
Current - net	32,297	-	32,297	61,180
Prior - net	313	-	313	22,760
Noncurrent - net	406,841	-	406,841	-
Interest - net	8,210	-	8,210	-
Accounts receivable - net	117,185	16,754,768	16,871,953	952,813
Accrued interest receivable	41,237	3,848	45,085	10
Internal balances	(6,972)	6,972	-	-
Due from other governments	1,906,092	-	1,906,092	74,321
Loans receivable	-	-	-	24,095
Inventories	97,509	1,818,186	1,915,695	-
Prepaid items	99,252	456,321	555,573	225
Restricted cash and cash equivalents under indenture agreement	-	129,663	129,663	-
Restricted assets				
Cash and pooled investments	-	-	-	400,750
Investments	-	-	-	1,497,633
Accrued interest receivable	-	-	-	8,033
Noncurrent assets				
Advance to other agencies	8,000	-	8,000	-
Deferred charges	316,432	354,578	671,010	307,535
Loans receivable - long-term	-	-	-	85,079
Expendable for capital acquisitions	-	100,917	100,917	-
Expendable for cancer services	-	621,784	621,784	-
Funds designated for capital improvements	-	15,696,529	15,696,529	-
Other assets	-	563,401	563,401	-
Restricted cash and cash equivalents under indenture agreement	-	1,882,250	1,882,250	-

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>Assets (Continued)</u>				
Capital assets				
Non-depreciable	8,264,454	249,187	8,513,641	453,484
Depreciable - net of accumulated depreciation	87,276,488	50,366,242	137,642,730	32,110,604
Total Assets	\$ 136,459,383	\$ 101,091,678	\$ 237,551,061	\$ 41,771,348
<u>Liabilities</u>				
Current liabilities				
Accounts payable	\$ 470,146	\$ 4,426,564	\$ 4,896,710	\$ 230,006
Salaries payable	1,100,207	3,316,944	4,417,151	126,339
Accrued payroll taxes	-	-	-	922
Contracts payable	375,376	-	375,376	81,895
Due to other governments	247,749	-	247,749	6,423
Accrued interest payable	654,673	-	654,673	242,458
Deposits held for others	-	-	-	58,900
Unearned revenue	33,157	-	33,157	-
Bonds payable - current	4,475,000	-	4,475,000	1,095,000
Lease revenue bonds payable - current	245,000	-	245,000	-
Gross revenue healthcare facilities bonds payable - current	-	390,000	390,000	-
Loans payable - current	26,299	-	26,299	-
Capital leases payable - current	102,820	-	102,820	-
Notes payable - current	-	-	-	25,593
Deferred credits	-	-	-	216,799
Compensated absences payable - current	1,570,819	-	1,570,819	94,177
Noncurrent liabilities				
Landfill closure costs - long-term	-	-	-	494,211
Bonds payable - net	28,080,661	-	28,080,661	19,841,320
Lease revenue bonds payable	6,165,000	-	6,165,000	-
Gross revenue healthcare facilities bonds payable - long-term	-	24,241,264	24,241,264	-
Loans payable	176,847	-	176,847	-
Capital leases payable	368,110	-	368,110	-
Notes payable	-	-	-	465,284
Compensated absences payable	1,993,399	3,343,431	5,336,830	217,696
Other postemployment benefits payable	751,641	316,351	1,067,992	84,344
Total Liabilities	\$ 46,836,904	\$ 36,034,554	\$ 82,871,458	\$ 23,281,367

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>Net Assets</u>				
Invested in capital assets - net of related debt	\$ 69,745,789	\$ 28,220,993	\$ 97,966,782	\$ 11,801,869
Restricted for				
General government	1,135,255	-	1,135,255	-
Public safety	656,450	-	656,450	-
Highways and streets	301,618	-	301,618	-
Culture and recreation	235,089	-	235,089	-
Conservation of natural resources	93,966	-	93,966	-
Postclosure	-	-	-	918,564
Housing and redevelopment	-	-	-	398,548
Cancer services	-	621,784	621,784	-
Capital acquisitions	-	100,917	100,917	-
Debt service	6,113,125	1,882,250	7,995,375	-
Unrestricted	11,341,187	34,231,180	45,572,367	5,371,000
Total Net Assets	\$ 89,622,479	\$ 65,057,124	\$ 154,679,603	\$ 18,489,981

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Program Revenues Operating Grants and Contributions</u>
Primary government			
Governmental activities			
General government	\$ 9,122,314	\$ 1,431,104	\$ 100,238
Public safety	9,054,400	781,036	800,981
Highways and streets	7,877,757	782,084	4,724,080
Human services	7,657,486	649,791	3,538,430
Health	4,472,364	2,822,608	1,731,636
Culture and recreation	1,424,471	54,973	525,738
Conservation of natural resources	715,964	199,667	64,608
Economic development	48,045	-	-
Interest	1,389,713	3,475	-
Total governmental activities	\$ 41,762,514	\$ 6,724,738	\$ 11,485,711
Business-type activities			
Hospital	83,273,320	85,429,449	170,903
Total Primary Government	\$ 125,035,834	\$ 92,154,187	\$ 11,656,614
Component Unit			
Pope/Douglas Solid Waste Management	\$ 7,621,509	\$ 6,488,660	\$ 159,010
Housing and Redevelopment Authority	2,322,113	411,221	1,488,750
Total Component Units	\$ 9,943,622	\$ 6,899,881	\$ 1,647,760

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment income
Miscellaneous
Gain on sale of capital assets
Discount on bonds issued

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets			Discretely Presented Component Units
	Primary Government		Total	
	Governmental Activities	Business-Type Activities		
\$ -	\$ (7,590,972)	\$ -	\$ (7,590,972)	
-	(7,472,383)	-	(7,472,383)	
357,781	(2,013,812)	-	(2,013,812)	
-	(3,469,265)	-	(3,469,265)	
-	81,880	-	81,880	
-	(843,760)	-	(843,760)	
-	(451,689)	-	(451,689)	
-	(48,045)	-	(48,045)	
-	(1,386,238)	-	(1,386,238)	
\$ 357,781	\$ (23,194,284)	\$ -	\$ (23,194,284)	
29,651	-	2,356,683	2,356,683	
\$ 387,432	\$ (23,194,284)	\$ 2,356,683	\$ (20,837,601)	
\$ 67,143				\$ (906,696)
-				(422,142)
\$ 67,143				\$ (1,328,838)
	\$ 22,160,610	\$ -	\$ 22,160,610	\$ 434,753
	33,225	-	33,225	-
	310,644	-	310,644	-
	1,769,227	-	1,769,227	3,871
	493,108	419,951	913,059	11,178
	540,359	-	540,359	-
	15,833	-	15,833	(69,168)
	-	-	-	42,462
	\$ 25,323,006	\$ 419,951	\$ 25,742,957	\$ 423,096
	\$ 2,128,722	\$ 2,776,634	\$ 4,905,356	\$ (905,742)
	87,493,757	62,280,490	149,774,247	19,395,723
	\$ 89,622,479	\$ 65,057,124	\$ 154,679,603	\$ 18,489,981

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and pooled investments	\$ 9,109,355	\$ 2,474,495	\$ 4,133,956	\$ 9,604,784	\$ 7,762,068	\$ 33,084,658
Undistributed cash in agency funds	194,875	47,084	55,326	827	56,085	354,197
Petty cash and change funds	3,770	2,050	400	-	310	6,530
Departmental cash	2,142	-	-	-	-	2,142
Cash with fiscal agent	-	-	-	-	294,361	294,361
Cash with escrow agent	-	-	-	-	2,612,157	2,612,157
Investments	-	45,617	-	-	199,498	245,115
Taxes receivable						
Current	204,946	63,915	76,858	334	76,523	422,576
Delinquent	133,268	46,642	52,697	4,948	46,946	284,501
Special assessments receivable						
Current	5,640	20,576	-	-	6,081	32,297
Delinquent	20	-	-	-	293	313
Noncurrent	163,578	-	-	-	243,263	406,841
Interest	1,311	6,899	-	-	-	8,210
Accounts receivable	20,164	30,184	26,034	-	40,803	117,185
Accrued interest receivable	40,701	-	-	49	487	41,237
Due from other funds	67,290	36,594	2,334	146,857	1,918	254,993
Due from other governments	361,259	594,219	629,359	-	321,255	1,906,092
Inventories	-	97,509	-	-	-	97,509
Prepaid items	91,819	2,110	558	-	4,765	99,252
Advances to other funds	113,600	-	-	-	-	113,600
Advances to other agencies	8,000	-	-	-	-	8,000
Total Assets	\$ 10,521,738	\$ 3,467,894	\$ 4,977,522	\$ 9,757,799	\$ 11,666,813	\$ 40,391,766
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 191,138	\$ 18,517	\$ 211,299	\$ -	\$ 49,192	\$ 470,146
Salaries payable	528,672	152,966	217,209	-	201,360	1,100,207
Contracts payable	13,967	110,925	-	250,484	-	375,376
Due to other funds	174,424	3,658	11,139	50,966	21,778	261,965
Due to other governments	145,190	7,721	90,116	-	4,722	247,749
Deferred revenue - unavailable	607,431	438,011	181,653	4,643	389,490	1,621,228
Deferred revenue - unearned	-	-	33,157	-	-	33,157
Advance from other funds	-	-	-	-	113,600	113,600
Total Liabilities	\$ 1,660,822	\$ 731,798	\$ 744,573	\$ 306,093	\$ 780,142	\$ 4,223,428

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>						
(Continued)						
Fund Balances						
Nonspendable						
Advances to other agencies	\$ 8,000	\$ -	\$ -	\$ -	\$ -	\$ 8,000
Prepaid items	91,819	-	-	-	-	91,819
Advances to other funds	113,600	-	-	-	-	113,600
Inventories	-	97,509	-	-	-	97,509
Restricted for						
Land records technology	462,420	-	-	-	-	462,420
State-aid highway projects	-	39,688	-	-	-	39,688
Law library	119,529	-	-	-	-	119,529
Recorder's equipment	510,403	-	-	-	-	510,403
Park dedication fee	235,089	-	-	-	-	235,089
Feedlots	21,395	-	-	-	-	21,395
Environmental mitigation	5,390	-	-	-	-	5,390
Boat and water safety	500	-	-	-	-	500
Debt service	-	-	-	-	6,113,125	6,113,125
Sheriff's contingency	5,000	-	-	-	-	5,000
Gun permits	103,480	-	-	-	-	103,480
Chippewa River sewer loans	34,335	-	-	-	-	34,335
E-911	489,690	-	-	-	-	489,690
Ditch maintenance	-	-	-	-	32,846	32,846
Attorney's forfeited property	42,903	-	-	-	-	42,903
Sheriff's honor guard	4,722	-	-	-	-	4,722
DARE	8,859	-	-	-	-	8,859
Sheriff's forfeited property	22,692	-	-	-	-	22,692
Juvenile work program	1,662	-	-	-	-	1,662
Capital improvements	-	-	-	6,115,891	-	6,115,891
Assigned for						
Central fueling	-	45,617	-	-	-	45,617
Capital improvements	171,935	-	-	3,335,815	71,421	3,579,171
Library fund drive	-	-	-	-	158,272	158,272
Retiree medical insurance	6,663	-	-	-	-	6,663
Sheriff's canteen	16,612	-	-	-	-	16,612
Radio board	19,935	-	-	-	-	19,935
Random drug tests	19,845	-	-	-	-	19,845
Extension	147	-	-	-	-	147
OPEB obligation	2,769,363	-	-	-	-	2,769,363
Public works	-	2,553,282	-	-	-	2,553,282
Human services	-	-	4,232,949	-	-	4,232,949
Public health	-	-	-	-	4,131,709	4,131,709
Library	-	-	-	-	475,532	475,532
Unassigned						
General Fund	3,574,928	-	-	-	-	3,574,928
Ditch Special Revenue Fund	-	-	-	-	(96,234)	(96,234)
Total Fund Balances	\$ 8,860,916	\$ 2,736,096	\$ 4,232,949	\$ 9,451,706	\$ 10,886,671	\$ 36,168,338
Total Liabilities and Fund Balances	\$ 10,521,738	\$ 3,467,894	\$ 4,977,522	\$ 9,757,799	\$ 11,666,813	\$ 40,391,766

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

Page 21

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 4

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

Fund balance - total governmental funds (Exhibit 3)		\$ 36,168,338
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		95,540,942
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		1,621,228
The County uses an internal service fund to charge the cost of self-insurance to other funds. The adjustment is the net assets of the Internal Service Fund that relate to governmental activities.		585,808
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 and unamortized premium	\$ (32,555,661)	
Revenue bonds payable	(6,410,000)	
Capital leases payable	(470,930)	
Loans	(203,146)	
Compensated absences	(3,564,218)	
Accrued interest payable	(654,673)	
Net pension obligation	(751,641)	
Deferred debt issuance charges	316,432	(44,293,837)
Net Assets of Governmental Activities (Exhibit 1)		<u><u>\$ 89,622,479</u></u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 10,919,453	\$ 3,340,274	\$ 4,011,859	\$ 27,956	\$ 3,983,201	\$ 22,282,743
Special assessments	25,888	7,366	-	-	152,893	186,147
Licenses and permits	160,141	-	14,460	-	197,389	371,990
Intergovernmental	2,219,573	5,619,738	3,855,084	784	1,913,166	13,608,345
Charges for services	1,893,566	370,722	595,762	-	2,485,056	5,345,106
Fines and forfeits	82,228	-	-	-	27,578	109,806
Gifts and contributions	11,452	125,580	230	-	60,048	197,310
Investment earnings	507,831	2,997	-	2,061	5,976	518,865
Miscellaneous	639,713	369,483	20,244	-	149,944	1,179,384
Total Revenues	\$ 16,459,845	\$ 9,836,160	\$ 8,497,639	\$ 30,801	\$ 8,975,251	\$ 43,799,696
Expenditures						
Current						
General government	\$ 6,271,491	\$ 515,197	\$ -	\$ 7,662	\$ -	\$ 6,794,350
Public safety	8,362,552	-	-	1,590	-	8,364,142
Highways and streets	-	7,176,095	-	-	-	7,176,095
Human services	-	-	7,713,881	-	-	7,713,881
Health	-	-	-	-	4,445,071	4,445,071
Culture and recreation	151,160	798,924	-	-	974,450	1,924,534
Conservation of natural resources	597,944	17,391	-	-	98,341	713,676
Economic development	48,045	-	-	-	-	48,045
Intergovernmental	-	331,418	-	-	-	331,418
Capital outlay	-	-	-	4,380,759	-	4,380,759
Debt service						
Principal	345,418	18,985	10,118	-	3,770,712	4,145,233
Interest	383,652	6,137	4,089	-	803,022	1,196,900
Bond issuance costs	-	-	-	69,192	-	69,192
Administrative charges	1,900	-	-	-	5,480	7,380
Total Expenditures	\$ 16,162,162	\$ 8,864,147	\$ 7,728,088	\$ 4,459,203	\$ 10,097,076	\$ 47,310,676

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Excess of Revenues Over (Under) Expenditures	\$ 297,683	\$ 972,013	\$ 769,551	\$ (4,428,402)	\$ (1,121,825)	\$ (3,510,980)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ 141,317	\$ -	\$ 526,683	\$ 223,060	\$ 891,060
Transfers out	(490,157)	-	-	(364,377)	(36,526)	(891,060)
Capital lease purchases	249,574	28,638	34,494	-	67,510	380,216
Promissory notes issued	62,009	-	-	-	-	62,009
Bonds issued	-	-	-	9,840,000	-	9,840,000
Premium on bonds	-	-	-	191,697	-	191,697
Total Other Financing Sources (Uses)	\$ (178,574)	\$ 169,955	\$ 34,494	\$ 10,194,003	\$ 254,044	\$ 10,473,922
Net Change in Fund Balance	\$ 119,109	\$ 1,141,968	\$ 804,045	\$ 5,765,601	\$ (867,781)	\$ 6,962,942
Fund Balance - January 1	8,741,807	1,591,723	3,428,904	3,686,105	11,754,452	29,202,991
Increase (decrease) in inventories	-	2,405	-	-	-	2,405
Fund Balance - December 31	\$ 8,860,916	\$ 2,736,096	\$ 4,232,949	\$ 9,451,706	\$ 10,886,671	\$ 36,168,338

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 6,962,942

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

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

Deferred revenue - December 31	\$ 1,621,228	
Deferred revenue - January 1	<u>(1,659,630)</u>	(38,402)

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

Expenditures for general capital assets and infrastructure	\$ 8,304,139	
Net book value of assets sold	(2,473,680)	
Current year depreciation	<u>(3,753,812)</u>	2,076,647

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

Proceeds of new debt		
General obligation bonds issued	\$ (9,840,000)	
Capital leases	(380,216)	
Loans	<u>(62,009)</u>	(10,282,225)

Principal payments		
General obligation bonds	\$ 3,760,000	
Revenue bonds	235,000	
Capital leases	130,275	
Loans	<u>19,958</u>	4,145,233

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 6
(Continued)**

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

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 on general long-term debt	\$	(203,275)	
Change in deferred charges		69,192	
Amortization of deferred debt issuance costs		(26,411)	
Change in bond premiums		(191,697)	
Amortization of bond premiums		17,842	
Change in compensated absences		(150,294)	
Change in pension benefit obligation		(165,034)	
Change in inventories		<u>2,405</u>	(647,272)
Net revenue of the Internal Service Fund is reported with governmental activities.			<u>(88,201)</u>
Change in Net Assets of Governmental Activities (Exhibit 2)			<u><u>\$ 2,128,722</u></u>

This page was left blank intentionally.

