MANAGEMENT COMMUNICATIONS

LINCOLN COUNTY, WISCONSIN

DECEMBER 31, 2012

Schenck SC

CPAs AND SO MUCH MORE.

LINCOLN COUNTY, WISCONSIN
December 31, 2012

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Schenck SC
CPAs AND SO MUCH MORE.

To the County Board
Lincoln County, Wisconsin

We have completed our audit of the basic financial statements of Lincoln County (the "County") as of and for the year ended December 31, 2012. The County's financial statements, including our report thereon dated July 26, 2013, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards, OMB Circular A-133 and the State Single Audit Guidelines

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, noncompliance with the provisions of laws, regulations, contracts and grants or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal and state programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Guidelines.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with OMB Circular A-133 and the State Single Audit Guidelines, we examined, on a test basis, evidence about the 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" and the State Single Audit Guidelines applicable to each of its major federal and state programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

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Significant Audit Findings

Consideration of Internal Control

In planning and performing our audit of the financial statements of the County as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note A to the financial statements. The County implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities for the year ended December 31, 2012. We noted no significant transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates included in the financial statements were:

> Management's estimate of accumulated sick leave is based upon analysis of the employees sick leave balance. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the accumulated sick leave in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the incurred, but not reported (IBNR) insurance reserves are based on actuarial projections of the expected cost of the ultimate settlement and administration of claims. We evaluated the key factors and assumptions used to develop the reserves in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the liability for closure and postclosure care costs is based on landfill capacity and anticipated costs to be incurred during and after closing of the landfill. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We proposed seven audit entries as the result of our audit. The audit entries were posted by the County.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 26, 2013. The management representation letter follows this communication.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to conducting the audit. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to completing the services as your auditor.

In addition, during our audit, we noted certain other matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these matters in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized in the prior year and current year comments and recommendations sections of this letter.

This communication, which does not affect our report dated July 26, 2013 on the financial statements of the County, is intended solely for the information and use of the County Board, management, and others within the County, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Schenck SC

Certified Public Accountants
Green Bay, Wisconsin
July 26, 2013

LINCOLN COUNTY FINANCE DEPARTMENT
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Dan Leydet, Finance Director
Heather Marheine, County Accountant
Dawn Bergs, County Accountant

Elayne Lang, Payroll Clerk
Amy Kohnhorst, Fiscal Clerk/ Accounts Payable

July 26, 2013

Schenck SC
2200 Riverside Drive
P.O. Box 23819
Green Bay, WI 54305-3819

This representation letter is provided in connection with your audit of the primary government financial statements of Lincoln County, Wisconsin, (the "County"), which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2012, and the respective changes in the financial position and where applicable, cash flows for the year then ended, and the related notes to the primary government financial statements for the purpose of expressing opinions as to whether the primary government statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items in No. 48 are considered material based on the materiality criteria specified in OMB Circular A-133 and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of July 26, 2013, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 10, 2012.

2. The primary government financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

8. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the County's accounts.

9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

10. Guarantees, whether written or oral, under which the County is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

    d. Minutes of the meetings of the County Board or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedules of expenditures of federal awards and state financial assistance.

13. We made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:

    a. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

        i. Management,

        ii. Employees who have significant roles in internal control, or

        iii. Others where the fraud could have a material effect on the financial statements.

    b. We have no knowledge of any allegations of fraud or suspected fraud affecting the County's financial statements communicated by employees, former employees, regulators, or others.

14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

15. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

16. We have disclosed to you the identity of the County's related parties and all the related party relationships and transactions of which we are aware.

Government - specific

17. We have made available to you all financial records and related data.

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

19. We have a process to track the status of audit findings and recommendations.

20. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

22. The County has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

23. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

24. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

25. As part of your audit, you assisted with preparation of the financial statements and related notes the schedule of expenditures of federal awards and the schedule of state financial assistance. We have

designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, the schedule of expenditures of federal awards, and the schedule of state financial assistance.