PROPRIETARY FUNDS

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET FUND ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011**

	Business-Type Activities Hospital Operating Enterprise Fund	Business-Type Activities Internal Service Fund
<u>Assets</u>		
Current assets		
Cash and pooled investments	\$ 4,566,076	\$ 1,276,145
Petty cash and change funds	865	-
Departmental cash	40,000	-
Investments	5,703,533	1,086,221
Accounts receivable - net	16,754,768	-
Accrued interest receivable	-	3,848
Due from other funds	-	6,972
Inventories	1,818,186	-
Prepaid items	456,321	-
Restricted cash and cash equivalents under indenture agreement	129,663	-
Total current assets	\$ 29,469,412	\$ 2,373,186
Noncurrent assets		
Deferred charges	\$ 354,578	\$ -
Expendable for capital acquisitions	100,917	-
Expendable for cancer services	621,784	-
Funds designated for capital improvements	15,696,529	-
Other assets	563,401	-
Restricted cash and cash equivalents under indenture agreement	1,882,250	-
Capital assets		
Nondepreciable	249,187	-
Depreciable - net	50,366,242	-
Total noncurrent assets	\$ 69,834,888	\$ -
Total Assets	\$ 99,304,300	\$ 2,373,186

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 7
(Continued)**

**STATEMENT OF NET FUND ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011**

	Business-Type Activities Hospital Operating Enterprise Fund	Business-Type Activities Internal Service Fund
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 3,680,076	\$ 746,488
Salaries payable	3,316,944	-
Gross revenue healthcare facilities bonds payable - current	390,000	-
Total current liabilities	\$ 7,387,020	\$ 746,488
Noncurrent liabilities		
Compensated absences payable - long-term	\$ 3,343,431	\$ -
Net pension obligation	316,351	-
Gross revenue healthcare facilities bonds payable - long-term	24,241,264	-
Total noncurrent liabilities	\$ 27,901,046	\$ -
Total Liabilities	\$ 35,288,066	\$ 746,488
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 28,220,993	\$ -
Restricted for		
Debt service	1,882,250	-
Cancer services	621,784	-
Capital acquisitions	100,917	-
Unrestricted	33,190,290	1,626,698
Total Net Assets	\$ 64,016,234	\$ 1,626,698
Adjustment to reflect the consolidation of the Internal Service Fund activities related to the Hospital Operating Enterprise Fund	1,040,890	
Net Assets - Business-Type Activities	\$ 65,057,124	

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Business-Type Activities Hospital Operating Enterprise Fund	Business-Type Activities Internal Service Fund
Operating Revenues		
Patient services revenues	\$ 82,756,899	\$ -
Premiums	-	8,920,786
Miscellaneous	2,672,550	-
Total Operating Revenues	\$ 85,429,449	\$ 8,920,786
Operating Expenses		
Employee benefits and payroll taxes	\$ 8,340,490	\$ -
Professional services	7,007,615	-
Contracted services	7,859,711	-
Claims paid	-	8,414,046
Administration and fiscal services	-	722,372
Supplies	19,752,210	-
Payroll	28,221,754	-
Utilities	1,052,351	-
Insurance	280,315	-
Rent	1,038,139	-
Repairs and maintenance	999,764	-
MinnesotaCare tax and surcharge	1,449,294	-
Miscellaneous	728,309	-
Depreciation	4,904,831	-
Total Operating Expenses	\$ 81,634,783	\$ 9,136,418
Operating Income (Loss)	\$ 3,794,666	\$ (215,632)
Nonoperating Revenues (Expenses)		
Interest income	\$ 409,096	\$ 19,745
Gifts and contributions	170,903	-
Interest expense	(1,514,694)	-
Other expense	(5,302)	-
Total Nonoperating Revenues (Expenses)	\$ (939,997)	\$ 19,745

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

*EXHIBIT 8
(Continued)*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Business-Type Activities Hospital Operating Enterprise Fund	Business-Type Activities Internal Service Fund
Income (Loss) Before Contributions and Transfers	\$ 2,854,669	\$ (195,887)
Capital contributions	29,651	-
Change in net assets	\$ 2,884,320	\$ (195,887)
Net Assets - January 1	61,131,914	1,822,585
Net Assets - December 31	\$ 64,016,234	\$ 1,626,698
 Change in Net Assets of the Enterprise Fund		
Hospital Operating Enterprise Fund	\$ 2,884,320	
Internal Service Fund activities related to Hospital Operating Enterprise Fund	(107,686)	
 Change in Net Assets of Business-Type Activities	\$ 2,776,634	

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities Hospital Operating Enterprise Fund	Business-Type Activities Internal Service Fund
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 77,026,243	\$ -
Receipts from internal services provided	-	8,913,814
Payments to suppliers	(39,958,519)	(8,759,604)
Payments to employees	(35,847,991)	-
Other receipts and payments	2,672,550	-
	\$ 3,892,283	\$ 154,210
Net cash provided by (used in) operating activities		
Cash Flows from Noncapital Financing Activities		
Intergovernmental receipts	\$ 195,252	\$ -
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	\$ (357,211)	\$ -
Interest paid on long-term debt	(1,514,694)	-
Proceeds from the sale of capital assets	37,912	-
Write down and paybacks of other assets	149,542	-
Purchases of other assets	(110,527)	-
Purchases of capital assets	(6,429,223)	-
	\$ (8,224,201)	\$ -
Net cash provided by (used in) capital and related financing activities		
Cash Flows from Investing Activities		
Investment earnings received	\$ 351,810	\$ 19,960
Change in investments	2,608,145	(74,591)
	\$ 2,959,955	\$ (54,631)
Net cash provided by (used in) investing activities		
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,176,711)	\$ 99,579
Cash and Cash Equivalents at January 1	13,868,307	1,176,566
Cash and Cash Equivalents at December 31	\$ 12,691,596	\$ 1,276,145
Cash and Cash Equivalents - Exhibit 7		
Cash and pooled investments	\$ 4,566,076	\$ 1,276,145
Petty cash and change funds	865	-
Departmental cash	40,000	-
Funds designated for capital improvements	8,084,655	-
	\$ 12,691,596	\$ 1,276,145
Total Cash and Cash Equivalents	\$ 12,691,596	\$ 1,276,145

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 9
(Continued)**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities Hospital Operating Enterprise Fund	Business-Type Activities Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 3,794,666	\$ (215,632)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	\$ 4,904,831	\$ -
Debt forgiven on physician loans	101,221	-
(Increase) decrease in accounts receivable	(6,032,031)	-
(Increase) decrease in due from other funds	-	(6,972)
(Increase) decrease in inventories	(69,692)	-
(Increase) decrease in prepaid items	(254,264)	-
Increase (decrease) in accounts payable	733,299	377,112
Increase (decrease) in accrued expenses	529,284	-
Increase (decrease) in net pension obligation	80,400	-
Increase (decrease) in compensated absences payable	104,569	-
Increase (decrease) in due to other funds	-	(298)
Total adjustments	\$ 97,617	\$ 369,842
Net Cash Provided by (Used in) Operating Activities	\$ 3,892,283	\$ 154,210
Supplemental Disclosure of Cash Flow Information		
Construction in progress expenditures included in accounts payable	\$ (1,229,713)	\$ -

FIDUCIARY FUNDS

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 10

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

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u><u>1,155,226</u></u>
<u>Liabilities</u>	
Accounts payable	\$ 26,121
Due to other governments	<u>1,129,105</u>
Total Liabilities	\$ <u><u>1,155,226</u></u>

This page was left blank intentionally.

DISCRETELY PRESENTED COMPONENT UNITS

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT 11

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2011**

	Pope/Douglas Solid Waste Management	Housing and Redevelopment Authority	Total
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 5,273,926	\$ 498,600	\$ 5,772,526
Petty cash and change funds	300	-	300
Special assessments receivable			
Current	61,180	-	61,180
Prior	22,760	-	22,760
Accounts receivable - net	887,218	65,595	952,813
Accrued interest receivable	10	-	10
Due from other governments	62,607	11,714	74,321
Loan receivable	-	24,095	24,095
Prepaid items	225	-	225
Total current assets	\$ 6,308,226	\$ 600,004	\$ 6,908,230
Restricted assets			
Cash and pooled investments	\$ 299,190	\$ 101,560	\$ 400,750
Investments	1,404,742	92,891	1,497,633
Accrued interest receivable	8,033	-	8,033
Total restricted assets	\$ 1,711,965	\$ 194,451	\$ 1,906,416
Noncurrent assets			
Deferred charges	\$ 88,536	\$ 218,999	\$ 307,535
Loans receivable - long-term	-	85,079	85,079
Capital assets			
Nondepreciable	179,288	274,196	453,484
Depreciable - net	28,970,783	3,139,821	32,110,604
Total noncurrent assets	\$ 29,238,607	\$ 3,718,095	\$ 32,956,702
Total Assets	\$ 37,258,798	\$ 4,512,550	\$ 41,771,348

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT 11
(Continued)**

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2011**

	<u>Pope/Douglas Solid Waste Management</u>	<u>Housing and Redevelopment Authority</u>	<u>Total</u>
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 193,887	\$ 36,119	\$ 230,006
Salaries payable	126,339	-	126,339
Accrued payroll taxes	-	922	922
Contracts payable	81,895	-	81,895
Due to other governments	3,692	2,731	6,423
Accrued interest payable	242,458	-	242,458
Deposits held for others	-	58,900	58,900
Bonds payable - current	1,035,000	60,000	1,095,000
Notes payable - current	-	25,593	25,593
Deferred credits	-	216,799	216,799
Compensated absences payable - current	82,769	11,408	94,177
Total current liabilities	<u>\$ 1,766,040</u>	<u>\$ 412,472</u>	<u>\$ 2,178,512</u>
Noncurrent liabilities			
Landfill closure costs - long-term	\$ 494,211	\$ -	\$ 494,211
Bonds payable - long-term	18,036,320	1,805,000	19,841,320
Notes payable - long-term	-	465,284	465,284
Compensated absences payable - long-term	217,696	-	217,696
Net pension obligation	84,344	-	84,344
Total noncurrent liabilities	<u>\$ 18,832,571</u>	<u>\$ 2,270,284</u>	<u>\$ 21,102,855</u>
Total Liabilities	<u>\$ 20,598,611</u>	<u>\$ 2,682,756</u>	<u>\$ 23,281,367</u>
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 10,440,071	\$ 1,361,798	\$ 11,801,869
Restricted for			
Postclosure	918,564	-	918,564
Housing and redevelopment	-	398,548	398,548
Unrestricted	5,301,552	69,448	5,371,000
Total Net Assets	<u>\$ 16,660,187</u>	<u>\$ 1,829,794</u>	<u>\$ 18,489,981</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Expenses	Fees, Charges, Fines, and Other
Component Units		
Pope/Douglas Solid Waste Management	\$ 7,621,509	\$ 6,488,660
Housing and Redevelopment Authority	2,322,113	411,221
Total Component Units	\$ 9,943,622	\$ 6,899,881

General Revenues

Property taxes
 Grants and contributions not restricted to
 specific programs
 Investment income
 Gain (loss) on sale of capital assets
 Discount on bonds issued

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 12

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Pope/Douglas Solid Waste Management	Housing and Redevelopment Authority	Total
\$ 159,010	\$ 67,143	\$ (906,696)	\$ -	\$ (906,696)
1,488,750	-	-	(422,142)	(422,142)
\$ 1,647,760	\$ 67,143	\$ (906,696)	\$ (422,142)	\$ (1,328,838)
		\$ -	\$ 434,753	\$ 434,753
		3,871	-	3,871
		8,946	2,232	11,178
		(69,168)	-	(69,168)
		42,462	-	42,462
		\$ (13,889)	\$ 436,985	\$ 423,096
		\$ (920,585)	\$ 14,843	\$ (905,742)
		17,580,772	1,814,951	19,395,723
		\$ 16,660,187	\$ 1,829,794	\$ 18,489,981

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Douglas County was established March 8, 1858, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Douglas County (primary government) and its component units 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.

Blended Component Units

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

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Douglas County Hospital provides medical and surgical care on an inpatient and outpatient basis to the County area.	County Commissioners make up five of the nine members of the Douglas County Hospital Board.	Douglas County Hospital 111 - 17th Avenue East Alexandria, Minnesota 56308

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component units of Douglas County are discretely presented:

<u>Component Unit</u>	<u>Component Unit Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Housing and Redevelopment Authority (HRA) of Douglas County provides services pursuant to Minn. Stat. §§ 469.001-469.047.	The County appoints members, and the HRA is a financial burden.	Douglas County HRA 1224 North Nokomis Alexandria, Minnesota 56308
Pope/Douglas Solid Waste Management (PDSW) provides for the management and disposal of solid waste in Pope and Douglas Counties pursuant to Minn. Stat. chs. 115A and 400.	The County appoints a majority of PDSW members and must approve any debt.	Pope/Douglas Solid Waste Management 2115 South Jefferson Alexandria, Minnesota 56308

Joint Ventures

The County participates in several joint ventures described in Note 7.C. The County also participates in a jointly-governed organization described in Note 7.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

- The Public Works 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. Revenue sources include property taxes, intergovernmental, and charges for services.
- The Human Services Special Revenue Fund is used to account for economic assistance and community social services programs. Revenue sources include property taxes, intergovernmental, and charges for services.
- The Capital Projects Fund is used to account for financial resources to be used for capital acquisition, construction, or improvement of capital facilities.

The County reports the following major enterprise fund:

- The Hospital Operating Fund is used to account for providing hospital and emergency care to the sick, injured, and newborn of the Douglas County Hospital, a blended component unit of Douglas County. Financing is provided primarily by user service charges.

Additionally, the County reports the following fund types:

- The Internal Service Fund accounts for self-insurance activities provided to other departments and funds on a cost-reimbursement basis.
- Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets that the County holds for others in an agent capacity.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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. Douglas County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2011 were \$506,220.

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance restricted 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 units, are shown net of an allowance for uncollectibles.

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as 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 or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

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

<u>Assets</u>	<u>Years</u>
Buildings	5 - 40
Land and building improvements	3 - 30
Public domain infrastructure	20 - 75
Furniture, equipment, and vehicles	3 - 20

7. Compensated Absences

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

8. Deferred Revenue

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Classifications of Fund Balance

In 2011, Douglas County implemented the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund types.

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Classifications of Fund Balance (Continued)

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - the committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts in the assigned fund balance classification the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor who has been delegated that authority by Board resolution.

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Minimum Fund Balance

Douglas County is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The County tries to maintain an unassigned fund balance level of no less than five (5) months of operating expenditures. The sufficiency of the minimum fund balance level shall be reviewed regularly.

12. Use of Estimates

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

13. Reclassifications

Several account balances were reclassified as of and for the year ended December 31, 2010, as previously reported due to implementation of GASB 54. These reclassifications, which did not require a restatement of net assets or fund balance, were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance of \$63,388 as of December 31, 2011. The Ditch Special Revenue Fund's deficit will be eliminated with future special assessment levies against benefited properties.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2011, expenditures exceeded appropriations in the General Fund and the Public Health Special Revenue Fund by \$753,547 and \$30,503 respectively. These expenditures in excess of budget were funded by greater than anticipated revenues. The Capital Projects Fund shows expenditures over budget by \$4,440,823 and was covered by bonds that were issued in 2011. The Bonds and Interest Debt Service Fund shows expenditures over budget by \$1,562,314.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 34,024,663
Petty cash and change funds	6,530
Departmental cash	2,142
Cash with fiscal agent	294,361
Cash with escrow agent	2,612,157
Investments	245,115
Business-type activities	
Cash and pooled investments	5,256,413
Petty cash and change funds	865
Departmental cash	40,000
Investments	6,789,754
Expendable for capital acquisitions	100,917
Expendable for cancer services	621,784
Funds designated for capital improvements	15,696,529
Restricted cash and cash equivalents under indenture agreement	2,011,913

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Government-wide statement of net assets (Continued)	
Component units	
Cash and pooled investments	5,772,526
Petty cash and change funds	300
Restricted assets	
Cash and pooled investments	400,750
Investments	1,497,633
Statement of fiduciary net assets	
Cash and pooled investments	1,155,226
Total Cash and Investments	\$ 76,529,578

a. Deposits

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County's policy is to minimize deposit custodial credit risk by obtaining collateral or bonds for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law. As of December 31, 2011, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Credit Risk

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy is to minimize custodial credit risk by permitting brokers that obtain investments for Douglas County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2011, \$25,490,662 of U.S. government securities, \$506,302 of negotiable certificates of deposit, \$17,707,164 of money market accounts and \$676,163 of stocks and bonds were exposed to custodial credit risk because they were held by the counterparty.