26. The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

27. The County has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

28. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

29. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

30. The financial statements properly classify all funds and activities.

31. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

32. Components of net position (net investment in capital assets, restricted, and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.

33. Provisions for uncollectible receivables have been properly identified and recorded.

34. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.

36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

37. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.

38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

39. We have appropriately disclosed the County's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy.

40. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

41. We acknowledge our responsibility for presenting the nonmajor fund combining statements, individual fund statements and supporting schedules (the supplementary information) in accordance with

accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

42. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the County's name during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.

43. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.

44. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

45. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.

46. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.

47. Provision has been made for any material loss that is probable from environmental remediation liabilities associated with the Lincoln County Landfill. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the financial statements.

48. With respect to federal and state award programs:

    a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration including requirements relating to preparation of the schedule of federal awards and the schedule of state financial assistance.

    b. We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133 and the schedule of state financial assistance in accordance with *State Single Audit Guidelines*, and have identified and disclosed in the schedules of expenditures of federal awards and state financial assistance, expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

    c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b and the schedule of state financial assistance (SSFA) in accordance with the requirements of the *State Single Audit Guidelines* and we believe the SEFA and SSFA, including their form and content, are fairly presented in accordance with the Circular and the Guidelines. The methods of measurement and presentation of the SEFA and SSFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA and SSFA.

d. If the SEFA and SSFA are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA and SSFA information no later than the date we issue the supplementary information and the auditors' report thereon.

e. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the *State Single Audit Guidelines.*

f. We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.

g. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended.

h. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state programs and related activities.

i. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.

j. We have complied with the direct and material compliance requirements, (except for noncompliance disclosed to you) including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines,* relating to federal and state awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal and state awards.

k. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

l. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

m. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments,* and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.*

n. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

o. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.

p. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

q. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

r. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.

s. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

t. We have charged costs to federal and state awards in accordance with applicable cost principles.

u. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.

v. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and the *State Single Audit Guidelines* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.

w. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.

x. We are responsible for preparing and implementing a corrective action plan for each audit finding

49. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Signed: Dan Leydet

Dan Leydet, Finance Director

SUMMARY FINANCIAL INFORMATION

1. Governmental Fund Balances

Presented below is a summary of the County's governmental fund balances on December 31, 2012, including a comparison to the prior year. This information is provided for assisting management in assessing financial results for 2012 and for indicating financial resources available at the start of the 2012 budget year.

	12/31/12	12/31/11
General Fund		
Nonspendable:		
Property Taxes	$ 1,652,127	$ 1,517,856
Prepaid	255,714	271,127
Advances	176,847	233,042
Inventory	16,445	5,954
Restricted:		
Insurance Deposits	57,588	54,983
Veterans	6,688	3,044
Land Records	193,693	139,094
Land Conservation	18,750	909
Zoning	1,167	-
Register of Deeds	73,261	48,920
UW Extension	13,388	12,589
Sheriff	73,402	79,232
Committed:		
Roads Fund	250,000	250,000
Family Care	916,790	1,201,232
Building Project	-	91,675
Health insurance	500,000	-
IT CIP	223,110	-
Maintenance	110,925	-
EMS	128,618	-
Assigned		
Veterans	2,000	2,000
County Board	136,000	69,358
Land Records	390	330
Land Conservation	-	20,581
Zoning	5,856	6,690
Register of Deeds	-	3,315
UW Extension	15,946	7,167
Sheriff	10,447	20,463
Emergency Management	-	2,500
CIP not committed	2,219,296	2,222,199
Unassigned	5,582,716	5,153,535
Total General Fund	12,641,164	11,417,795