Concentration of Credit Risk

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

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Home Loan Bank - Pooled	Aaa	Moody's		09/25/2019	\$ 2,034,820
Federal Home Loan Bank - Hospital	Aaa	Moody's		09/25/2019	1,537,990
Total Federal Home Loan Bank			6.6%		\$ 3,572,810

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Federal National Mortgage Association - Pooled	Aaa	Moody's		03/29/2021	\$ 1,003,060
Federal National Mortgage Association - Pooled	Aaa	Moody's		04/27/2016	501,525
Federal National Mortgage Association - Pooled	Aaa	Moody's		06/29/2021	2,002,160
Federal National Mortgage Association - Pooled	Aaa	Moody's		10/28/2020	204,955
Federal National Mortgage Association - PDSW Assurance	Aaa	Moody's		01/27/2015	800,752
Federal National Mortgage Association - PDSW Assurance	Aaa	Moody's		11/23/2021	600,960
Federal National Mortgage Association - Hospital	Aaa	Moody's		11/09/2021	503,022
Federal National Mortgage Association - Hospital	Aaa	Moody's		04/20/2021	508,515
Federal National Mortgage Association - Hospital	Aaa	Moody's		06/29/2021	580,642
Federal National Mortgage Association - Hospital	Aaa	Moody's		07/19/2016	404,196
Federal National Mortgage Association - Hospital	Aaa	Moody's		03/29/2021	1,008,116
Total Federal National Mortgage Association			15.0%		\$ 8,117,903
Federal Home Loan Mortgage Corporation - Pooled	Aaa	Moody's		10/17/2016	\$ 1,001,620
Federal Home Loan Mortgage Corporation - Pooled	Aaa	Moody's		12/29/2021	735,948
Federal Home Loan Mortgage Corporation - Hospital	Aaa	Moody's		03/22/2022	1,025,262
Total Federal Home Loan Mortgage Corporation			5.1%		\$ 2,762,830
Freddie MAC - Pooled	Aaa	Moody's		10/26/2021	\$ 1,005,760
Freddie MAC - Self Insurance	Aaa	Moody's		10/26/2021	1,086,221
Freddie MAC - Hospital	Aaa	Moody's		10/26/2021	1,012,011
Total Freddie MAC			5.7%		\$ 3,103,992
Commercial Paper - Abby National - Hospital	P-1	Moody's		03/12/2012	\$ 4,996,206
Commercial Paper - UBS Financial (DE) LLC - Hospital	P-1	Moody's		03/09/2012	1,998,680
Commercial Paper - HSBC Finance Corp - Hospital	P-1	Moody's		03/12/2012	1,998,600
Total commercial paper			16.6%		\$ 8,993,486
Mutual funds					
UBS General - Pooled	N/R	N/A		N/A	\$ 10,000
MAGIC - Pooled	N/R	Moody's		N/A	5
UBS Select - Pooled	Aaa	Moody's		N/A	4,005,492
Wells Fargo Advisors - Pooled	AAA	S & P		N/A	671,500
UBS Select Self-Insurance - Pooled	Aaa	Moody's		N/A	21,200
UBS Select - PDSW	Aaa	Moody's		N/A	2,697,877
UBS Public Health - Pooled	N/R	N/A		N/A	3,492
UBS Select PDSW Assurance - PDSW	Aaa	Moody's		N/A	3,030
UBS Hospital Bond Reserve - Pooled	N/R	N/A		N/A	2,900
UBS Select Hospital Bond Reserve - Pooled	Aaa	Moody's		N/A	12,164
UBS Select Hospital - Pooled	Aaa	Moody's		N/A	5,297,380
Total mutual funds			23.5%		\$ 12,725,040
Bonds					
Build America Bonds - Pooled	AAA	S & P		02/01/2028	\$ 412,073
G.O. Bonds St Paul - Hospital	Aa1	Moody's		11/01/2028	273,217
Total bonds			<5%		\$ 685,290

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Trust account					
Bremer Trust --Cap Improvement	Aaa	Moody's	9.8%	N/A	\$ 5,325,147
Negotiable certificates of deposit					
Medallion Bank Utah - Pooled	N/R	N/A		01/26/2012	\$ 116,985
GE Capital Retail Bank Utah - Pooled	N/R	N/A		01/30/2012	149,984
Cathay Bank California - Pooled	N/R	N/A		07/06/2012	139,424
Sallie Mae Bank Utah - Hospital	N/R	N/A		12/10/2013	101,638
GE Money Bank Utah - Hospital	N/R	N/A		12/11/2013	101,631
Total negotiable certificates of deposit			N/A		\$ 609,662
Repurchase agreements					
Bremer - Hospital	N/R	N/A	10.1%		\$ 5,460,163
Cash with fiscal agent					\$ 294,361
Cash with escrow agent					\$ 2,612,157
Total investments					\$ 54,262,841
Deposits					21,523,849
Departmental cash, petty cash, and change funds					49,837
Total cash and investments under control of County Auditor/Treasurer					\$ 75,836,527
Housing and Redevelopment Authority cash and investments (Note 9.B.)					693,051
Total Cash and Investments					\$ 76,529,578

N/A - Not applicable

N/R - Not rated

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

As of December 31, 2011, the Pope/Douglas Solid Waste Management discretely presented component unit had \$1,401,712 (34.2 percent) in Federal National Mortgage Association securities, and \$2,700,907 (65.8 percent) in UBS Mutual Funds, all of which exceeded 5.0 percent. The Hospital Operating Enterprise Fund had \$3,004,491 (11.2 percent) in Federal National Mortgage Association securities, \$1,537,990 (5.7 percent) in Federal Home Loan Bank securities, \$8,993,486 (33.5 percent) in Commercial Paper and \$5,312,444 (19.8 percent) in UBS Mutual Funds, all of which exceeded 5.0 percent. The Self-Insurance Internal Service Fund had \$1,086,221 (98.1 percent) in Freddie MAC securities, which exceeded 5.0 percent.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, for the County, including any applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 707,077	\$ -
Special assessments	447,661	264,641
Accounts	117,185	-
Interest	41,237	-
Due from other governments	1,906,092	-
Total Governmental Activities	\$ 3,219,252	\$ 264,641
Business-Type Activities		
Accounts	\$ 16,754,768	\$ -
Interest	3,848	-
Total Business-Type Activities	\$ 16,758,616	\$ -

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 4,070,913	\$ 549,079	\$ -	\$ 4,619,992
Construction in progress	4,528,641	5,923,214	6,807,393	3,644,462
Total capital assets not depreciated	\$ 8,599,554	\$ 6,472,293	\$ 6,807,393	\$ 8,264,454
Capital assets depreciated				
Land and building improvements	\$ 1,772,823	\$ 76,403	\$ 159,812	\$ 1,689,414
Buildings	37,722,591	2,248,649	4,528,530	35,442,710
Machinery, furniture, and equipment	9,322,903	1,216,975	423,469	10,116,409
Infrastructure	77,250,304	5,097,212	-	82,347,516
Total capital assets depreciated	\$ 126,068,621	\$ 8,639,239	\$ 5,111,811	\$ 129,596,049

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land and building improvements	\$ 304,944	\$ 70,320	\$ 16,402	\$ 358,862
Buildings	8,368,064	957,402	2,265,446	7,060,020
Machinery, furniture, and equipment	5,405,531	865,794	356,283	5,915,042
Infrastructure	27,125,341	1,860,296	-	28,985,637
Total accumulated depreciation	\$ 41,203,880	\$ 3,753,812	\$ 2,638,131	\$ 42,319,561
Total capital assets depreciated, net	\$ 84,864,741	\$ 4,885,427	\$ 2,473,680	\$ 87,276,488
Governmental Activities Capital Assets, Net	<u>\$ 93,464,295</u>	<u>\$ 11,357,720</u>	<u>\$ 9,281,073</u>	<u>\$ 95,540,942</u>

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 91,330	\$ -	\$ -	\$ 91,330
Construction in progress	64,870	94,869	1,882	157,857
Total capital assets not depreciated	\$ 156,200	\$ 94,869	\$ 1,882	\$ 249,187
Capital assets depreciated				
Land and building improvements	\$ 2,948,858	\$ 1,975	\$ -	\$ 2,950,833
Buildings	59,989,933	1,318,852	204,729	61,104,056
Machinery, furniture, and equipment	20,046,480	3,798,173	847,901	22,996,752
Total capital assets depreciated	\$ 82,985,271	\$ 5,119,000	\$ 1,052,630	\$ 87,051,641
Less: accumulated depreciation for				
Land and building improvements	\$ 810,956	\$ 179,829	\$ -	\$ 990,785
Buildings	19,681,544	2,342,223	204,729	21,819,038
Machinery, furniture, and equipment	12,311,075	2,361,914	797,413	13,875,576
Total accumulated depreciation	\$ 32,803,575	\$ 4,883,966	\$ 1,002,142	\$ 36,685,399
Total capital assets depreciated, net	\$ 50,181,696	\$ 235,034	\$ 50,488	\$ 50,366,242
Business-Type Activities Capital Assets, Net	<u>\$ 50,337,896</u>	<u>\$ 329,903</u>	<u>\$ 52,370</u>	<u>\$ 50,615,429</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	532,222
Public safety		677,640
Highways and streets, including depreciation of infrastructure assets		2,369,298
Human services		21,137
Health		22,227
Culture and recreation		126,448
Conservation		4,840
		4,840
Total Depreciation Expense - Governmental Activities	\$	3,753,812
Business-Type Activities		
Hospital operation	\$	4,883,966

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Human Services	\$ 10,202
	Public Works	1,740
	Capital Projects	50,966
	Other governmental	4,382
		4,382
Total due to General Fund		\$ 67,290
Public Works	General	\$ 20,523
	Human Services	937
	Other governmental	15,134
		15,134
Total due to Public Works Fund		\$ 36,594

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

Receivable Fund	Payable Fund	Amount
Human Services	General	\$ 72
	Other governmental	2,262
Total due to Human Services Fund		\$ 2,334
Capital Projects	General	\$ 146,857
Other governmental	Public Works	\$ 1,918
Internal Service	General	\$ 6,972
Total Due To/From Other Funds		\$ 261,965

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 113,600

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

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

Transfers to Public Works Fund from Capital Projects Fund	\$ 141,317	Provide funding for capital outlay
Transfers to Capital Projects Fund from General Fund	\$ 490,157	Provide funding for capital outlay
Other governmental funds	36,526	
Total transfers to Capital Projects Fund	\$ 526,683	
Transfer to other governmental funds from Capital Projects Fund	\$ 223,060	Provide funding for capital outlay
Total Interfund Transfers	\$ 891,060	

C. Liabilities

1. Construction Commitments

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

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Governmental Activities		
Services center	\$ 2,311,596	\$ 4,949,620
Courts holding	2,002,215	54
800 megahertz	753,143	983,935
Tech upgrades in existing buildings	8,735	41,265
Chiller replacement	26,162	8,843
Roads and bridges	1,478,399	192,643
Asbestos abatement	97,756	2,244
Total Construction Commitments	\$ 6,678,006	\$ 6,178,604

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Vacation and Sick Leave

Governmental Activities

Under the County's personnel policies and union contracts, employees are granted vacation leave in varying amounts based on their length of service. Vacation leave accrual varies from 10 to 25 days per year. Sick leave accrual is 12 days per year.

Business-Type Activities

The Hospital sponsors an employee benefit program whereby employees retiring in good standing from the Hospital under the State of Minnesota Public Employees Retirement Association of Minnesota (PERA) retirement plan after 30 calendar years of employment will receive their unused sick and vacation leave by placing it into the Health Care Savings Plan, which is administered by the Minnesota State Retirement System. As of December 31, 2011, the Hospital had an estimated current sick leave benefit payable of \$124,041 and a long-term benefit payable of \$3,343,431. The statement of revenues, expenses, and changes in fund net assets include expenses of \$49,778 related to this benefit for the year ended December 31, 2011.

3. Other Postemployment Benefits

Persons who retire with at least 25 years of service to Douglas County will have the option of leaving all of their regular and banked sick leave in a reserve fund to pay for continued health insurance coverage with the County, if eligible, or to pay the Medicare portion or the supplemental portion of their own and dependent insurance coverage.

The County's contribution from the General Fund for the year ended December 31, 2011, for one participant was \$1,428.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Leases

Operating Leases

The Hospital leases certain equipment under noncancelable long-term lease agreements. All leases have been recorded as operating leases. Total lease expense for the year ended December 31, 2011, for all operating leases was \$161,658. Minimum future lease payments for all operating leases are as follows:

Year Ending December 31	Amount
2012	\$ 161,270
2013	96,281
2014	38,226
2015	38,226
2016	6,371
Total Minimum Lease Payments	\$ 340,374

Capital Leases

The County has entered into a lease agreement with Caterpillar Financial Services Corporation as lessee for financing the acquisition of a generator for the new jail. The County has entered into lease agreements with Marco Inc., Toshiba Financial Services, Kinetic Leasing Inc., and Xerox Corporation for photo copiers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. Details about the capital leases at December 31, 2011, follow:

Lease	Maturity	Installment	Payment Amount	Original Issue	Balance
Governmental Activities					
2009 jail generator	2018	Monthly	\$ 2,836	\$ 243,769	\$ 192,738
Photo copiers	2012 - 2016	Various	Various	380,215	278,192
Total					\$ 470,930

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Leases

Capital Leases (Continued)

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

Year Ending December 31	Amount
2012	\$ 129,900
2013	125,733
2014	108,333
2015	83,879
2016	50,518
2017 - 2018	39,705
Total minimum lease payments	\$ 538,068
Less: amount representing interest	(67,138)
Present Value of Minimum Lease Payments	\$ 470,930

5. Long-Term Debt

Governmental Activities

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2002A G.O. Capital Improvement Bonds	2012	\$840,000	4.10	\$ 1,250,000	\$ 840,000
2002C G.O. Solid Waste Disposal Bonds	2012	\$1,945,000	4.00	3,075,000	1,945,000
2005A G.O. Road Construction Bonds	2016	\$230,000 - \$255,000	2.75 - 3.70	2,680,000	1,450,000
2005B G.O. Ditch Bonds	2016	\$65,000 - \$90,000	2.80 - 3.70	770,000	415,000

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt

Governmental Activities (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
2007A G.O. Road Construction Bonds	2018	\$105,000 - \$500,000	3.30 - 3.80	2,040,000	1,685,000
2009A G.O. Jail Bonds	2030	\$465,000 - \$905,000	3.00 - 4.50	12,920,000	12,455,000
2010B G.O. Refunding Bonds	2021	\$255,000 - \$745,000	2.00 - 2.75	4,135,000	3,665,000
2011A G.O. Law Enforcement Center Bonds	2032	\$75,000 - \$695,000	2.00 - 4.00	8,965,000	8,965,000
2011B G.O. Courthouse Bonds	2032	\$35,000 - \$70,000	1.60 - 4.40	875,000	875,000
Total				<u>\$ 36,710,000</u>	<u>\$ 32,295,000</u>
Lease revenue bonds					
2008A Public Project HRA	2029	\$155,000 - \$515,000	4.50 - 6.00	<u>\$ 6,800,000</u>	<u>\$ 6,410,000</u>

In 2009, the County approved the sale of General Obligation Temporary Bonds, Series 2009B, to finance Phase II of a 120-ton-per-day plant expansion at PDSW. In 2010, the County approved the sale of General Obligation Bonds, Series 2010A, to re-finance the 2009B General Obligation Temporary Bonds. PDSW is responsible for making the payments. See Note 8.B.2.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Long-Term Debt (Continued)

Loans Payable

Governmental Activities

In 2004, and again in 2008, the County entered into a loan agreement with the State of Minnesota Pollution Control Agency for implementation of a clean water partnership.

<u>Loans Payable</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
Sewer Clean Water Loan					
SRF0125	2017	\$7,944	2.00	\$ 143,354	\$ 79,623
SRF0184	2021	7,171	2.00	129,397	123,523
Total Loans Payable				<u>\$ 272,751</u>	<u>\$ 203,146</u>

Business-Type Activities

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
Gross Revenue Healthcare Facilities Bonds, Series 2008A	2038	\$390,000 - \$3,540,000	3.25 - 6.25	<u>\$ 26,210,000</u>	<u>\$ 24,935,000</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Debt Service Requirements

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

Governmental Activities

Year Ending December 31	General Obligation Bonds		Public Project Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 4,475,000	\$ 1,124,001	\$ 245,000	\$ 337,635
2013	1,730,000	948,114	255,000	326,385
2014	1,350,000	900,106	265,000	314,685
2015	1,705,000	853,989	270,000	302,513
2016	1,765,000	800,289	285,000	289,534
2017 - 2021	7,580,000	3,244,747	1,605,000	1,219,198
2022 - 2026	6,210,000	2,138,252	2,015,000	736,227
2027 - 2031	6,715,000	804,264	1,470,000	135,067
2032	765,000	15,440	-	-
Total	\$ 32,295,000	\$ 10,829,202	\$ 6,410,000	\$ 3,661,244

Year Ending December 31	Loans Payable		Capital Leases Payable	
	Principal	Interest	Principal	Interest
2012	\$ 26,300	\$ 3,933	\$ 102,819	\$ 27,081
2013	26,826	3,404	106,328	19,405
2014	27,365	2,864	96,281	12,052
2015	27,915	2,314	77,934	5,945
2016	28,476	1,753	48,519	1,999
2017 - 2018	66,264	3,160	39,049	656
Total	\$ 203,146	\$ 17,428	\$ 470,930	\$ 67,138

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation	
	Principal	Interest
2012	\$ 390,000	\$ 1,489,125
2013	410,000	1,471,965
2014	425,000	1,453,105
2015	445,000	1,432,918
2016	470,000	1,411,780
2017 - 2021	2,725,000	6,671,815
2022 - 2026	3,610,000	5,791,950
2027 - 2031	4,825,000	4,567,020
2032 - 2036	6,535,000	2,868,437
2037 - 2038	5,100,000	540,000
Total	\$ 24,935,000	\$ 27,698,115

7. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
G.O. bonds	\$ 26,215,000	\$ 9,840,000	\$ 3,760,000	\$ 32,295,000	\$ 4,475,000
Add: unamortized premium	86,806	191,697	17,842	260,661	-
Total G.O. bonds and notes	\$ 26,301,806	\$ 10,031,697	\$ 3,777,842	\$ 32,555,661	\$ 4,475,000
Lease revenue bonds	6,645,000	-	235,000	6,410,000	245,000
Loans payable	161,095	62,009	19,958	203,146	26,299
Capital leases payable	220,989	380,216	130,275	470,930	102,820
Compensated absences	3,433,415	1,668,421	1,537,618	3,564,218	1,570,819
OPEB liability	586,607	165,034	-	751,641	-
Governmental Activities Long-Term Liabilities	\$ 37,348,912	\$ 12,307,377	\$ 5,700,693	\$ 43,955,596	\$ 6,419,938

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable	\$ 25,310,000	\$ -	\$ 375,000	\$ 24,935,000	\$ 390,000
Less: unamortized discount	(321,525)	-	(17,789)	(303,736)	-
Gross Revenue Healthcare Facilities Bonds	\$ 24,988,475	\$ -	\$ 357,211	\$ 24,631,264	\$ 390,000
Compensated absences	3,417,693	49,779	-	3,467,472	124,041
OPEB liability	235,951	80,400	-	316,351	-
Business-Type Activities Long-Term Liabilities	<u>\$ 28,642,119</u>	<u>\$ 130,179</u>	<u>\$ 357,211</u>	<u>\$ 28,415,087</u>	<u>\$ 514,041</u>

The current portion of compensated absences is included in salaries payable of the Hospital Operating Enterprise Fund.

4. Pension Plans and Employee Retirement Systems

A. Defined Benefit Plans

Plan Description

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans and Employee Retirement Systems

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans and Employee Retirement Systems

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans and Employee Retirement Systems

A. Defined Benefit Plans

Funding Policy (Continued)

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

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

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Employees Retirement Fund	\$ 927,074	\$ 907,664	\$ 852,789
Public Employees Police and Fire Fund	271,082	260,963	244,457
Public Employees Correctional Fund	130,902	135,307	122,857

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

B. Defined Contribution Plan

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

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans and Employee Retirement Systems

B. Defined Contribution Plan (Continued)

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

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

	Employee	Employer
Contribution amount	\$ 12,947	\$ 12,947
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

The County provides OPEB that provide basic medical and hospitalization plan coverage to eligible retirees. County policy allows employees retiring under PERA to continue their coverage under the County’s group health insurance program for life. At retirement, employees of Douglas County receiving a retirement or disability benefit, or eligible to receive a benefit from a Minnesota public pension plan, may continue to participate in the County-sponsored group health insurance plan that the employee was a participant of immediately prior to retirement. Employees may obtain dependent coverage at retirement only if the employee was receiving dependent coverage immediately prior to retirement.

Retirees, spouses, and dependents are eligible to remain in the County-sponsored group health insurance plan, provided the applicable premiums are paid. Retirees that elect not to continue health coverage at any time (postemployment) are not eligible to re-enroll in the County-sponsored group health insurance plan. Retirees who initially obtained spouse and/or dependent coverage may drop spouse and/or dependent

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans and Employee Retirement Systems (Continued)

C. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

coverage and maintain coverage for themselves; retirees may not drop coverage for themselves and maintain spouse and/or dependent coverage. Covered spouses and/or dependents may continue coverage after the retiree's death, provided the applicable premiums are paid.

Funding Policy

The County has elected to fund the plan on a pay-as-you-go method.

Annual OPEB Cost and Net OPEB Obligation

The County's OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period of 30 years. The following tables show the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the County's net OPEB obligation for 2011:

Governmental Activities

ARC	\$	262,358
Interest on net OPEB obligation		29,330
Adjustment to ARC		(22,688)

Annual OPEB cost	\$	269,000
Contributions during the year		(103,966)

Increase in net OPEB obligation	\$	165,034
Net OPEB, Beginning of Year		586,607

Net OPEB, End of Year	\$	751,641

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans and Employee Retirement Systems

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Business-Type Activities

ARC	\$	205,072
Interest on net OPEB obligation		11,740
Adjustment to ARC		(8,421)
		(8,421)
Annual OPEB cost	\$	208,391
Contributions during the year		(127,991)
		(127,991)
Increase in net OPEB obligation	\$	80,400
Net OPEB, Beginning of Year		235,951
		235,951
Net OPEB, End of Year	\$	316,351

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ending December 31, 2009 and 2010, and 2011 are as follows:

Governmental Activities

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 234,321	\$ 6,726	2.9%	\$ 395,624
December 31, 2010	255,521	64,538	25.3	586,607
December 31, 2011	269,000	103,966	38.7	751,641

Business-Type Activities

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 165,754	\$ 118,001	71.0%	\$ 137,023
December 31, 2010	196,484	100,323	51.1	235,951
December 31, 2011	205,072	127,991	62.4	316,351

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans and Employee Retirement Systems

C. Other Postemployment Benefits (OPEB) (Continued)

Funded Status and Funding Progress

Governmental Activities

As of January 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$2,557,616, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,557,616. The expected covered payroll (annual payroll of active employees covered by the plan) was \$16,365,401, and the ratio of the UAAL to the covered payroll was 15.6 percent.

Business-Type Activities

As of January 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$2,763,928, and the actuarial value of assets was zero, resulting in UAAL of \$2,763,928. The covered payroll (annual payroll of active employees covered by the plan) was \$21,935,687, and the ratio of the UAAL to the covered payroll was 13 percent.

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Pension Plans and Employee Retirement Systems

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2010, actuarial valuation, the entry age normal percent of pay actuarial cost method was used. Each year the UAAL includes the remaining balance of the initial January 1, 2008, UAAL and subsequent changes in UAAL related to plan gains and losses. The initial UAAL and changes in UAAL are each amortized as a level 4.5 percent of payroll over 30-year closed periods. As of December 31, 2011, the remaining amortization period for the initial UAAL and 2008 gain/loss is 26 and 28 years, respectively. The actuarial assumptions include a 5.0 percent discount rate based on pay-as-you-go funding and health care cost trend rates of 9.5 percent in 2008, decreasing 0.5 percent annually to an ultimate rate of 5.0 percent in 2017 and later.

The January 1, 2010, actuarial valuation assumed health care cost trend rates of 9.5 percent in 2010, decreasing 0.5 percent annually to an ultimate rate of 5.0 percent in 2019 and later.

5. 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 Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

5. Risk Management (Continued)

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

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

The County entered into a program to self-insure group hospitalization, medical, and major medical benefits for its employees pursuant to Minn. Stat. § 471.61. Currently, the County contracts with Blue Cross Blue Shield for employee and dependent group health coverage. The plan is primarily a conventional group health plan that is partially underwritten by the County and its employees.

Premiums are paid into the Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has retained risk up to a \$200,000 stop-loss per contract claim per year (\$12,821,977 aggregate) for the health plan.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount, as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

5. Risk Management (Continued)

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2011	2010
Unpaid claims, beginning of fiscal year	\$ (369,674)	\$ 524,304
Incurred claims (including IBNRs)	8,790,860	7,070,638
Claims payments	(8,414,046)	(7,964,616)
Unpaid Claims, End of Fiscal Year	\$ 7,140	\$ (369,674)

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$5,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

6. Net Charges for Services - Hospital Operating Enterprise Fund

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

Gross patient revenue at established rates, less third-party payor contractual adjustments, consisted of the following as of December 31, 2011:

Patient service revenue	\$ 176,288,406
Allowances for contractual adjustments and provisions for bad debts	(93,531,507)
Net Patient Service Revenue	\$ 82,756,899

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

A. Charity Care

In furtherance of its charitable purpose, the Hospital provides a wide variety of benefits to the community. These services and donations account for a measurable portion of the Hospital's costs and serve to promote healthy life styles, community development, health education, and affordable access to care.

The Hospital maintains records to identify and monitor the level of community benefit services it provides. Those records include management's estimate of the cost to provide charity care, the cost of services and supplies furnished for community benefit programs, and costs in excess of program payments for treating Medical Assistance patients.

In addition to community benefit costs outlined below, the Hospital provides additional community contributions such as services to Medicare patients below the costs for treatment, other uncompensated care, discounted pricing to the uninsured, and payment of taxes and fees.

The following is a summary of charity care discounts and other community benefit activities incurred during the year ended December 31, 2011:

Charity care (charges forgone)	\$ 546,894
Other care provided without compensation (bad debts)	1,155,594
Cost in excess of Medicaid payments	2,948,572
Medicaid surcharge and MinnesotaCare tax	1,449,294
Community building and other community benefit costs	445,000
Costs in excess of Medicare payments	6,795,570
Discounts provided to uninsured patients	<u>767,021</u>
Total Value of Community Contributions	<u><u>\$ 14,107,945</u></u>

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.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

B. Contingent Liabilities (Continued)

The County, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigations; it is expected that the final settlement of these matters will not materially affect the financial statements of the County.

C. Joint Ventures

West Central Area Agency on Aging

The West Central Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of the 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county. In 2011, the County paid \$5,250 to the West Central Area Agency on Aging as its share of the 2011 assessment. Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of the withdrawal.

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

Complete financial information can be obtained from:

West Central Area Agency on Aging
313 South Mill Street
Fergus Falls, Minnesota 56537

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Rainbow Rider Transit Board

The West Central Multi-County Joint Powers Transit Board (Rainbow Rider) was established December 1, 1994, by a joint powers agreement among Douglas, Pope, Stevens, and Traverse Counties. Operations did not begin until 1995. Effective January 13, 2000, the Board changed its name from West Central Multi-County Joint Powers Transit Board to Rainbow Rider Transit Board. The agreement was established to provide a coordinated service delivery and funding source for public transportation for the mutual benefit of each of the joint participants. The joint powers agreement remains in force until any single county notifies the other parties of its intentions to withdraw, at least 90 days before the termination takes effect. The remaining counties may agree to continue the agreement with the remaining counties as members.

In 1996, the Public Transit Fund (Heartland Express) merged with Rainbow Rider. Title to three Heartland Express buses was transferred to Rainbow Rider as part of this transition. Douglas County received from Rainbow Rider a capital credit toward Douglas County's share of future capital purchases. This credit was for 20 percent of the present market value of the equipment transferred, which was the percentage that Douglas County originally contributed to purchase that equipment.

Control is vested in the Rainbow Rider Transit Board. The Board consists of two members from each county. Each member of the Board is appointed by the County Commissioners of the county he or she represents. Members of the Board serve an annual term and may be reappointed by their respective County Boards. Effective January 1, 2011, Grant County became a member county.

Complete financial information can be obtained from:

Rainbow Rider
P. O. Box 136
Lowry, Minnesota 56349

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

West Central Minnesota Drug Task Force

The West Central Minnesota Drug Task Force was established in 1996 under the authority of the Joint Powers Act, pursuant to Minn. Stat. § 471.59, and includes Becker, Clay, Douglas, Grant, Otter Tail, and Todd Counties, and the Cities of Alexandria, Breckenridge, Detroit Lakes, Fargo, Fergus Falls, Moorhead, Pelican Rapids, Perham, and Wahpeton. The Task Force's objectives are to detect, investigate, and apprehend controlled substance offenders in the six-county area.

Control of the Task Force is vested in a Board of Directors. The Board of Directors consists of department heads or a designee from each participating full-time member agency. In the event of dissolution of the Task Force, the equipment will be divided and returned to the appropriate agencies. However, if only one agency terminates its agreement and the unit continues, all equipment will remain with the Task Force. The Task Force is reported as an agency fund in Douglas County's financial statements. Financing and equipment will be provided by the full-time and associate member agencies. Douglas County provided \$5,000 to this organization in 2011.

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement between Douglas County and nine other counties under the authority of Minn. Stat. § 471.59. Three more counties joined in 2008. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board. The Board consists of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all property purchased or owned pursuant to this agreement shall be sold and the proceeds, together with monies on hand, will be distributed to the current members based on their proportional share of each member's county-based purchasing-eligible population.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services; initial start-up loans from the member counties; and by proportional contributions from member counties, if necessary, to cover operational costs. Douglas County did not contribute any funds to the Prime West Central County-Based Purchasing Initiative during 2011.

Complete financial information can be obtained from:

Prime West Health System
2209 Jefferson Street
Suite 101
Alexandria, Minnesota 56308

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, by a joint powers agreement between Douglas County and five other counties and their respective soil and water conservation districts. The agreement was made to develop and implement plans to protect property from damage of flooding; control erosion of land; protect streams and lakes from sedimentation and pollution; and maintain or improve the quality of water in the streams, lakes, and ground water lying within the boundaries of the watershed of the Pomme de Terre River. Administrative costs are apportioned equally to the soil and water conservation districts based on actual costs.

Control is vested in a Joint Powers Board. The Board consists of one representative of each County Board of Commissioners and one representative from each soil and water conservation district Board of Supervisors included within the agreement. During 2011, Douglas County did not contribute any money to the Joint Powers Board.

Complete financial information can be obtained from:

Pomme de Terre River Association Joint Powers Board
900 Robert Street, Suite 104
St. Paul, Minnesota 55103-2108

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Supporting Hands Nurse Family Partnership

The Supporting Hands Nurse Family Partnership Board was established pursuant to Minn. Stat. §§ 471.59 and 145A.17 and a joint powers agreement, effective June 12, 2007. The Board consists of 12 members, which include an appointed Commissioner from each participating county. McLeod County is the fiscal agent. The primary purpose of the joint venture is to improve the health and life-course of low-income, first-time mothers and their children. The joint venture is financed primarily by contributions from participating counties.

Audited financial statements are available at:

McLeod County Auditor's Office
2385 Hennepin Avenue North
Glencoe, Minnesota 55336

Central Minnesota Regional Radio Board

The Central Minnesota Regional Radio Board was established in 2007, under the authority conferred upon the member parties by Minn. Stat. §§ 471.59 and 403.39, and includes the City of St. Cloud and the Counties of Benton, Big Stone, Douglas, Grant, Kandiyohi, Meeker, Mille Lacs, Morrison, Otter Tail, Pope, Sherburne, Stearns, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Wright.

The purpose of the Central Minnesota Regional Radio Board is to provide for regional administration of enhancements to the Statewide Public Safety Radio and Communication System (ARMER) owned and operated by the State of Minnesota. The Central Minnesota Regional Radio Board is composed of one Commissioner of each county appointed by the respective County Board and one City Council member from each city appointed by the respective City Council, as provided in the Central Minnesota Regional Radio Board's by-laws.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Central Minnesota Regional Radio Board (Continued)

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

The Central Minnesota Regional Radio Board has no long-term debt. Financing is provided by the appropriations from member parties and by state and federal grants. Complete financial information can be obtained from:

Central Minnesota Regional Radio Board
City of St. Cloud
Office of the Mayor
City Hall
400 Second Street South
St. Cloud, Minnesota 56303

As of June 1, 2011, the Central Minnesota Regional Radio Board changed its name to The Central MN Emergency Services Board.

D. Jointly-Governed Organization

District IV Transportation Planning

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organization (Continued)

Horizon Community Health Board

Douglas County and 4 other counties and 2 other joint participants entered into a joint powers agreement to establish the Horizon Community Health Board, effective October 4, 2010, with duties commencing on January 1, 2011, and empowered under Minn. Stat. § 471.59 and ch. 145A. Before January 1, 2011, this Board was previously called Mid-State Community Health Services and included Grant, Pope, Stevens, and Traverse Counties. The purpose of the Board is to secure more efficient public health services for the mutual benefit of each of the Joint Participants and the communities they serve. The Board is composed of 11 members with one member appointed from each of the five counties commissioners, one member from each three Joint Participants commissioners, and one community member from each of the Joint Participants.

Region 4 South Adult Mental Health Consortium

Douglas, Grant, Pope, Stevens and Traverse Counties entered into a joint powers agreement creating and operating Region 4 South Adult Mental Health Consortium, pursuant to Minn. Stat. § 471.59, to provide a system of care that will serve the needs of adults with serious and persistent mental illness for the mutual benefit of each of the joint participants.

Control of the Consortium is vested in a Governing Board, which consists of each participating County's Director of Social Services, Family Services or Human Services, as the case may be. The Governing Board operates under the ultimate authority of the Executive Commissioner Board. The Executive Commissioner Board is composed of one Commissioner of each county appointed by their respective County Board.

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the date of the proposed withdrawal. Withdrawal does not act to discharge any liability incurred or chargeable to any county before the effective date of the withdrawal.

Dissolution of the Consortium shall occur by unanimous vote of the counties, or when the membership in the Consortium is reduced to less than two counties. Upon dissolution of the Consortium, the member counties shall share in the current liabilities and current financial assets, including real property, of the Consortium equally if no

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

7. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organization

Region 4 South Adult Mental Health Consortium (Continued)

county has contributed during the term of the Consortium or based upon their percentage of contribution to the Consortium's budget during the period applicable to such liabilities and assets.

Financing is predominantly provided by state grants. Grant County, in a fiscal host capacity, reports the cash transactions of Consortium as an agency fund on its financial statements.

E. Subsequent Event

In June 2012, Douglas County issued \$2,500,000 of Gross Revenue Health Care Facilities Bonds, Series 2012A and \$12,500,000 Taxable Gross Revenue Health Care Facilities Bonds, Series 2012B. The bond proceeds will be used to finance the acquisition of the Alexandria Clinic, P.A., certain capital costs at the Hospital Facilities and costs of issuance of the Series 2012 Bonds. The Series 2012A and 2012B Bonds of each series shall mature on July 1, 2042, with an initial interest rate of 2.74 percent and 3.91 percent, respectively.

8. Pope/Douglas Solid Waste Management (PDSW)

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, PDSW has the following significant disclosures.

1. Financial Reporting Entity

PDSW is a joint enterprise operation of Pope and Douglas Counties (the Counties). PDSW was established by a Joint Powers Agreement dated December 7, 1983, amended May 1, 1990, and amended again April 9, 1997, pursuant to Minn. Stat. § 471.59, Joint Powers Act.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

A. Summary of Significant Accounting Policies

1. Financial Reporting Entity (Continued)

Each of the Counties is authorized and obligated pursuant to Minn. Stat. chs. 115A and 400, to provide for the management and disposal of solid waste in its respective county. It is the intention of the Counties to cooperate in a joint venture to operate and manage an integrated waste management system within Douglas and Pope Counties. This purpose, without limitation, shall include the planning, administration, and operation of recycling programs; the ownership and operation of a waste-to-energy facility; and the ownership, operation, and management of any ash and/or by-pass landfill. The facility and administrative office are located in Alexandria, Minnesota.

PDSW is governed by a five-member Board of Directors, two members appointed from Pope County and three from Douglas County. Receipts and disbursements are recorded by the Douglas County Auditor/Treasurer. Douglas County's ownership is 75 percent, and Pope County's ownership is 25 percent.

2. Basic Financial Statements

The accounts of PDSW are organized as an enterprise fund. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of PDSW. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities. PDSW's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets.

3. Measurement Focus and Basis of Accounting

PDSW's 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. Special assessments are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

A. Summary of Significant Accounting Policies

3. Measurement Focus and Basis of Accounting (Continued)

recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When both restricted and unrestricted resources are available for use, it is PDSW's policy to use restricted resources first and then unrestricted resources as needed.

4. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash and pooled investments and petty cash. PDSW's cash is pooled and invested with Douglas County and is treated as a cash equivalent because PDSW can deposit or effectively withdraw cash at any time without prior notice or penalty. Douglas County obtains collateral to cover the deposits in excess of insurance coverage.

Fund Investments

The Douglas County Auditor/Treasurer purchases investments for PDSW upon its direction. Fund investments are reported at their fair value at December 31, 2011, based on market prices. Additional disclosures, as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on a County-wide basis in the Douglas County Annual Financial Report.

Investments available to PDSW are authorized in Minn. Stat. §§ 118A.04 and 118A.05 and are detailed in Note 3.A.1.b.

Receivables

All receivables are shown net of an allowance for uncollectibles.

Special assessments receivable consist of delinquent special assessments payable in the years 2000 through 2011.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

A. Summary of Significant Accounting Policies

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

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statements.

Restricted Assets

Restricted assets represent the amounts set aside by PDSW for landfill closure and postclosure financial assurances and unspent capital projects bonding. Below is a summary of the restricted assets at December 31, 2011.

Restricted for capital projects	\$ 299,190
Restricted for closure and postclosure care costs	1,404,742
Accrued interest on restricted investments	<u>8,033</u>
Total	<u>\$ 1,711,965</u>

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by PDSW as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the current period, PDSW did not have any capitalized interest.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

A. Summary of Significant Accounting Policies

4. Assets, Liabilities, and Net Assets or Equity

Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Landfill	Based on capacity
Buildings	20 - 40
Building improvements	20 - 40
Furniture, equipment, and vehicles	5 - 10
Infrastructure	20 - 30

Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred.