1. Governmental Fund Balances (Continued)

	12/31/12	12/31/11
County roads and bridges		
Assigned	899,115	735,698
Social services		
Restricted	75,189	75,130
Assigned	553,233	313,754
County health		
Nonspendable	204	-
Restricted	364,972	349,013
Assigned	195,000	190,551
Dog license		
Assigned	1,000	1,000
Community development		
Restricted	-	127,158
Assigned	2	-
Emergency medical		
Nonspendable	383	-
Assigned	437,685	601,333
Jail assessment		
Restricted	28,932	43,818
Total Special Revenue Funds	2,555,715	2,437,455
Debt Service Fund		
Nonspendable	-	671
Assigned	12,500	22,071
	12,500	22,742
Total Governmental Fund Balances	$ 15,209,379	$ 13,877,992

Unassigned General Fund

The unassigned general fund balance represents the County's available and unappropriated cash available for any County purpose. The County's unassigned fund balance totals $5,582,716. Of this balance, the County considers $3,587,440 required for cash flow needs leaving a balance of $1,995,276, or 14% of general fund expenditures during 2012, unassigned.

Special Revenue Funds

The County's special revenue funds total $2,568,215 as of December 31, 2012 compared to $2,437,455 for the prior year.

2. Health Self-Insurance Fund

The County has established a self-insurance internal service fund to provide health insurance coverage to County employees and retirees. A summary of 2012 transactions, including a comparison to 2011, is presented below:

	2012	2011
Operating Revenues		
Charges to county departments and retirees	$ 5,247,732	$ 5,188,548
Operating Expenses		
Insurance payments and claims	4,954,697	5,907,994
Administrative and fiscal services	838,113	782,521
Total Operating Expenses	5,792,810	6,690,515
Operating Loss	(545,078)	(1,501,967)
Nonoperating Revenues		
Interest revenue	14,644	28,875
Change in net position	(530,434)	(1,473,092)
Net Position - January 1	868,919	2,342,011
Net Position - December 31	$ 338,485	$ 868,919

The self-insurance fund reported an operating loss of $545,078 compared to $1,501,967 for the prior year. At year end, based on 2012 claims paid, the net position balance represents approximately 7% of its annual claims expenses compared to 13% for the prior year.

In addition to its net position balance, the County has accrued a claims liability of $1,288,582 as of December 31, 2012 for claims related to services provided but not paid as of December 31, 2012.

3. County Highway Internal Service Fund

The County's highway department operates as an internal service fund, with County road maintenance and construction costs financed by a special revenue fund. A summary of 2012 transactions, including a comparison to 2011, is presented below:

	2012	2011
Operating Revenues		
Interdepartmental charges for services	$ 4,167,412	$ 4,003,238
Intergovernmental charges for services	2,050,626	2,803,129
Other operating revenue	50,625	37,244
Total Operating Revenues	6,268,663	6,843,611
Operating Expenses		
General services	5,736,314	5,558,887
Administrative and fiscal services	545,744	504,199
Depreciation and amortization	481,975	473,815
Total Operating Expenses	6,764,033	6,536,901
Operating Income (Loss)	(495,370)	306,710
Nonoperating Revenues		
Sale of capital assets	877	36,950
Donations and other nonoperating revenues	161,564	71,768
Total Nonoperating Revenues	162,441	108,718
Change in Net Position	(332,929)	415,428
Net Position - January 1	4,953,394	4,537,966
Net Position - December 31	$ 4,620,465	$ 4,953,394

The highway department reported an operating loss of $495,370 for 2012 compared to operating income of $306,710 for the prior year as prior year revenue included additional charges related to cleanup of storm damage. The County's machinery cost pool reported a loss of $72,924 in the current year.