Deferred Revenue

The financial statements defer revenue for resources that have been received, but not yet earned.

Use of Estimates

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW) (Continued)

B. Detailed Notes on All Funds

1. Assets

Receivables

Receivables as of December 31, 2011, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Special assessments	\$ 83,940	\$ -
Accounts	887,218	-
Due from other governments	62,607	-
Interest – unrestricted	10	-
Interest – restricted	8,033	-
Total	\$ 1,041,808	\$ -

Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 179,288	\$ -	\$ -	\$ 179,288
Construction in progress	15,055,330	-	15,055,330	-
Total capital assets not depreciated	\$ 15,234,618	\$ -	\$ 15,055,330	\$ 179,288
Capital assets depreciated				
Land improvements	\$ 3,377,612	\$ -	\$ -	\$ 3,377,612
Infrastructure	2,974,796	-	-	2,974,796
Buildings	5,847,966	1,481,567	-	7,329,533
Machinery, furniture, and equipment	9,428,816	17,254,997	332,465	26,351,348
Total capital assets depreciated	\$ 21,629,190	\$ 18,736,564	\$ 332,465	\$ 40,033,289

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

B. Detailed Notes on All Funds

1. Assets

Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	\$ 1,293,662	\$ 142,623	\$ -	\$ 1,436,285
Infrastructure	168,582	107,026	-	275,608
Buildings	2,601,595	219,465	-	2,821,060
Machinery, furniture, and equipment	5,578,389	1,214,461	263,297	6,529,553
Total accumulated depreciation	<u>\$ 9,642,228</u>	<u>\$ 1,683,575</u>	<u>\$ 263,297</u>	<u>\$ 11,062,506</u>
Total capital assets depreciated, net	<u>\$ 11,986,962</u>	<u>\$ 17,052,989</u>	<u>\$ 69,168</u>	<u>\$ 28,970,783</u>
Capital Assets, Net	<u>\$ 27,221,580</u>	<u>\$ 17,052,989</u>	<u>\$ 15,124,498</u>	<u>\$ 29,150,071</u>

2. Liabilities

Payables

Payables at December 31, 2011, were as follows:

Accounts	\$ 193,887
Salaries	126,339
Contracts payable	81,895
Due to other governments	3,692
Accrued interest payable	<u>242,458</u>
Total Payables	<u>\$ 648,271</u>

Operating Leases

PDSW contracts with Alex Rubbish Services, Inc., to transport ash from the waste-to-energy incinerator, provide services to operate the landfill, and transport any leachate to a facility designated by PDSW. The lease provides payments based upon the formula provided in the agreement. Lease payments were \$327,604 in 2011. The lease, beginning October 1, 2010, is for a three-year period and contains a 90-day cancellation notice by either party.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amount</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
General obligation bonds					
2009B G.O. Temporary Bonds	2012	\$ 1,035,000	2.00	\$ 18,000,000	\$ 1,035,000
2010A G.O. Bonds	2031	17,675,000	3.00 - 4.00	17,675,000	17,675,000
Add: Unamortized premium					<u>361,320</u>
Total General Obligation Bonds, net					<u>\$ 19,071,320</u>

Debt Service Requirements

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

<u>Year Ending December 31</u>	<u>G.O. Temporary Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,035,000	\$ 599,719
2013	700,000	579,019
2014	720,000	558,019
2015	745,000	536,419
2016	765,000	514,068
2017 - 2021	4,180,000	2,211,994
2022 - 2026	4,855,000	1,544,744
2027 - 2031	<u>5,710,000</u>	<u>683,943</u>
Total	<u>\$ 18,710,000</u>	<u>\$ 7,227,925</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

B. Detailed Notes on All Funds

2. Liabilities (Continued)

Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Estimated liability for landfill closure and postclosure care costs	\$ 488,139	\$ 6,072	\$ -	\$ 494,211	\$ -
Compensated absences	307,910	137,786	145,231	300,465	82,769
OPEB liability	66,133	26,338	8,127	84,344	-
General obligation bonds	18,710,000	-	-	18,710,000	1,035,000
Add: Unamortized premium	403,782	-	42,462	361,320	-
Long-Term Liabilities	<u>\$ 19,975,964</u>	<u>\$ 170,196</u>	<u>\$ 195,820</u>	<u>\$ 19,950,340</u>	<u>\$ 1,117,769</u>

Construction Commitments

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

	Spent-to-Date	Remaining Commitment
Buildings		
Baler replacement	\$ -	\$ 196,601
Large door installation	-	21,380
Total Construction Commitment	<u>\$ -</u>	<u>\$ 217,981</u>

C. Employee Retirement Systems and Pension Plans

All full-time and certain part-time employees of PDSW are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota. Disclosures about the Public Employees Retirement Fund can be found in Note 4.A.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

C. Employee Retirement Systems and Pension Plans (Continued)

PDSW's contributions for the years ending December 31, 2011, 2010, and 2009, were \$126,238, \$112,118, and \$102,583, respectively, equal to the contractually required contributions for each year as set by state statute.

Two of the Douglas County Board members are covered by the Public Employees Defined Contribution Plan. Total contributions by dollar amount and percentage of covered payroll made by PDSW during the year ended December 31, 2011, were \$104 and five percent, respectively.

D. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require PDSW to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, PDSW reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$494,211 landfill closure and postclosure care liability at December 31, 2011, represents the cumulative amount reported to date based on the use of 13.0 percent of the estimated capacity of the landfill. PDSW will recognize the remaining estimated cost of closure and postclosure care of \$1,046,991 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. PDSW expects to close the landfill in 2161. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

PDSW is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. PDSW is in compliance with these requirements and, at December 31, 2011, investments of \$1,404,742 are held for these purposes. These are reported as restricted assets on the statement of net assets. PDSW expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW) (Continued)

E. Risk Management

PDSW 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 PDSW carries commercial insurance. To cover these risks, PDSW is a member of both the Minnesota Counties Intergovernmental Trust (MCIT) Workers' Compensation and Property and Casualty Divisions. For other risk, PDSW carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years. Disclosures about the Workers' Compensation Division and the Property and Casualty Division of MCIT can be found in Note 5.

PDSW participates in the Douglas County self-insurance program for employee health coverage. The activity is recorded in the Douglas County Self-Insurance Internal Service Fund.

F. Summary of Significant Contingencies and Other Items

1. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. 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 PDSW expects such amounts, if any, to be immaterial.

2. Designated Funds

PDSW has set aside funds for construction of a landfill and equipment replacement. Below is a summary of the investments set aside at December 31, 2011.

Designated for landfill construction	\$ 1,120,806
Designated for equipment replacement	<u>3,056,022</u>
Total	<u>\$ 4,176,828</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

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

3. Operating Budgets

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues	\$ 5,200,000	\$ 5,178,854	\$ (21,146)
Operating Expenses	5,644,659	6,996,637	(1,351,978)
Operating Income (Loss)	\$ (444,659)	\$ (1,817,783)	\$ (1,373,124)
Nonoperating Revenues (Expenses)	448,224	897,198	448,974
Net Income (Loss)	\$ 3,565	\$ (920,585)	\$ (924,150)

4. Affiliated Debt

In financing the construction of the materials recycling facility, the sponsoring counties sold general obligation bonds; these bonds are the liability of Pope and Douglas Counties and not of PDSW. Outstanding debt of each county related to the financing is as follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Net Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
2002C Douglas County G.O. Solid Waste Bonds	2012	\$1,945,000	4.5377	\$ 3,075,000	\$ 1,945,000
2010 Douglas County G.O. Refunding Bonds	2022	\$170,000 - \$210,000	2.1499	1,865,000	1,865,000

5. Other Postemployment Benefits (OPEB)

As of January 1, 2008, PDSW adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. PDSW engaged an actuary to determine PDSW's liability for postemployment health care benefits as of January 1, 2008. The actuary determined the only obligation PDSW has to record is the implied subsidy portion as described in the standard. Disclosures about OPEB can be found in Note 7.E.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

F. Summary of Significant Contingencies and Other Items

5. Other Postemployment Benefits (OPEB) (Continued)

The following table shows the components of PDSW's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in PDSW's net OPEB obligation for 2011.

Annual required contribution (ARC)	\$	25,594
Interest on net OPEB obligation		3,307
Adjustment to ARC		<u>(2,563)</u>
Annual OPEB cost	\$	26,338
Contributions during the year		<u>(8,127)</u>
Increase in net OPEB obligation	\$	18,211
Net OPEB, Beginning of Year		<u>66,133</u>
Net OPEB, End of Year	\$	<u><u>84,344</u></u>

PDSW's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending 2011 and the preceding two years are as follows:

Fiscal Year Ending	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 26,158	\$ 606	2.3%	\$ 46,287
December 31, 2010	25,088	5,242	20.9	66,133
December 31, 2011	26,338	8,127	30.9	84,344

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The estimated actuarial accrued liability for benefits was \$186,218, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$186,218. The 2010 expected covered payroll (annual payroll of active employees covered by the plan) was \$1,568,461, and the ratio of the UAAL to the covered payroll was 12.0 percent.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

8. Pope/Douglas Solid Waste Management (PDSW)

F. Summary of Significant Contingencies and Other Items

5. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

In the January 1, 2010, actuarial valuation, the entry age normal percent of pay actuarial cost method was used. Each year, the UAAL includes the remaining balance of the initial January 1, 2008, UAAL and subsequent changes in UAAL related to plan gains and losses. The initial UAAL and changes in UAAL are each amortized as a level 4.5 percent of payroll over 30-year closed periods. As of December 31, 2011, the remaining amortization period for the initial UAAL and 2011 gain/loss is 26 and 28 years, respectively. The actuarial assumptions include a 5.0 percent discount rate based on pay-as-you-go funding and health care cost trend rates of 9.5 percent in 2008, decreasing 0.5 percent annually to an ultimate rate of 5.0 percent in 2017 and later.

The January 1, 2010, actuarial valuation assumed health care cost trend rates of 9.5 percent in 2010, decreasing 0.5 percent annually to an ultimate rate of 5.0 percent in 2019 and later.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies

The accounting policies of the Housing and Redevelopment Authority (HRA) of Douglas County conform to accounting principles generally accepted in the United States of America as applied to governmental units. The following is a summary of the more significant policies.

1. Financial Reporting Entity

A six-member Board of Commissioners, appointed by the County Board, governs the HRA. The HRA provides low-income public housing to eligible individuals and families in accordance with the annual contributions contracts approved by the United States Department of Housing and Urban Development (HUD) and in accordance with an agreement with the United States Department of Agriculture's Rural Economic and Community Development Agency. The HRA also administers numerous state and local housing programs for eligible households, including rehabilitation loans, down-payment assistance, housing assistance payments, and septic system reconstruction loans, among others.

2. Financial Statements

The statement of net assets and the statement of activities present financial information about the HRA's overall activities, which are classified as business-type activities. The HRA has no governmental or fiduciary funds. Eliminations have been made to minimize the double counting of internal transactions. Business-type activities are financed, at least in part, by fees charged to external parties. The statement of activities presents a comparison between direct expenses and program revenues for business-type activities. Direct expenses are those specifically associated with and clearly identifiable to a particular function. Program revenues include: (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies (Continued)

3. Measurement Focus and Basis of Accounting

The HRA-wide proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the HRA gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Under the terms of grant agreements, the HRA may fund certain programs by a combination of specific cost-reimbursement grants, block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the HRA's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Reports for the HRA's enterprise funds are prepared following the Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

4. Investments

The HRA's investments are time deposits (savings, preferred money market accounts, or money market mutual funds), and are stated at fair value, which approximates cost.

5. Accounts Receivable

An allowance for doubtful account of \$5,000 is included in these financial statements for one of its local programs. Management believes all other accounts receivable are fully collectible.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

A. Summary of Significant Accounting Policies (Continued)

6. Capital Assets

Capital assets are stated at cost. The cost of maintenance and repairs that does not add value to assets or materially extend assets' lives is not capitalized. The capitalization policy of the HRA is to capitalize assets costing more than \$200.

7. Budgetary Process

The HRA prepares an annual operating budget with formal Board approval prior to the start of its fiscal year. HUD requests the HRA keep the budget on file and submit to HUD the calculation for operating subsidy. The HRA must prepare a revised operating budget only when total expenditures exceed the amount originally budgeted. The revised budget, if needed, is also kept on file at the HRA office. State programs are indirectly budgeted for based on the program dollars available for expenditure.

8. Estimates

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

9. Cash Equivalents

For purposes of the statement of cash flows, the HRA considers cash equivalents to include all accounts having an original maturity of three months or less.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County (Continued)

B. Cash and Investments

Cash and investments as of December 31, 2011, are classified in the accompanying financial statements as follows:

Statement of net assets	
Cash and pooled investments	\$ 498,600
Restricted cash and pooled investments	101,560
Restricted investments	92,891
Total	\$ 693,051

Cash and investments as of December 31, 2011, consist of the following:

	Carrying Amount	Bank Balance
Demand deposits	\$ 498,550	\$ 599,365
Petty cash	50	-
Restricted investments		
Trust money market investments	92,891	92,891
Money market investments	101,560	101,560
Total	\$ 693,051	\$ 793,816

Restricted cash and investments of \$194,451 are entirely invested in money market mutual fund accounts where the book carrying and the bank balance are the same.

Investments Authorized by the HRA's Investment Policy

The HRA is required to invest its funds in accordance with Minn. Stat. ch. 118A. The HRA does not have an investment policy with any specific provisions intended to limit its exposure to investment rate risk, credit risk, and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. At year-end, the HRA held all of its available cash in money market accounts.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

B. Cash and Investments (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At year-end, the HRA held no rated investments.

Disclosures Relating to Concentration of Credit Risk

Statement of Financial Accounting Standards 105 defines a concentration of credit risk as an exposure to a number of counterparties engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The HRA does not have an existing investment policy regarding concentration of credit risk.

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The HRA does not have an investment policy that would limit the exposure to custodial credit risk for deposits.

The HRA had \$415,897 in deposits with financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts at December 31, 2011. Uninsured amounts may have been higher than the December 31, 2011 amount throughout the year.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (such as a broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities in the possession of another party. The HRA does not have a policy that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The HRA has all investments in trust money market accounts during 2011.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County (Continued)

C. Capital Assets

A summary of changes in capital assets is as follows:

	Balance January 1, 2011	Additions	Disposals	Balance December 31, 2011
PHA-owned				
Land	\$ 113,171	\$ -	\$ -	\$ 113,171
Land improvements	152,175	-	-	152,175
Buildings and improvements	1,987,733	30,990	-	2,018,723
Furniture and equipment	52,955	1,383	1,021	53,317
Total	\$ 2,306,034	\$ 32,373	\$ 1,021	\$ 2,337,386
Less: accumulated depreciation	(1,340,431)	(86,530)	(1,021)	(1,425,940)
Total PHA-owned	\$ 965,603	\$ (54,157)	\$ -	\$ 911,446
Housing choice vouchers				
Leasehold improvements	\$ 4,177	\$ -	\$ 4,177	\$ -
Office equipment	3,409	1,631	3,409	1,631
Total	\$ 7,586	\$ 1,631	\$ 7,586	\$ 1,631
Less: accumulated depreciation	(7,586)	-	(7,586)	-
Total housing choice vouchers	\$ -	\$ 1,631	\$ -	\$ 1,631
Rural Economic and Community Development (RECD)				
Land	\$ 3,350	\$ -	\$ -	\$ 3,350
Land improvements	72,514	-	-	72,514
Buildings and improvements	133,465	5,360	-	138,825
Furniture and equipment	40,679	6,299	-	46,978
Total	\$ 250,008	\$ 11,659	\$ -	\$ 261,667
Less: accumulated depreciation	(98,262)	(13,074)	-	(111,336)
Total RECD	\$ 151,746	\$ (1,415)	\$ -	\$ 150,331
Administrative Fund				
Land	\$ 87,902	\$ -	\$ -	\$ 87,902
Land improvements	29,418	-	-	29,418
Buildings	503,206	-	-	503,206
Furniture and equipment	53,761	2,656	6,136	50,281
Total	\$ 674,287	\$ 2,656	\$ 6,136	\$ 670,807
Less: accumulated depreciation	(63,377)	(17,705)	(6,136)	(74,946)
Total Administrative Fund	\$ 610,910	\$ (15,049)	\$ -	\$ 595,861

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

C. Capital Assets (Continued)

	Balance January 1, 2011	Additions	Disposals	Balance December 31, 2011
Cardinal Estates				
Land	\$ 37,309	\$ -	\$ -	\$ 37,309
Land improvements	52,568	-	-	52,568
Buildings	1,139,150	-	-	1,139,150
Furniture and equipment	28,497	9,844	-	38,341
Total	\$ 1,257,524	\$ 9,844	\$ -	\$ 1,267,368
Less: accumulated depreciation	(257,764)	(27,467)	-	(285,231)
Total Cardinal Estates	\$ 999,760	\$ (17,623)	\$ -	\$ 982,137
Garfield Creamery project				
Land	\$ 16,000	\$ -	\$ -	\$ 16,000
Land improvements	36,927	-	-	36,927
Buildings	700,128	-	-	700,128
Furniture and equipment	12,052	-	-	12,052
Total	\$ 765,107	\$ -	\$ -	\$ 765,107
Less: accumulated depreciation	(162,330)	(21,127)	-	(183,457)
Total Garfield Creamery project	\$ 602,777	\$ (21,127)	\$ -	\$ 581,650
Erickson Apartments				
Land	\$ -	\$ 16,464	\$ -	\$ 16,464
Land improvements	-	93,747	-	93,747
Buildings	-	76,176	-	76,176
Furniture and equipment	-	6,882	-	6,882
Total	\$ -	\$ 193,269	\$ -	\$ 193,269
Less: accumulated depreciation	-	(2,309)	-	(2,309)
Total Erickson Apartments	\$ -	\$ 190,960	\$ -	\$ 190,960
Totals	\$ 3,330,796	\$ 83,220	\$ -	\$ 3,414,016

D. Other Postemployment Benefits

The HRA offers no material postemployment benefits to employees upon separation from service. Employees receive no payments at or after separation from service other than accrued sick and vacation pay, which is already accrued in this report. The only postemployment benefit an employee may receive is COBRA continuation of his or her health insurance, for which the separated employee must pay 100 percent of the premium.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County (Continued)

E. Long-Term Obligations

RECD Loan Assumption

As part of the RECD project acquisition, the HRA assumed the previous owner's note payable on the project due to RECD. The note assumed was for \$84,237, with an interest rate of eight percent annually. Monthly payments of \$717, including interest, are required until maturity on May 2, 2018. Interest expense is partially subsidized by RECD each month. The 2011 subsidy totaled \$3,775 and is recorded as both grant revenue and interest expense in these financial statements. The annual requirements to retire this mortgage note are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,353	\$ 3,253	\$ 8,606
2013	5,797	2,809	8,606
2014	6,278	2,328	8,606
2015	6,799	1,807	8,606
2016	7,364	1,242	8,606
2017 - 2018	11,487	9,304	20,791
Totals	<u>\$ 43,078</u>	<u>\$ 20,743</u>	<u>\$ 63,821</u>

The County dug a culvert in 2003 to control water problems in and around the project's area and assessed the costs to affected property owners. Remaining payments to amortize the debt are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 106	\$ 109	\$ 215
2013	113	102	215
2014	121	94	215
2015	214	86	300
2016	229	71	300
2017 - 2019	783	112	895
Totals	<u>\$ 1,566</u>	<u>\$ 574</u>	<u>\$ 2,140</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations (Continued)

State of Minnesota Department of Trade and Economic Development Loan

In 2010, the HRA issued \$1,380,000 General Obligation Governmental Housing Refunding Bonds, Series 2010A. These bonds were issued to refinance the 2001A series General Obligation Governmental Housing Bonds of \$1,400,000. The 2001A series bonds are considered defeased as the proceeds from the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. These bonds were initially issued for all costs associated with acquiring needed land and building a ten (10) unit housing facility on Cardinal Lane in Alexandria, Minnesota, and a two (2) unit housing facility in Nelson Second Addition in Evansville, Minnesota. The bond issue and related activity is included under the caption of "Cardinal Estates." At December 31, 2001, construction was completed, and the units were available for occupancy. The units were first rented and occupied beginning in February 2002. The annual requirements to retire the refunding bonds are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 30,000	\$ 40,058	\$ 70,058
2013	50,000	39,258	89,258
2014	55,000	38,208	93,208
2015	55,000	37,108	92,108
2016	55,000	36,007	91,007
2017 - 2021	290,000	159,856	449,856
2022 - 2026	345,000	116,306	461,306
2027 - 2031	410,000	54,666	464,666
2032	90,000	1,665	91,665
Totals	<u>\$ 1,380,000</u>	<u>\$ 523,132</u>	<u>\$ 1,903,132</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations

State of Minnesota Department of Trade and Economic Development Loan (Continued)

The County dug a culvert in 2003 to control water problems in and around the project's area and assessed the costs to affected property owners. Remaining payments to amortize the debt are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 279	\$ 171	\$ 450
2013	248	152	400
2014	266	134	400
2015	304	116	420
2016	326	94	420
2017 - 2019	<u>1,022</u>	<u>141</u>	<u>1,163</u>
Totals	<u>\$ 2,445</u>	<u>\$ 808</u>	<u>\$ 3,253</u>

Garfield Creamery Apartment Project

The HRA issued General Obligation Housing Refunding Bonds, Series 2010A for \$485,000 to advance refund outstanding General Obligation Housing Bonds, 2002A Series of \$525,000. The 2002A series bonds are considered defeased as the proceeds from the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds, which were originally issued for the purpose of rehabilitating the old Garfield Creamery building into rental apartments for qualified low-income individuals and families. Annual maturities to retire the bonds are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 30,000	\$ 11,288	\$ 41,288
2013	30,000	10,688	40,688
2014	40,000	9,988	49,988
2015	40,000	9,188	49,188
2016	40,000	8,388	48,388
2017 - 2021	210,000	27,412	237,412
2022 - 2023	<u>95,000</u>	<u>2,680</u>	<u>97,680</u>
Totals	<u>\$ 485,000</u>	<u>\$ 79,632</u>	<u>\$ 564,632</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations (Continued)

Viking Savings Bank

The HRA took out two notes in connection with the purchase and remodeling of its new office building. The building was purchased in 2008, remodeled, and occupied in February 2009. The first note is for \$382,500 with an interest rate of 5 percent and is dated December 9, 2008. Regular monthly principal and interest payments of \$2,540 began April 9, 2009. The second note is for \$57,000 with an interest rate of 5 percent and is dated July 7, 2009. Regular monthly principal and interest payments of \$615 began July 9, 2009. Annual maturities to retire the notes are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 12,992	\$ 17,488	\$ 30,480
2013	336,782	8,446	345,228
Totals	<u>\$ 349,774</u>	<u>\$ 25,934</u>	<u>\$ 375,708</u>

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 5,223	\$ 2,157	\$ 7,380
2013	5,500	1,880	7,380
2014	34,320	832	35,152
Totals	<u>\$ 45,043</u>	<u>\$ 4,869</u>	<u>\$ 49,912</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County

E. Long-Term Obligations

Viking Savings Bank (Continued)

In April 2011, the HRA took out a bank loan for \$50,000 to assist with the purchase of an apartment building, known as “Erickson Apartments.” The purchase price was \$95,000. The loan carries a fixed interest rate of 4.55 percent, with monthly payments of \$320. The loan calls for a final balloon payment due in April 2016 of \$41,762. Annual maturities to retire the note are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,640	\$ 2,194	\$ 3,834
2013	1,716	2,118	3,834
2014	1,796	2,038	3,834
2015	1,879	1,955	3,834
2016	<u>41,940</u>	<u>632</u>	<u>42,572</u>
Totals	<u>\$ 48,971</u>	<u>\$ 8,937</u>	<u>\$ 57,908</u>

Combined principal for all long-term debt at December 31, 2011 is as follows:

<u>Year Ended December 31</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
2012	\$ 60,000	\$ 25,593	\$ 85,593
2013	80,000	350,156	430,156
2014	95,000	42,781	137,781
2015	95,000	9,196	104,196
2016	95,000	49,858	144,858
2017 - 2021	500,000	13,293	513,293
2022 - 2026	440,000	-	440,000
2027 - 2031	410,000	-	410,000
2032	<u>90,000</u>	<u>-</u>	<u>90,000</u>
Totals	<u>\$ 1,865,000</u>	<u>\$ 490,877</u>	<u>\$ 2,355,877</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

9. Housing and Redevelopment Authority of Douglas County (Continued)

F. Employee Retirement Plans

All full-time employees of the HRA are covered by a tax-sheltered annuity, covered under IRC Section 403(b). The HRA contributes up to a five percent match for each employee's pay to his or her annuity. For 2011, employee elective deferrals were available to a maximum of \$16,500 annually (\$22,000 for those ages 50 and over). The payroll for employees covered by the plan for the year ended December 31, 2011, was \$284,232, equal to the HRA's total payroll for the year. HRA contributions to the plan for the three years ended December 31, 2011, 2010, and 2009, equaled \$9,693, \$10,392, and \$12,971, respectively.

G. Risk Management

The HRA is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage for at least the past three fiscal years.

H. \$6,800,000 Public Project Lease Revenue Bonds, Series 2008A

The HRA issued bonds in the amount of \$6,800,000 on November 12, 2008, which are the repayment responsibility of Douglas County. The County is completely responsible for the repayment of these bonds, and the HRA has no contingent liability with regard to these bonds. As such, these bonds are not reflected in the financial statements of the HRA.

I. Subsequent Events

The HRA has evaluated subsequent events through June 29, 2012, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT A-1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 11,454,710	\$ 10,782,501	\$ 10,919,453	\$ 136,952
Special assessments	-	-	25,888	25,888
Licenses and permits	188,749	187,249	160,141	(27,108)
Intergovernmental	1,393,660	2,065,869	2,219,573	153,704
Charges for services	1,548,285	1,548,785	1,893,566	344,781
Fines and forfeits	69,000	69,000	82,228	13,228
Gifts and contributions	250	250	11,452	11,202
Investment earnings	300,300	300,300	507,831	207,531
Miscellaneous	220,661	221,661	639,713	418,052
Total Revenues	\$ 15,175,615	\$ 15,175,615	\$ 16,459,845	\$ 1,284,230
Expenditures				
Current				
General government				
Commissioners	\$ 215,352	\$ 215,352	\$ 212,308	\$ 3,044
Court administrator	158,000	158,000	115,080	42,920
Law library	34,000	34,000	26,472	7,528
County auditor/treasurer	532,219	572,259	539,335	32,924
License bureau	342,997	342,997	330,134	12,863
County assessor	721,608	721,608	727,419	(5,811)
Elections	44,810	33,770	26,151	7,619
Accounting and auditing	70,000	70,000	66,785	3,215
Information systems	558,471	567,471	566,003	1,468
Central services	611,900	611,900	637,011	(25,111)
Coordinator	283,421	283,421	279,068	4,353
Attorney	819,024	819,024	747,247	71,777
Recorder	307,171	307,171	394,075	(86,904)
Planning and zoning	408,595	443,595	430,719	12,876
Maintenance	1,100,173	1,100,173	1,026,399	73,774
Veterans service officer	134,301	134,301	139,492	(5,191)
Humane society	7,793	7,793	7,793	-
Total general government	\$ 6,349,835	\$ 6,422,835	\$ 6,271,491	\$ 151,344

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,873,630	\$ 3,033,630	\$ 3,036,588	\$ (2,958)
Drug task force	-	-	121,389	(121,389)
Boat and water safety	101,440	101,440	85,656	15,784
800 Megahertz	(7,000)	(7,000)	482,301	(489,301)
Coroner	26,000	26,000	21,100	4,900
Enhanced 911 system	114,300	114,300	46,891	67,409
County jail	3,375,214	3,375,214	3,487,606	(112,392)
Probation officer	388,256	388,256	424,425	(36,169)
Dispatch	686,123	686,123	634,762	51,361
Emergency management	28,526	28,526	21,834	6,692
Total public safety	\$ 7,586,489	\$ 7,746,489	\$ 8,362,552	\$ (616,063)
Culture and recreation				
Historical society	\$ 4,500	\$ 4,500	\$ 4,500	\$ -
DATA trails	-	-	140,660	(140,660)
Central Minnesota elder network	6,000	6,000	6,000	-
Total culture and recreation	\$ 10,500	\$ 10,500	\$ 151,160	\$ (140,660)
Conservation of natural resources				
County extension	\$ 174,737	\$ 174,737	\$ 174,233	\$ 504
Soil and water conservation	189,285	189,285	247,091	(57,806)
Land and resource management	155,314	155,314	107,487	47,827
Chippewa River watershed sewer project	-	-	61,066	(61,066)
Agricultural society	4,000	4,000	4,000	-
Forfeiture property	-	-	4,067	(4,067)
Total conservation of natural resources	\$ 523,336	\$ 523,336	\$ 597,944	\$ (74,608)

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT A-1
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Housing and Redevelopment Authority	\$ 40,045	\$ 40,045	\$ 40,045	\$ -
West Central Initiative Fund	8,000	8,000	8,000	-
Total economic development	\$ 48,045	\$ 48,045	\$ 48,045	\$ -
Debt service				
Principal	\$ 279,031	\$ 279,031	\$ 345,418	\$ (66,387)
Interest	348,927	348,927	383,652	(34,725)
Administrative charges	29,452	29,452	1,900	27,552
Total debt service	\$ 657,410	\$ 657,410	\$ 730,970	\$ (73,560)
Total Expenditures	\$ 15,175,615	\$ 15,408,615	\$ 16,162,162	\$ (753,547)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (233,000)	\$ 297,683	\$ 530,683
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (490,157)	\$ (490,157)
Capital lease/installment purchases	-	-	249,574	249,574
Promissory note issued	-	-	62,009	62,009
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (178,574)	\$ (178,574)
Net Change in Fund Balance	\$ -	\$ (233,000)	\$ 119,109	\$ 352,109
Fund Balance - January 1	8,741,807	8,741,807	8,741,807	-
Fund Balance - December 31	\$ 8,741,807	\$ 8,508,807	\$ 8,860,916	\$ 352,109

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,530,807	\$ 3,320,113	\$ 3,340,274	\$ 20,161
Special assessments	-	-	7,366	7,366
Intergovernmental	5,018,082	5,228,776	5,619,738	390,962
Charges for services	436,000	436,000	370,722	(65,278)
Gifts and contributions	-	-	125,580	125,580
Investment earnings	1,700	1,700	2,997	1,297
Miscellaneous	233,100	233,100	369,483	136,383
Total Revenues	\$ 9,219,689	\$ 9,219,689	\$ 9,836,160	\$ 616,471
Expenditures				
Current				
General government				
Surveyor	\$ 528,804	\$ 528,804	\$ 515,197	\$ 13,607
Highways and streets				
Administration	\$ 529,662	\$ 529,662	\$ 495,554	\$ 34,108
Maintenance	1,854,747	1,854,747	2,283,990	(429,243)
Engineering/construction	4,807,843	4,807,843	2,717,450	2,090,393
Equipment, maintenance, and shop	703,507	703,507	744,117	(40,610)
Materials and services for resale	579,964	579,964	743,541	(163,577)
Central fueling	6,516	6,516	5,893	623
Other	187,497	187,497	185,550	1,947
Total highways and streets	\$ 8,669,736	\$ 8,669,736	\$ 7,176,095	\$ 1,493,641
Culture and recreation				
Parks	\$ 637,866	\$ 637,866	\$ 798,924	\$ (161,058)
Conservation of natural resources				
Agriculture inspection	\$ 23,283	\$ 23,283	\$ 17,391	\$ 5,892
Debt service				
Principal retirement	\$ -	\$ -	\$ 18,985	\$ (18,985)
Interest	-	-	6,137	(6,137)
Total debt service	\$ -	\$ -	\$ 25,122	\$ (25,122)
Intergovernmental				
Highways and streets	\$ 260,000	\$ 260,000	\$ 331,418	\$ (71,418)
Total Expenditures	\$ 10,119,689	\$ 10,119,689	\$ 8,864,147	\$ 1,255,542

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

Page 117

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT A-2
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ (900,000)	\$ (900,000)	\$ 972,013	\$ 1,872,013
Other Financing Sources (Uses)				
Transfers in	\$ 900,000	\$ 900,000	\$ 141,317	\$ (758,683)
Capital lease/installment purchases	-	-	28,638	28,638
Total Other Financing Sources (Uses)	\$ 900,000	\$ 900,000	\$ 169,955	\$ (730,045)
Net Change in Fund Balance	\$ -	\$ -	\$ 1,141,968	\$ 1,141,968
Fund Balance - January 1	1,591,723	1,591,723	1,591,723	-
Increase (decrease) in inventories	-	-	2,405	2,405
Fund Balance - December 31	\$ 1,591,723	\$ 1,591,723	\$ 2,736,096	\$ 1,144,373

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT A-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,245,115	\$ 3,991,756	\$ 4,011,859	\$ 20,103
Licenses and permits	14,500	14,500	14,460	(40)
Intergovernmental	3,705,073	3,958,432	3,855,084	(103,348)
Charges for services	494,844	494,844	595,762	100,918
Gifts and contributions	-	-	230	230
Miscellaneous	8,850	8,850	20,244	11,394
Total Revenues	\$ 8,468,382	\$ 8,468,382	\$ 8,497,639	\$ 29,257
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,695,755	\$ 2,695,755	\$ 2,556,053	\$ 139,702
Social services	5,772,627	5,772,627	5,157,828	614,799
Total Human Services	\$ 8,468,382	\$ 8,468,382	\$ 7,713,881	\$ 754,501
Debt service				
Principal	\$ -	\$ -	\$ 10,118	\$ (10,118)
Interest	-	-	4,089	(4,089)
Total Debt Service	\$ -	\$ -	\$ 14,207	\$ (14,207)
Total Expenditures	\$ 8,468,382	\$ 8,468,382	\$ 7,728,088	\$ 740,294
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 769,551	\$ 769,551
Other Financing Sources (Uses)				
Capital lease/installment purchases	-	-	34,494	34,494
Net Change in Fund Balance	\$ -	\$ -	\$ 804,045	\$ 804,045
Fund Balance - January 1	3,428,904	3,428,904	3,428,904	-
Fund Balance - December 31	\$ 3,428,904	\$ 3,428,904	\$ 4,232,949	\$ 804,045

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT A-4

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

Governmental Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 2,441,291	\$ 2,441,291	0.0%	\$ 15,384,493	15.9%
January 1, 2010	-	2,557,616	2,557,616	0.0	16,365,401	15.6

Business-Type Activities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 2,737,151	\$ 2,737,151	0.0%	\$ 19,736,000	13.9%
January 1, 2010	-	2,763,928	2,763,928	0.0	21,935,687	13.0

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund.

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

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

Encumbrance accounting is employed in governmental funds. Encumbrances (such as purchase orders or contracts) do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2011, expenditures exceeded appropriations in the General Fund and the Capital Projects Fund by \$753,547 and \$4,440,823, respectively. These expenditures in excess of budget were funded by greater than anticipated revenues for the General Fund and bonds issued in 2011 for the Capital Projects Fund.

3. Other Postemployment Benefits Funding Status

The County implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the fiscal year ended December 31, 2008. See Note 4.C. to the financial statements for more information.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

3. Other Postemployment Benefits Funding Status (Continued)

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

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

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Ditch Fund is used to account for the cost of constructing and maintaining an agricultural drainage ditch system. Financing is provided by special assessments levied against benefited property.

The Library Fund accounts for the operations of the County library. Financing is provided by an annual tax levy and an appropriation from the City of Alexandria.

The Public Health Nurse Fund is used to account for providing nursing service care to the elderly and other residents of Douglas County. All activities necessary to provide such services are accounted for in this fund. Financing is provided by health care service grants, County contributions, and user service charges.

DEBT SERVICE FUND

The Bonds and Interest Debt Service Fund is used to account for accumulation of resources for, and payment of, principal and interest on general long-term debt.