4. Solid Waste Landfill

The County has a Solid Waste Landfill operating as a proprietary fund. A summary of 2012 transactions, including a comparison to 2011, is presented below:

	2012	2011
Revenues		
Public charges for services	$ 1,498,058	$ 2,913,477
Intergovernmental charges for services	190,199	214,809
Total Revenues	1,688,257	3,128,286
Expenses		
General services	1,045,799	1,225,518
Future closing costs	289,238	311,554
Depreciation and amortization	400,408	514,299
Total Expenditures	1,735,445	2,051,371
Operating Income (Loss)	(47,188)	1,076,915
Nonoperating Revenues		
Interest income	16,629	53,991
Income (Loss) before Transfers	(30,559)	1,130,906
Transfer out	(200,000)	(200,000)
Change in Net Position	(230,559)	930,906
Net Position - January 1	5,613,692	4,682,786
Net Position - December 31	$ 5,383,133	$ 5,613,692

The Solid Waste Landfill reported an operating loss of $47,188 for 2012 compared to an operating income of $1,076,915 for the prior year. Public charges were higher in the prior year due to disposal of storm damage refuse and fly ash received. Current assets and restricted cash total $8.02 million while liabilities are $4.6 million.

5. Forestry

The County's forestry operations are accounted for as a proprietary fund. A summary of 2012 transactions, including a comparison to 2011, is presented below:

	2012	2011
Revenues		
Public charges for services	$ 889,042	$ 1,331,541
Interdepartmental charges for services	1,989	1,990
Total Revenues	891,031	1,333,531
Expenses		
General services	768,018	772,490
Depreciation and amortization	33,835	19,596
Total Expenditures	801,853	792,086
Operating Income	89,178	541,445
Nonoperating Revenues		
Grant income	216,699	236,206
Donations	200	6,589
Sale of capital assets	-	4,000
Insurance recoveries	162	-
Total Nonoperating Revenues	217,061	246,795
Income before Transfers	306,239	788,240
Transfer out	(717,577)	(503,282)
Change in Net Position	(411,338)	284,958
Net Position - January 1	4,532,402	4,247,444
Net Position - December 31	$ 4,121,064	$ 4,532,402

At December 31, 2012, the fund has cash and investments of $1,706,824. In addition to the transfer of funds to the general fund, the general fund also retains interest earned on Forestry fund cash balances as part of its general fund budget.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

1. <u>Review of Voided Receipts</u>

Currently, all employees of the County treasurer's office have access issue and subsequently void receipts. Because of the size of the department, this is not unusual; however, having employees with the ability to initiate and subsequently void receipts weakens controls over cash receipts.

In order to increase internal control over receipt transactions we recommend someone from outside the department periodically review the reasonableness of voided receipts throughout the year to increase oversight over receipt transactions.

2. <u>IT Risk Assessment</u>

In addition to maintaining key financial information on employees and vendors, certain departments maintain sensitive client information, including client names and other confidential information. As information systems are integrated and data is accessed remotely, it is important that the County perform periodic reviews over your risks related to safeguarding of information and equipment.

We therefore recommend the County consider conducting an IT risk assessment which provides a review of the IT risk profile at the enterprise, process or technology level. Coverage areas include:

- Information security governance, policies, and training
- Disaster recovery and business continuity preparedness
- Third-party IT vendor management
- Physical (building access) and logical (software) security

The IT risk assessment encapsulates security, confidentiality, integrity and availability of your IT systems.

3. <u>GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Statement No. 65, Items Previously Reported as Assets and Liabilities</u>

For the year ended December 31, 2012, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities.* These statements are intended to provide users of financial statements with information on how past transactions will impact the County's future financial statements.

The effects on the current year financial statements are to change the classification of "Net Assets" to "Net Position" and to create two additional categories on the Statement of Net Position and the Balance Sheet for deferred outflows and deferred inflows.

A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. The County currently has no items that qualify for reporting in this category.

A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. The government-wide and enterprise fund Statements of Net Position and governmental funds Balance Sheet report a deferred inflow for the 2013 property tax levy. Since the governmental fund financial statements use the modified accrual basis of accounting, there is an additional item reported in those balance sheets for unavailable revenues. The unavailable revenue reported is for interest on delinquent taxes and citation receivables.

Both of these items have been previously reported in the County's financial statements under either "Assets" or "Liabilities", so there is no change to fund balance or net position.

This comment is for informational purposes.