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT B-1

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

	Special Revenue (Exhibit B-3)	Debt Service	Total (Exhibit 3)
<u>Assets</u>			
Cash and pooled investments	\$ 4,625,926	\$ 3,136,142	\$ 7,762,068
Undistributed cash in agency funds	18,454	37,631	56,085
Petty cash and change funds	310	-	310
Cash with fiscal agent	-	294,361	294,361
Cash in escrow	-	2,612,157	2,612,157
Investments	199,498	-	199,498
Taxes receivable			
Current	23,722	52,801	76,523
Delinquent	16,283	30,663	46,946
Special assessments receivable			
Current	2,322	3,759	6,081
Delinquent	179	114	293
Noncurrent	89,710	153,553	243,263
Accounts receivable	40,803	-	40,803
Accrued interest receivable	487	-	487
Due from other funds	1,918	-	1,918
Due from other governments	321,255	-	321,255
Prepaid items	4,765	-	4,765
	\$ 5,345,632	\$ 6,321,181	\$ 11,666,813
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 49,192	\$ -	\$ 49,192
Salaries payable	201,360	-	201,360
Due to other funds	21,778	-	21,778
Due to other governments	4,722	-	4,722
Deferred revenue - unavailable	181,434	208,056	389,490
Advance from other funds	113,600	-	113,600
	\$ 572,086	\$ 208,056	\$ 780,142
Fund Balances			
Restricted for debt service	\$ -	\$ 6,113,125	\$ 6,113,125
Restricted for ditch maintenance	32,846	-	32,846
Assigned for capital improvements	71,421	-	71,421
Assigned for library fund drive	158,272	-	158,272
Assigned for public health	4,131,709	-	4,131,709
Assigned for library	475,532	-	475,532
Unassigned	(96,234)	-	(96,234)
	\$ 4,773,546	\$ 6,113,125	\$ 10,886,671
Total Liabilities and Fund Balances	\$ 5,345,632	\$ 6,321,181	\$ 11,666,813

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT B-2

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

	Special Revenue (Exhibit B-4)	Debt Service	Total (Exhibit 5)
Revenues			
Taxes	\$ 1,238,390	\$ 2,744,811	\$ 3,983,201
Special assessments	99,152	53,741	152,893
Licenses and permits	197,389	-	197,389
Intergovernmental	1,788,827	124,339	1,913,166
Charges for services	2,485,056	-	2,485,056
Fines and forfeits	27,578	-	27,578
Gifts and contributions	60,048	-	60,048
Investment earnings	2,501	3,475	5,976
Miscellaneous	149,944	-	149,944
Total Revenues	\$ 6,048,885	\$ 2,926,366	\$ 8,975,251
Expenditures			
Current			
Health	\$ 4,445,071	\$ -	\$ 4,445,071
Culture and recreation	974,450	-	974,450
Conservation of natural resources	98,341	-	98,341
Debt service			
Principal	10,712	3,760,000	3,770,712
Interest	4,950	798,072	803,022
Administrative charges	-	5,480	5,480
Total Expenditures	\$ 5,533,524	\$ 4,563,552	\$ 10,097,076
Excess of Revenues Over (Under) Expenditures	\$ 515,361	\$ (1,637,186)	\$ (1,121,825)
Other Financing Sources (Uses)			
Transfers in	\$ 18,598	\$ 204,462	\$ 223,060
Transfers out	-	(36,526)	(36,526)
Capital lease/installment purchases	67,510	-	67,510
Total Other Financing Sources (Uses)	\$ 86,108	\$ 167,936	\$ 254,044
Net Change in Fund Balance	\$ 601,469	\$ (1,469,250)	\$ (867,781)
Fund Balance - January 1	4,172,077	7,582,375	11,754,452
Fund Balance - December 31	\$ 4,773,546	\$ 6,113,125	\$ 10,886,671

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT B-3

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

	<u>Ditch</u>	<u>Library</u>	<u>Public Health Nurse</u>	<u>Total (Exhibit B-1)</u>
<u>Assets</u>				
Cash and pooled investments	\$ 59,346	\$ 648,888	\$ 3,917,692	\$ 4,625,926
Undistributed cash in agency funds	1,375	9,552	7,527	18,454
Petty cash and change funds	-	310	-	310
Investments	-	71,421	128,077	199,498
Taxes receivable				
Current	-	13,221	10,501	23,722
Delinquent	-	9,337	6,946	16,283
Special assessments receivable				
Current	2,322	-	-	2,322
Delinquent	179	-	-	179
Noncurrent	89,710	-	-	89,710
Accounts receivable	-	110	40,693	40,803
Accrued interest receivable	-	12	475	487
Due from other funds	1,918	-	-	1,918
Due from other governments	11,276	-	309,979	321,255
Prepaid items	-	4,765	-	4,765
Total Assets	\$ 166,126	\$ 757,616	\$ 4,421,890	\$ 5,345,632
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 901	\$ 8,591	\$ 39,700	\$ 49,192
Salaries payable	-	27,060	174,300	201,360
Due to other funds	14,322	374	7,082	21,778
Due to other governments	-	27	4,695	4,722
Deferred revenue - unavailable	100,691	16,339	64,404	181,434
Advance from other funds	113,600	-	-	113,600
Total Liabilities	\$ 229,514	\$ 52,391	\$ 290,181	\$ 572,086
Fund Balances				
Restricted for ditch maintenance	\$ 32,846	\$ -	\$ -	\$ 32,846
Assigned for capital improvements	-	71,421	-	71,421
Assigned for library fund drive	-	158,272	-	158,272
Assigned for public health	-	-	4,131,709	4,131,709
Assigned for library	-	475,532	-	475,532
Unassigned	(96,234)	-	-	(96,234)
Total Fund Balances	\$ (63,388)	\$ 705,225	\$ 4,131,709	\$ 4,773,546
Total Liabilities and Fund Balances	\$ 166,126	\$ 757,616	\$ 4,421,890	\$ 5,345,632

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT B-4

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

	<u>Ditch</u>	<u>Library</u>	<u>Public Health Nurse</u>	<u>Total (Exhibit B-2)</u>
Revenues				
Taxes	\$ -	\$ 690,518	\$ 547,872	\$ 1,238,390
Special assessments	99,152	-	-	99,152
Licenses and permits	-	-	197,389	197,389
Intergovernmental	-	62,116	1,726,711	1,788,827
Charges for services	5,000	3,516	2,476,540	2,485,056
Fines and forfeits	-	27,578	-	27,578
Gifts and contributions	-	7,616	52,432	60,048
Investment earnings	-	1,153	1,348	2,501
Miscellaneous	-	1,336	148,608	149,944
Total Revenues	\$ 104,152	\$ 793,833	\$ 5,150,900	\$ 6,048,885
Expenditures				
Current				
Health	\$ -	\$ -	\$ 4,445,071	\$ 4,445,071
Culture and recreation	-	804,620	169,830	974,450
Conservation of natural resources	98,341	-	-	98,341
Debt service				
Principal	-	553	10,159	10,712
Interest	-	314	4,636	4,950
Total Expenditures	\$ 98,341	\$ 805,487	\$ 4,629,696	\$ 5,533,524
Excess of Revenues Over (Under) Expenditures	\$ 5,811	\$ (11,654)	\$ 521,204	\$ 515,361
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 18,598	\$ 18,598
Capital lease/installment purchases	-	6,199	61,311	67,510
Total Other Financing Sources (Uses)	\$ -	\$ 6,199	\$ 79,909	\$ 86,108
Net Change in Fund Balance	\$ 5,811	\$ (5,455)	\$ 601,113	\$ 601,469
Fund Balance - January 1	(69,199)	710,680	3,530,596	4,172,077
Fund Balance - December 31	\$ (63,388)	\$ 705,225	\$ 4,131,709	\$ 4,773,546

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT B-5

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 730,015	\$ 686,432	\$ 690,518	\$ 4,086
Intergovernmental	44,891	88,474	62,116	(26,358)
Charges for services	3,402	3,402	3,516	114
Fines and forfeits	28,000	28,000	27,578	(422)
Gifts and contributions	10,000	10,000	7,616	(2,384)
Investment earnings	-	-	1,153	1,153
Miscellaneous	400	400	1,336	936
Total Revenues	\$ 816,708	\$ 816,708	\$ 793,833	\$ (22,875)
Expenditures				
Current				
Culture and recreation				
County library	\$ 816,708	\$ 816,708	\$ 804,620	\$ 12,088
Debt service				
Principal	-	-	553	(553)
Interest	-	-	314	(314)
Total Expenditures	\$ 816,708	\$ 816,708	\$ 805,487	\$ 11,221
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ (11,654)	\$ (11,654)
Other Financing Sources (Uses)				
Capital lease/installment purchases	-	-	6,199	6,199
Net Change in Fund Balance	\$ -	\$ -	\$ (5,455)	\$ (5,455)
Fund Balance - January 1	710,680	710,680	710,680	-
Fund Balance - December 31	\$ 710,680	\$ 710,680	\$ 705,225	\$ (5,455)

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT B-6

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH NURSE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 579,924	\$ 545,308	\$ 547,872	\$ 2,564
Licenses and permits	193,050	193,050	197,389	4,339
Intergovernmental	1,425,833	1,460,449	1,726,711	266,262
Charges for services	2,207,236	2,207,236	2,476,540	269,304
Gifts and contributions	52,700	52,700	52,432	(268)
Investment earnings	2,600	2,600	1,348	(1,252)
Miscellaneous	137,850	137,850	148,608	10,758
Total Revenues	\$ 4,599,193	\$ 4,599,193	\$ 5,150,900	\$ 551,707
Expenditures				
Current				
Health				
Nursing service	\$ 4,430,426	\$ 4,430,426	\$ 4,445,071	\$ (14,645)
Culture and recreation				
Senior citizens	168,767	168,767	169,830	(1,063)
Debt service				
Principal retirement	-	-	10,159	(10,159)
Interest	-	-	4,636	(4,636)
Total Expenditures	\$ 4,599,193	\$ 4,599,193	\$ 4,629,696	\$ (30,503)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 521,204	\$ 521,204
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 18,598	\$ 18,598
Capital lease/installment purchases	-	-	61,311	61,311
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 79,909	\$ 79,909
Net Change in Fund Balance	\$ -	\$ -	\$ 601,113	\$ 601,113
Fund Balance - January 1	3,530,596	3,530,596	3,530,596	-
Fund Balance - December 31	\$ 3,530,596	\$ 3,530,596	\$ 4,131,709	\$ 601,113

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT B-7

**BUDGETARY COMPARISON SCHEDULE
BOND AND INTEREST DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,915,214	\$ 2,741,158	\$ 2,744,811	\$ 3,653
Special assessments	86,024	86,024	53,741	(32,283)
Intergovernmental	-	174,056	124,339	(49,717)
Investment earnings	-	-	3,475	3,475
Total Revenues	<u>\$ 3,001,238</u>	<u>\$ 3,001,238</u>	<u>\$ 2,926,366</u>	<u>\$ (74,872)</u>
Expenditures				
Current				
Debt service				
Principal	\$ 2,065,000	\$ 2,065,000	\$ 3,760,000	\$ (1,695,000)
Interest	793,321	793,321	798,072	(4,751)
Administrative (fiscal) charges	142,917	142,917	5,480	137,437
Total Expenditures	<u>\$ 3,001,238</u>	<u>\$ 3,001,238</u>	<u>\$ 4,563,552</u>	<u>\$ (1,562,314)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,637,186)</u>	<u>\$ (1,637,186)</u>
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 204,462	\$ 204,462
Transfers out	-	-	(36,526)	(36,526)
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,936</u>	<u>\$ 167,936</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,469,250)</u>	<u>\$ (1,469,250)</u>
Fund Balance - January 1	<u>7,582,375</u>	<u>7,582,375</u>	<u>7,582,375</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 7,582,375</u>	<u>\$ 7,582,375</u>	<u>\$ 6,113,125</u>	<u>\$ (1,469,250)</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT B-8

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 18,380	\$ 17,279	\$ 27,956	\$ 10,677
Intergovernmental	-	1,101	784	(317)
Investment earnings	-	-	2,061	2,061
Total Revenues	\$ 18,380	\$ 18,380	\$ 30,801	\$ 12,421
Expenditures				
Current				
General government	\$ -	\$ -	\$ 7,662	\$ (7,662)
Public safety	-	-	1,590	(1,590)
Capital outlay	18,380	18,380	4,380,759	(4,362,379)
Debt service				
Bond issuance cost	-	-	69,192	(69,192)
Total Expenditures	\$ 18,380	\$ 18,380	\$ 4,459,203	\$ (4,440,823)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (4,428,402)	\$ (4,428,402)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 526,683	\$ 526,683
Transfers out	-	-	(364,377)	(364,377)
Bonds issued	-	-	9,840,000	9,840,000
Premium on bonds	-	-	191,697	191,697
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 10,194,003	\$ 10,194,003
Net Change in Fund Balance	\$ -	\$ -	\$ 5,765,601	\$ 5,765,601
Fund Balance - January 1	3,686,105	3,686,105	3,686,105	-
Fund Balance - December 31	\$ 3,686,105	\$ 3,686,105	\$ 9,451,706	\$ 5,765,601

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Flexible Spending Plans Fund accounts for the payroll deductions of employees enrolled in the flexible spending program.

The State Revenue Fund accounts for the collection and payment of money due to the State of Minnesota.

The Other Collections Fund accounts for prepayment of taxes until tax statements are prepared and the collected taxes can be properly distributed.

The Mental Health Collaborative Fund accounts for the collection and payment of state and federal grants and membership contributions for the Collaborative.

The Flood Control Board Fund accounts for the collections and payments for the joint venture.

The West Central Minnesota Drug Task Force Fund accounts for the collection and payment of special drug-related investigations for the Task Force.

The Taxes and Penalties Fund accounts for the collection and payment of taxes and penalties collected to the various County funds and taxing districts.

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>FLEXIBLE SPENDING PLANS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 27,817	\$ 354,991	\$ 356,687	\$ 26,121
<u>Liabilities</u>				
Accounts payable	\$ 27,817	\$ 354,991	\$ 356,687	\$ 26,121
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 112,520	\$ 1,251,675	\$ 1,232,091	\$ 132,104
Accounts receivable	14,009	-	14,009	-
Total Assets	\$ 126,529	\$ 1,251,675	\$ 1,246,100	\$ 132,104
<u>Liabilities</u>				
Due to other governments	\$ 126,529	\$ 1,251,675	\$ 1,246,100	\$ 132,104
 <u>OTHER COLLECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 35,456	\$ 138,483	\$ 139,662	\$ 34,277
<u>Liabilities</u>				
Due to other governments	\$ 35,456	\$ 138,483	\$ 139,662	\$ 34,277

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>MENTAL HEALTH COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 107,583	\$ 173,026	\$ 140,965	\$ 139,644
<u>Liabilities</u>				
Due to other governments	\$ 107,583	\$ 173,026	\$ 140,965	\$ 139,644
 <u>FLOOD CONTROL BOARD</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,821	\$ 1,306	\$ 966	\$ 2,161
<u>Liabilities</u>				
Due to other governments	\$ 1,821	\$ 1,306	\$ 966	\$ 2,161
 <u>WEST CENTRAL MINNESOTA DRUG TASK FORCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 380,055	\$ 199,542	\$ 286,248	\$ 293,349
<u>Liabilities</u>				
Due to other governments	\$ 380,055	\$ 199,542	\$ 286,248	\$ 293,349

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 427,513	\$ 56,928,929	\$ 56,828,872	\$ 527,570
<u>Liabilities</u>				
Due to other governments	\$ 427,513	\$ 56,928,929	\$ 56,828,872	\$ 527,570
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,092,765	\$ 59,047,952	\$ 58,985,491	\$ 1,155,226
Accounts receivable	14,009	-	14,009	-
Total Assets	\$ 1,106,774	\$ 59,047,952	\$ 58,999,500	\$ 1,155,226
<u>Liabilities</u>				
Accounts payable	\$ 27,817	\$ 354,991	\$ 356,687	\$ 26,121
Due to other governments	1,078,957	58,692,961	58,642,813	1,129,105
Total Liabilities	\$ 1,106,774	\$ 59,047,952	\$ 58,999,500	\$ 1,155,226

This page was left blank intentionally.

OTHER SCHEDULES

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT D-1

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

	<u>Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Deposits and Investments				
Cash on hand and departmental checking	N/A	N/A	N/A	\$ 49,837
Interest-bearing checking	3	Variable	Continuous	2,377,412
Non-interest-bearing checking	2	N/A	N/A	15,918,792
Money market savings	2	Variable	Continuous	545,749
Certificates of deposit	19	.50 to 1.15	January 8, 2012 to January 2, 2013	2,681,896
Money market savings with brokers	12	Variable	Continuous	18,050,187
Certificates of deposit with brokers	5	.15 to 4.75	January 26, 2012 to December 11, 2013	609,662
Build America bonds	1	4.70	February 1, 2028	412,073
G.O. bonds	1	5.55	November 1, 2028	273,217
Federal Home Loan Bank	2	3.00	September 25, 2019	3,572,810
Federal Home Loan Mortgage Corporation	3	1.00 to 5.50	October 17, 2016 to March 22, 2022	2,762,830
Federal National Mortgage Association	11	1.00 to 3.00	January 27, 2015 to November 23, 2021	8,117,903
Freddie Mac	3	2.00	October 26, 2021	3,103,992
Commercial Paper	3	.45 to .60	March 9, 2012 to March 12, 2012	8,993,486
Repurchase agreement	1	0.20	Continuous	5,460,163
Total Deposits and Investments				\$ 72,930,009

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

	<u>Cash</u>	<u>Undistributed Cash in Agency Fund</u>	<u>Special Current</u>
Joint Ditches			
2	\$ 4,812	\$ 335	\$ 1,644
3	9,198	-	-
4	2,824	-	-
County Ditches			
1	1,291	9	19
3	2,837	-	604
4 and 16	12,039	367	-
5	919	4	-
6	889	85	7
8	1,771	-	-
9	7,180	-	-
10	1,325	-	-
11	2,344	-	9
13	975	181	-
14	2,858	309	-
17	2,216	72	3
21	1,473	-	-
22	1,391	-	-
23	1,225	13	-
98	1,779	-	36
Total	\$ 59,346	\$ 1,375	\$ 2,322

EXHIBIT D-2

Assets					
Assessments Receivable		Due from Other Funds	Due from Other Governments	Total	
Prior	Deferred				
\$ 70	\$ 11,808	\$ 1,113	\$ 2,552	\$ 22,334	
34	-	-	-	9,232	
-	16,975	90	41	19,930	
-	3,337	-	139	4,795	
-	17,177	227	3,486	24,331	
-	-	-	-	12,406	
-	731	-	133	1,787	
-	1,883	-	106	2,970	
-	2,062	-	2,453	6,286	
75	-	-	-	7,255	
-	4,646	-	32	6,003	
-	-	-	-	2,353	
-	1,200	-	43	2,399	
-	-	-	-	3,167	
-	6,102	428	993	9,814	
-	3,136	-	75	4,684	
-	5,155	-	1,078	7,624	
-	5,482	-	85	6,805	
-	10,016	60	60	11,951	
\$ 179	\$ 89,710	\$ 1,918	\$ 11,276	\$ 166,126	

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

	Liabilities			
	<u>Accounts Payable</u>	<u>Due to Other Funds</u>	<u>Deferred Revenue</u>	<u>Advance from Other Funds</u>
Joint Ditches				
2	\$ -	\$ 2,875	\$ 14,545	\$ 7,500
3	11	563	34	-
4	11	862	17,017	5,000
County Ditches				
1	441	524	3,493	6,000
3	11	957	20,456	42,500
4 and 16	11	575	-	-
5	11	271	864	3,100
6	11	348	1,997	-
8	11	1,386	4,515	7,000
9	11	976	75	-
10	11	532	4,678	7,000
11	11	440	-	-
13	11	305	1,243	-
14	11	303	-	-
17	142	825	6,719	17,000
21	11	286	3,211	6,500
22	12	730	6,232	5,000
23	151	1,011	5,566	1,000
98	12	553	10,046	6,000
Total	<u>\$ 901</u>	<u>\$ 14,322</u>	<u>\$ 100,691</u>	<u>\$ 113,600</u>

EXHIBIT D-2
(Continued)

	Fund Balance			Total Liabilities and Fund Balance
	Total	Restricted for Ditch Maintenance	Unassigned	
\$ 24,920	\$ -	\$ (2,411)	\$ (2,411)	\$ 22,509
608	8,624	-	8,624	9,232
22,890	-	(2,960)	(2,960)	19,930
10,458	-	(5,663)	(5,663)	4,795
63,924	-	(39,593)	(39,593)	24,331
586	11,820	-	11,820	12,406
4,246	-	(2,459)	(2,459)	1,787
2,356	614	-	614	2,970
12,912	-	(6,626)	(6,626)	6,286
1,062	6,193	-	6,193	7,255
12,221	-	(6,218)	(6,218)	6,003
451	1,902	-	1,902	2,353
1,559	840	-	840	2,399
314	2,853	-	2,853	3,167
24,686	-	(14,872)	(14,872)	9,814
10,008	-	(5,324)	(5,324)	4,684
11,974	-	(4,350)	(4,350)	7,624
7,728	-	(923)	(923)	6,805
16,611	-	(4,835)	(4,835)	11,776
\$ 229,514	\$ 32,846	\$ (96,234)	\$ (63,388)	\$ 166,126

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT D-3

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

Shared Revenue

State

Highway users tax	\$ 4,598,500
Market value credit	935,734
Market value credit - mobile home	6,504
PERA rate reimbursement	47,124
Disparity reduction aid	6,014
County program aid	773,851
Police aid	186,260
E-911	113,901
	113,901

Total shared revenue **\$ 6,667,888**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 819,936
	819,936

Payments

Local

Local contributions	\$ 10,000
Payments in lieu of taxes	310,644
	310,644

Total payments **\$ 320,644**

Grants

State

Minnesota Department/Board of	
Corrections	\$ 100,916
Public Safety	42,664
Health	430,881
Natural Resources	553,690
Human Services	1,460,677
Veterans Affairs	4,200
Water and Soil Resources	64,108
Peace Officer Standards and Training Board	12,877
	12,877

Total state **\$ 2,670,013**

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

***EXHIBIT D-3
(Continued)***

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

Grants (Continued)

Federal

Department of	
Agriculture	\$ 413,298
Commerce	1,124
Justice	81,717
Labor	354
Transportation	382,520
Health and Human Services	2,115,758
Homeland Security	135,093
	<hr/>

Total federal **\$ 3,129,864**

Total state and federal grants **\$ 5,799,877**

Total Intergovernmental Revenue **\$ 13,608,345**

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

EXHIBIT D-4

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health and Horizon Community Health Board Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 176,649
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>236,649</u>
Total U.S. Department of Agriculture		\$ <u>413,298</u>
U.S. Department of Commerce		
Passed Through the Central Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	\$ <u>1,124</u>
U.S. Department of Justice		
Direct Bulletproof Vest Partnership Program	16.607	\$ 483
Passed Through Minnesota Institute of Public Health Enforcing Underage Drinking Laws Program	16.727	1,530
Passed Through Minnesota Department of Public Safety Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004	504
Edward Byrne Memorial Justice Assistance Grant Program	16.738	<u>79,200</u>
Total U.S. Department of Justice		\$ <u>81,717</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 357,781
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	18,205
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	9,543
Occupant Protection Incentive Grant	20.602	1,540
Safety Belt Performance Grant	20.609	4,701
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>1,826</u>
Total U.S. Department of Transportation		\$ <u>393,596</u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT D-4
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Board on Aging and West Central Area Agency on Aging Special Programs for the Aging - Title III Part B - Grants for Supportive Services and Senior Centers	93.044	\$ 31,800
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	2,204
Temporary Assistance for Needy Families Cluster Temporary Assistance for Needy Families	93.558	257,079
Child Support Enforcement	93.563	579,156
Child Care and Development Fund Cluster Child Care and Development Block Grant	93.575	6,862
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	16,684
Stephanie Tubbs Jones Child Welfare Services Program	93.645	24,758
Foster Care Title IV-E Cluster Foster Care Title IV-E	93.658	114,134
Foster Care Title IV-E - ARRA	93.658	1,354
Social Services Block Grant	93.667	197,285
Chafee Foster Care Independence Program	93.674	13,227
Temporary Assistance for Needy Families Cluster Emergency Contingency Fund for Temporary Assistance of Needy Families - ARRA	93.714	4,471
Children's Health Insurance Program	93.767	145
Medical Assistance Program	93.778	698,937
Block Grants for Community Mental Health Services	93.958	5,193
Passed Through Minnesota Department of Human Services and Horizon Community Health Board Medical Assistance Program	93.778	36,213
Passed Through Minnesota Department of Health Immunization Cluster Immunization Cooperative Agreements	93.268	1,490

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

**EXHIBIT D-4
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Health and Horizon Community Health Board		
Public Health Emergency Preparedness	93.069	34,757
Universal Newborn Hearing Screening	93.251	2,550
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	47,138
Immunization Cluster		
Immunization - ARRA	93.712	5,996
Maternal and Child Health Services Block Grant to the States	93.994	<u>33,935</u>
Total U.S. Department of Health and Human Services		\$ <u>2,115,368</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 19,248
Passed through Minnesota Department of Public Safety and West Central Minnesota EMS Corporation and Central Minnesota Regional Radio Board		
Homeland Security Grant Program	97.067	<u>100,171</u>
Total U.S. Department of Homeland Security		\$ <u>119,419</u>
Total Federal Awards		\$ <u><u>3,124,522</u></u>

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Douglas County. The County's reporting entity is defined in Note 1 to the financial statements. The Douglas County Hospital Operating Enterprise Fund, a blended component unit, expended \$324,371 in federal awards not included in this schedule because it was audited by other auditors. The Housing and Redevelopment Authority of Douglas County, discretely presented component unit, expended \$1,256,345 in federal awards not included in this schedule because they had a separate single audit in accordance with OMB Circular A-133.

2. Basis of Presentation

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

3. Summary of Significant Accounting Policies

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

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

4. Clusters

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

Highway Safety Cluster	\$ 33,989
Temporary Assistance for Needy Families Cluster	308,688
Child Care and Development Cluster	23,546
Foster Care Title IV-E Cluster	115,488
Immunization Cluster	7,486

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,129,864
Grants received more than 60 days after year-end, deferred in 2011	
Highway Planning and Construction	11,076
Child Care Mandatory Matching Grant	624
Medical Assistance Program	1,090
Grants deferred in 2010, recognized as revenue in 2011	
Employee Benefits Security Administration - ARRA	(354)
Child Care Mandatory Matching Grant	(2,104)
Emergency Management Performance Grants	(2,804)
Interoperable Emergency Communications	(12,870)
	<u> </u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 3,124,522</u>

6. Subrecipients

Of the expenditures presented in the schedule, Douglas County provided federal awards to the following subrecipient:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
16.738	Edward Byrne Memorial Justice Assistance Grant Program	<u>\$ 79,200</u>

7. American Recovery and Reinvestment Act

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

This page was left blank intentionally.

**DOUGLAS COUNTY
ALEXANDRIA, MINNESOTA**

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

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: **Unqualified for all major programs except for the Temporary Assistance for Needy Families (TANF).**

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

The major programs are:

Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for Temporary Assistance For Needy Families State Program - ARRA	CFDA #93.714
Child Support Enforcement	CFDA #93.563

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

Douglas County qualified as low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-4 Segregation of Duties

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

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

Context: This is not unusual in operations the size of Douglas County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

Cause: The size of Douglas County and its staffing limits the internal control that management can design and implement into the organization.

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

Client's Response:

Douglas County is aware of this finding and will continue to implement and monitor oversight procedures to ensure that internal control policies are being followed.

10-1 Audit Adjustment

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

Condition: During our audit, we identified a material adjustment that resulted in significant changes to the County's financial statements. The County provides a general ledger, GASB 34 audit list, and supporting schedules necessary to adjust to the modified accrual basis for fund level financial statements and to the full accrual basis for the government-wide financial statements.

Context: In 2011, Douglas established a new capital projects fund to account for the financial resources and costs associated with the Services Center, Law Enforcement Center and Dispatch remodeling project. For financial statement presentation, this new capital projects fund was combined with an existing capital projects fund.

Effect: An audit adjustment was necessary in the Capital Project Fund to remove \$1,848,775 of transfers in and out for transfers made between the two capital project funds that were not removed by the County in the process of combining the funds for financial statement purposes.

Cause: The inter-fund activity was missed when the County combined the two capital projects funds for financial statement purposes.

Recommendation: We recommend that the County establish internal controls necessary to ensure the County's the inter-fund activity is removed when funds are maintained separately for internal purposes and combined for financial statement purposes.

Client's Response:

Douglas County will continue to implement internal review procedures and make very reasonable effort to ensure amounts are correctly reported.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

11-1 Income Maintenance DHS 2550 Reporting

Programs: Temporary Assistance for Needy Families (TANF) (CFDA No. 93.558) and Child Support Enforcement (CFDA No. 93.563).

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

Condition: During our testing of DHS 2550 quarterly reports, we noted in the second quarter the Income Maintenance Random Moments Time Study (IMRMS) Salary and Benefits reported under Section A were understated by \$30,000. The client reported \$229,624 while the Account Activity Report showed \$259,624 eligible expenditures for Income Maintenance Random Moments Time Study Salary and Benefits.

Questioned Costs: None.

Context: Section A of the DHS-2550 is where the client is to report the quarter's IMRMS salary and benefits. Employees posted to these accounts are those that have been reported as participating in the IMRMS by the IMRMS coordinator. The other three quarters were properly reported.

Effect: The underreporting of eligible expenditures results in the County receiving less federal administrative aid than it was entitled to.

Cause: The error resulted from recording an incorrect amount on the DHS-2550 quarterly report. This error was not detected during the review process.

Recommendation: We recommend Douglas County carefully review the information reported on the DHS-2550 quarterly reports to ensure that the amounts reported are accurate.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Jill Frisell

Corrective Action Planned:

We already implemented part of this in quarter 3 of 2011 because when I (Jill Frisell) was working on the Q3 2011 reports, I realized there wasn't a way to tie this back to the QTD amounts on the IM report out of IFS as not everything is reported on the 2550 (MA transportation expense as an example). I started a worksheet when I do these which lists the QTCD IFS expenses for income maintenance. I list the different expenses that are not reported on this quarterly report and subtract them from the total expenses in IFS. This should tie to the amount of total expenses I am reporting on the 2550. I started doing this in Q3 of 2011. Starting in Q3 of 2012, I will also go one step further and have Shirley Molitor (fiscal officer) double check all of the amounts as well prior to Mike and submitting the forms.

Anticipated Completion Date:

Part of this was implemented in Q3 2011. We will implement having our fiscal officer review this report as well starting with the Q3 2012 report.

11-2 Over-Reporting Expenditures - DHS-2902 Report

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

Criteria: Amounts reported for reimbursement should be accurate and agree with the accounting records.

Condition: During our testing of DHS-2902 quarterly reports, we noted \$10,140 reported as expenditures for the Food Support and Training program for the second quarter and \$4,012 reported as expenditures for the third quarter which could not be reconciled to expenditures posted to the County Account Activity Report.

Questioned Costs: \$14,152

Context: Rural Minnesota CEP provided a letter stating that additional funds were available for the Food Support and Training program so these expenditures were added to the report. When these expenditures were reported, the amounts reported for the Minnesota Family Investment program should have been reduced by the same amounts.

Effect: Over reporting of expenditures on the DHS-2902 quarterly reports resulting in questioned costs of \$14,152.

Cause: The error resulted from a misinterpretation of a letter received from Rural Minnesota CEP.

Recommendation: We recommend Douglas County report only amounts that agree with the accounting records.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Jill Frisell

Corrective Action Planned:

We will not report any expense on the 2902 that we have not paid for out of IFS.

Anticipated Completion Date:

Immediately

11-3 Activities Allowed or Unallowed, Allowable Costs - Payment Made for Reach Out for Warmth Fuel Fund

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

Criteria: The Office of Management and Budget (OMB) Circular A-87 states that contributions or donations of cash, property, and services made by a governmental unit, regardless of the recipient, are unallowable.

Condition: During our testing of DHS-2902 quarterly reports, we noted a payment made to West Central Minnesota Communities Action, Inc., in the amount of \$13,000. The payment was supported by a letter from West Central Minnesota Communities Action, Inc., requesting a \$13,000 contribution for the Reach Out for Warmth Fuel Fund. The letter also provided the opportunity to “specify that the funds your organization donates be used in a specific area only.” Douglas County specified the funds could be used only within Douglas County. The West Central Minnesota Communities Action, Inc., is a charitable organization established under Section 501(c)(3) of the Internal Revenue Code. Douglas County could not provide documentation that this expenditure was not a contribution or donation and that only TANF-eligible clients would receive assistance from this funding.

Questioned Costs: \$13,000.

Context: The Reach Out for Warmth Fuel Fund provides assistance to households that have a higher income than allowed for the regular Energy Assistance Program. To be eligible, the household must be in a crisis situation. Douglas County stated that it had contacted the Minnesota Department of Human Services (DHS) and obtained approval to make the payment; however, the County was unable to provide any documentation of the approval, and the contact person from DHS is no longer available to verify any information.

Effect: The available documentation supporting the payment made to West Central Minnesota Communities Action, Inc., indicates it is a donation, which is clearly not allowable according to OMB Circular A-87. While Douglas County stipulated that the money be used only within the County area, the recipients eligible for the Reach Out for Warmth Fuel Fund assistance may or may not be TANF-eligible clients of the County. Without documentation to support that the payment is other than a donation, we cannot determine it to be an allowable cost as provided by OMB Circular A-87. The result is a questioned cost of \$13,000.

Cause: Douglas County stated it had contacted DHS and was given the approval to report this expenditure on the DHS-2902.

Recommendation: We recommend Douglas County have a system in place to ensure expenditures reported on the DHS-2902 only include items that are clearly allowable for the TANF program. Payments should be supported by invoices that detail the services provided, so it is clear the expenditure is allowable for the program. When the County consults with DHS about reporting expenditures on the DHS-2902 report, documentation should be retained with the payment support, especially when it is the basis for conclusions regarding allowable costs.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

Jill Frisell

Corrective Action Planned:

We will not make any payments without a detailed invoice showing what services were provided.

Anticipated Completion Date:

Immediately

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 Ditch Special Revenue Fund Deficit

Criteria: Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance. Under Minn. Stat. § 103E.655, drainage project costs must be paid from the drainage system account. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

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

Context: Twelve of the 19 individual ditch systems had deficit fund balances as of December 31, 2011, totaling \$96,234, which is a decrease from the \$115,831 deficit reported in the prior year. These twelve ditch system deficits combine with the remaining ditch systems to leave the Ditch Special Revenue Fund with a total fund balance deficit of \$63,388.

Effect: Allowing a ditch system to maintain a deficit fund balance, in effect, constitutes an interest-free loan from other individual ditch systems, and may be inconsistent with Minn. Stat. § 103E.655.

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

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

Client's Response:

Douglas County plans to make continued progress in the elimination of the ditch deficits over the next few years.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners
Douglas County

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

Internal Control Over Financial Reporting

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 10-1 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 96-4 to be significant deficiency.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that for the items tested, Douglas County complied with the material terms and conditions of applicable legal provisions.

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

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2012

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

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

Board of County Commissioners
Douglas County

Compliance

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

Douglas County's basic financial statements include the operations of the Housing and Redevelopment Authority (HRA) discretely presented component unit, which expended \$1,256,345 in federal awards during the year ended December 31, 2011. The County's basic financial statements also include the Douglas County Hospital Operating Enterprise Fund blended component unit, which expended \$324,371 in federal awards. Our audit, described below, did not include the operations of either the HRA or the Hospital because they were audited by other auditors. The HRA had a separate single audit in accordance with OMB Circular A-133.

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

As described in items 11-2 and 11-3 in the accompanying Schedule of Findings and Questioned Costs, Douglas County did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Reporting that are applicable to its Temporary Assistance for Needy Families (TANF). Compliance with such requirements is necessary, in our opinion, for Douglas County to comply with requirements applicable to that program.

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

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-2 and 11-3 to be material weaknesses.

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

Douglas County's corrective action plans to the federal award findings identified in our audit are included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the County's corrective action plans and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 27, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR