

# **STATE OF MINNESOTA**

## **Office of the State Auditor**



**Rebecca Otto**  
**State Auditor**

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**FARIBAULT COUNTY**  
**BLUE EARTH, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2008**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Year Ended December 31, 2008**



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

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**ORGANIZATION  
DECEMBER 31, 2008**

			<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Chair	Barb Steier	District 1	January 2009
Board Member	Roland Erichsrud	District 2	January 2011
Board Member	William Groskreutz, Jr.	District 3	January 2013
Board Member	Tom Loveall	District 4	January 2011
Board Member	Tom Warmka	District 5	January 2013
Attorney	Brian Roverud		January 2011
Auditor/Treasurer	John Thompson		January 2011
Judge	Douglas Richards		January 2015
County Recorder	Nancy Huff		January 2011
Registrar of Titles	Nancy Huff		January 2011
County Sheriff	Michael S. Gormley		January 2011
<b>Appointed</b>			
Assessor	Susan Wiltse		December 2012
County Engineer	John McDonald		April 2012
Veterans Service Officer	Bryan Schultz		Indefinite
Medical Examiner	Thomas Carpenter, M.D.		Indefinite
<b>Economic Development Authority Board</b>			
	Colleen Gronewald	Blue Earth	December 31, 2009
	Ann Schuster	Wells	December 31, 2010
	Rob Nelson	Winnebago	December 31, 2011
	Jake Anderson	Frost	December 31, 2012
	Alice Moon	Kiester	December 31, 2013

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Faribault 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 Faribault County, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 Faribault County Housing and Redevelopment Authority (HRA), which represent 6 percent, 6 percent, and 73 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Faribault County HRA, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of December 31, 2008, 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.8., Faribault County has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management's Discussion and Analysis, the budgetary comparison statements on Schedules 1 through 4, and the Schedule of Funding Progress - Other Postemployment Benefits are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Faribault County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Faribault County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 3, 2010, on our consideration of Faribault County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

March 3, 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2008  
(Unaudited)**

Faribault 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, 2008. 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 \$49,217,454, of which \$43,144,167 is invested in capital assets, net of related debt; \$1,793,375 is restricted to specific purposes.
- Business-type activities' total net assets are \$1,292,832, of which \$1,584,949 is invested in capital assets, net of related debt.
- Faribault County's governmental activities' net assets decreased by \$1,251,320 for the year ended December 31, 2008. The net assets of the County's discretely presented component units increased by \$97,761.
- The net cost of governmental activities was \$9,873,508 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$8,622,188. The net revenues of business-type activities were \$55,159.
- Governmental funds' fund balances decreased by \$7,394,868. The Public Works Special Revenue Fund increased by \$298,090. The General Fund decreased by \$6,906,443. The Law Enforcement Center project used available funds during the year. The Human Services Special Revenue Fund decreased by \$434,028 due to a planned use of reserve funds and higher than expected costs in out-of-home placements and costs for detaining sex offenders released from prison. The Ditch Special Revenue Fund decreased by \$310,834 due to project costs for a major project and increased maintenance costs on many ditches. The Debt Service Fund decreased by \$41,653.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. Faribault 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 other information are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

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

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

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

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

- Governmental activities--Most of the County's basic services are reported here, including general government, public safety, highways and streets, human services, sanitation, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Business-type activities--The County charges a fee to customers to help it cover all or most of the cost of the services it provides. The Huntley Sewer District activities are reported here.
- Component units--The County includes two separate legal entities in its report. The Housing and Redevelopment Authority and the Faribault County Economic Development Authority are presented in separate columns. Although legally separate, these "component units" are important because the County is financially accountable for them.

## **Fund Financial Statements**

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

- **Governmental funds**--Most of the County's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation following each governmental fund financial statement.
- **Proprietary funds**--When the County charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in 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 presents the same information as the business-type activities in the government-wide statements but provides more detail and additional information, such as cash flows.

## **Reporting the County's Fiduciary Responsibilities**

The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **THE COUNTY AS A WHOLE**

The County's combined net assets decreased from \$51,706,447 to \$50,510,286. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities and business-type activities.

**Table 1**  
**Net Assets**

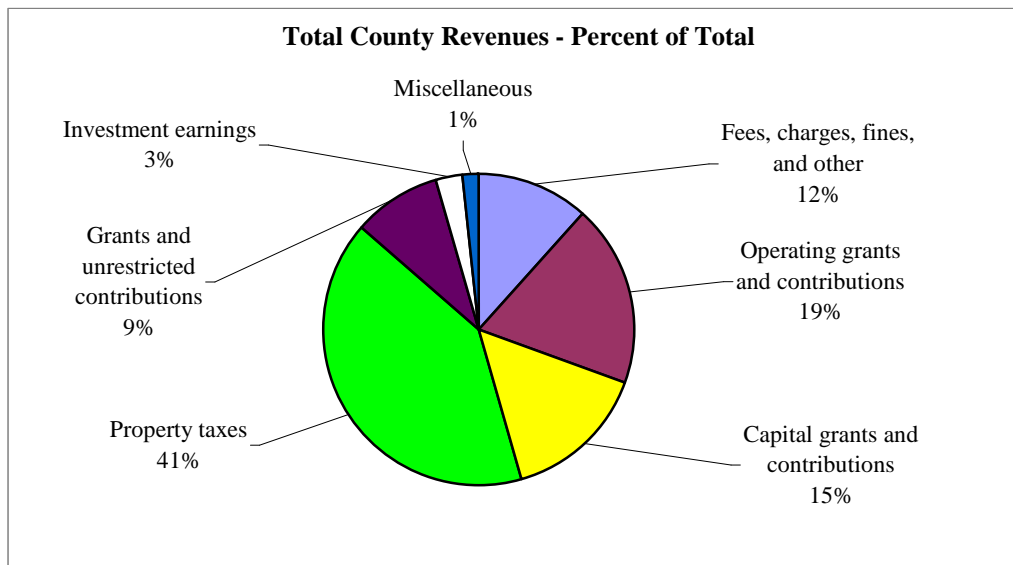
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current and other assets	\$ 12,968,393	\$ 21,570,313	\$ (223,570)	\$ (244,602)	\$ 12,744,823	\$ 21,325,711
Capital assets	51,601,424	43,488,042	1,584,949	1,519,170	53,186,373	45,007,212
<b>Total Assets</b>	<b>\$ 64,569,817</b>	<b>\$ 65,058,355</b>	<b>\$ 1,361,379</b>	<b>\$ 1,274,568</b>	<b>\$ 65,931,196</b>	<b>\$ 66,332,923</b>
<b>Liabilities</b>						
Long-term debt outstanding	\$ 13,866,216	\$ 13,737,532	\$ -	\$ -	\$ 13,866,216	\$ 13,737,532
Other liabilities	1,486,147	852,049	68,547	36,895	1,554,694	888,944
<b>Total Liabilities</b>	<b>\$ 15,352,363</b>	<b>\$ 14,589,581</b>	<b>\$ 68,547</b>	<b>\$ 36,895</b>	<b>\$ 15,420,910</b>	<b>\$ 14,626,476</b>
<b>Net Assets</b>						
Invested in capital assets, net of debt	\$ 43,144,167	\$ 42,071,415	\$ 1,584,949	\$ 1,519,170	\$ 44,729,116	\$ 43,590,585
Restricted	1,793,375	3,015,089	-	-	1,793,375	3,015,089
Unrestricted	4,279,912	5,382,270	(292,117)	(281,497)	3,987,795	5,100,773
<b>Total Net Assets</b>	<b>\$ 49,217,454</b>	<b>\$ 50,468,774</b>	<b>\$ 1,292,832</b>	<b>\$ 1,237,673</b>	<b>\$ 50,510,286</b>	<b>\$ 51,706,447</b>

Net assets of the County's governmental activities decreased by 2.5 percent (\$1,251,320). Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from \$5,382,270 at December 31, 2007, to \$4,279,912 at the end of this year. Net assets of the business-type activities increased by 4.5 percent (\$55,159).

**Table 2**  
**Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
<b>Revenues</b>						
Program revenues						
Fees, charges, fines, and other	\$ 1,855,307	\$ 3,360,870	\$ 7,834	\$ 147,900	\$ 1,863,141	\$ 3,508,770
Operating grants and contributions	2,967,540	3,222,428	-	-	2,967,540	3,222,428
Capital grants and contributions	2,358,295	2,478,175	104,069	1,089,773	2,462,364	3,567,948
General revenues						
Property taxes	6,475,660	5,916,393	-	-	6,475,660	5,916,393
Grants and restricted contributions	1,432,422	1,607,369	-	-	1,432,422	1,607,369
Unrestricted investment earnings	445,992	513,057	-	-	445,992	513,057
Miscellaneous	268,114	261,680	-	-	268,114	261,680
<b>Total Revenues</b>	<b>\$ 15,803,330</b>	<b>\$ 17,359,972</b>	<b>\$ 111,903</b>	<b>\$ 1,237,673</b>	<b>\$ 15,915,233</b>	<b>\$ 18,597,645</b>

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Expenses						
General government	\$ 3,248,397	\$ 2,967,409	\$ -	\$ -	\$ 3,248,397	\$ 2,967,409
Public safety	2,437,849	2,108,658	-	-	2,437,849	2,108,658
Highways and streets	6,262,867	5,972,611	-	-	6,262,867	5,972,611
Sanitation	91,917	85,017	56,744	-	148,661	85,017
Human services	1,971,877	1,516,936	-	-	1,971,877	1,516,936
Conservation of natural resources	1,449,107	1,025,541	-	-	1,449,107	1,025,541
Culture and recreation	326,768	356,500	-	-	326,768	356,500
Economic development	734,250	188,509	-	-	734,250	188,509
Interest	531,618	265,694	-	-	531,618	265,694
Total Expenses	\$ 17,054,650	\$ 14,486,875	\$ 56,744	\$ -	\$ 17,111,394	\$ 14,486,875
Net Change	\$ (1,251,320)	\$ 2,873,097	\$ 55,159	\$ 1,237,673	\$ (1,196,161)	\$ 4,110,770



### Governmental Activities

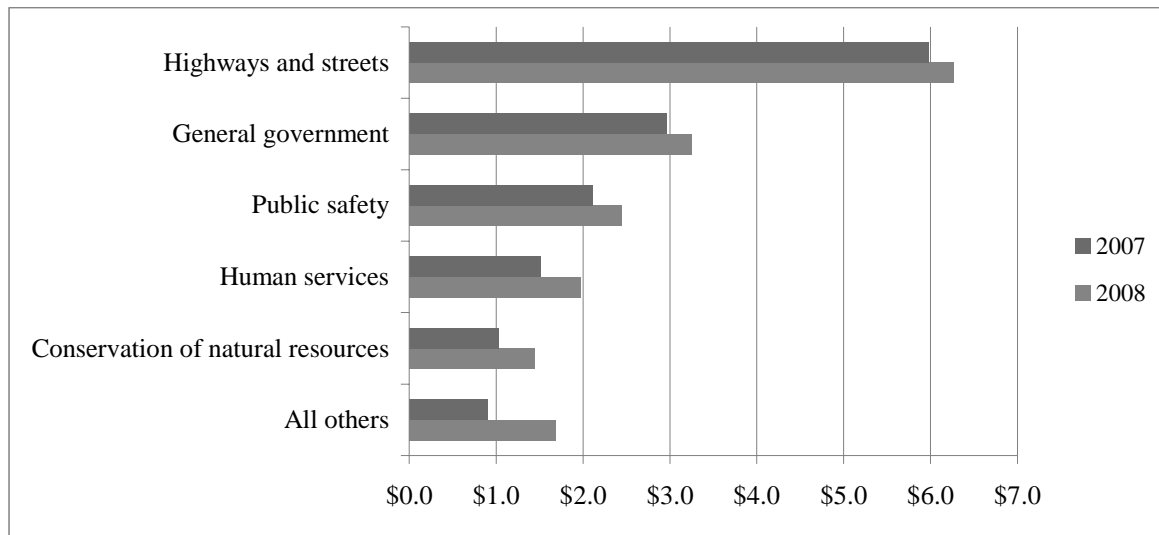
Revenues for the County's governmental activities were \$15,803,330, while total expenses were \$17,054,650. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was \$6,475,660, because some of the cost was paid by those who directly benefited from the programs (\$1,855,307) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,325,835). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, totaled \$7,181,142. The County paid for the remaining "public benefit" portion of governmental activities with \$8,622,188 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as interest and general entitlements.

Table 3 presents the cost of each of the 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 that was placed on the County's taxpayers by each of these functions.

**Table 3**  
**Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Highways and streets	\$ 6,262,867	\$ 5,972,611	\$ 1,608,042	\$ 630,145
General government	3,248,397	2,967,409	2,617,103	2,035,482
Public safety	2,437,849	2,108,658	1,900,950	1,630,226
Human services	1,971,877	1,516,936	1,971,877	1,516,936
Conservation of natural resources	1,449,107	1,025,541	856,580	(1,096,037)
All others	1,684,553	895,720	918,956	708,650
Total Expenses	<u>\$ 17,054,650</u>	<u>\$ 14,486,875</u>	<u>\$ 9,873,508</u>	<u>\$ 5,425,402</u>

**Governmental Activities Expense**  
**(In Millions)**



## THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit 3) reported a combined fund balance of \$7,906,915, which is below last year's total of \$15,240,274, which was restated in 2008 to \$15,221,495 (see the notes to the financial statements). The General Fund showed a decrease of \$6,906,443. The majority of the decrease was due to funds expended in the building of a law enforcement center. The Ditch Special Revenue Fund decreased by \$310,834 primarily due to construction projects and maintenance projects not yet assessed. The Public Works Special Revenue Fund increased \$298,090. The General Fund's fund balance is 65.7 percent of the total governmental funds, compared to 79.5 percent at the end of 2007.

## General Fund Budgetary Highlights

The County Board did not revise the budget in 2008. Construction on the law enforcement center was budgeted in 2007, but a majority of the expenditures were made in 2008. This led to the general government expenditure category being \$7,240,853 over budget. When the law enforcement center expenditures are removed, that category would show expenditures of \$3,002,840 compared to a budget of \$3,065,094. Public safety expenditures were \$163,038 over budget due to higher than expected capital costs, out-of-county placement of inmates, and software costs. Conservation of natural resources spending was \$101,063 over budget due to more than expected SSTS loans made. Bonds were issued in 2009 to help fund the SSTS program. Economic development expenditures exceeded budgeted amounts by \$608,810 due to the County acting as fiscal agent for an unbudgeted Small Cities Development Loan program.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2008, the County had \$53,186,373 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$8,179,161, or 18.2 percent, over last year.

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

	2008	2007
Governmental Activities		
Land	\$ 1,058,935	\$ 1,022,882
Construction in progress	10,814,723	3,471,101
Building and improvements	1,283,849	1,355,153
Other improvements	107,148	116,104
Machinery and equipment	1,891,130	2,027,740
Infrastructure	36,445,639	35,495,062
Total	<u>\$ 51,601,424</u>	<u>\$ 43,488,042</u>
Business-Type Activities		
Land	\$ 27,643	\$ -
Construction in progress	-	1,519,170
Machinery and equipment	65,333	-
Infrastructure	1,491,973	-
Total	<u>\$ 1,584,949</u>	<u>\$ 1,519,170</u>

The majority of the increase came from the County's law enforcement center project starting in 2007 and continuing in 2008. Construction in progress under business-type activities reports progress on the Huntley Sewer District project, which was to be completed in 2008. There is more detailed information on capital assets in the notes to the financial statements.

## Debt

At year-end, the County had \$12,400,000 in bonds and notes outstanding, versus \$12,940,000 for last year. Table 5 shows the outstanding debt.

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

	2008	2007
Bonds payable	\$ 12,400,000	\$ 12,940,000
Capital leases	14,640	13,457
Loans payable	86,980	98,446
OPEB liability	427,370	-
Compensated absences	822,239	717,926
Totals	<u>\$ 13,751,229</u>	<u>\$ 13,769,829</u>

The County's general obligation bond rating continues to carry an A3 rating by Moody's Investor Service as rated in 2007. The state limits the amount of net debt that the 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 state-imposed limit. The County issued no new debt in 2008. In September 2009, the County issued \$1,500,000 in taxable general obligation waste disposal bonds to fund the SSTS program. In June 2009, the County issued \$360,000 in bonds to the United States Department of Agriculture to help fund the Huntley Sewer District project. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2009 are budgeted to increase 3.8 percent over 2008.
- The County bonded for \$1,500,000 in 2009 to fund the SSTS program. The bonds will be repaid through special assessments on borrowers' property. The County also sold \$360,000 in bonds to the United States Department of Agriculture to help fund the Huntley Sewer District project. The bonds will be paid through user fees. Activity for the project can be found in the business-type activities in the financial statements.



- The County will open the new law enforcement center in 2009. An additional jailer post required by the Department of Corrections will add five new employees during 2009.
- Property tax levies have increased 7.6 percent for 2009.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact County Auditor-Treasurer John Thompson, Faribault County Courthouse, 100 Main Street, P. O. Box 130, Blue Earth, Minnesota 56013.

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## **BASIC FINANCIAL STATEMENTS**

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## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

	<b>Primary Government</b>			<b>Discretely Presented Component Units</b>	
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Housing and Redevelopment Authority</b>	<b>Economic Development Authority</b>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 7,317,260	\$ -	\$ 7,317,260	\$ 100	\$ 358,268
Petty cash and change funds	2,602	-	2,602	-	-
Cash with fiscal agent	-	-	-	36,661	-
Taxes receivable					
Prior - net	96,144	-	96,144	-	-
Special assessments receivable					
Prior	7,623	2,064	9,687	-	-
Noncurrent	2,172,658	91,464	2,264,122	-	-
Accounts receivable - net	22,493	-	22,493	-	-
Accrued interest receivable	44,235	-	44,235	-	-
Loan receivable	-	-	-	-	129,693
Due from other governments	1,345,163	65,039	1,410,202	-	-
Advance to other governments	45,000	-	45,000	-	-
Advance to other agencies	-	-	-	-	100,000
Internal balances	382,137	(382,137)	-	-	-
Inventories	1,449,520	-	1,449,520	-	-
Prepaid items	17,334	-	17,334	-	-
Restricted assets					
Investments - temporary	-	-	-	-	18,000
Deferred charges	66,224	-	66,224	-	-
Capital assets					
Non-depreciable	11,873,658	27,643	11,901,301	-	-
Depreciable - net of accumulated depreciation	39,727,766	1,557,306	41,285,072	-	-
<b>Total Assets</b>	<b>\$ 64,569,817</b>	<b>\$ 1,361,379</b>	<b>\$ 65,931,196</b>	<b>\$ 36,761</b>	<b>\$ 605,961</b>

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

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

	<b>Primary Government</b>			<b>Discretely Presented Component Units</b>	
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Housing and Redevelopment Authority</b>	<b>Economic Development Authority</b>
<b><u>Liabilities</u></b>					
Accounts payable	\$ 168,575	\$ 3,508	\$ 172,083	\$ 100	\$ 168
Salaries payable	210,578	-	210,578	-	400
Contracts payable	455,002	65,039	520,041	-	-
Due to other governments	438,534	-	438,534	-	-
Accrued interest payable	199,882	-	199,882	-	-
Unearned revenue	13,576	-	13,576	-	-
Long-term liabilities					
Advance from other governments	144,516	-	144,516	-	50,000
Due within one year	917,317	-	917,317	-	-
Due in more than one year	12,377,013	-	12,377,013	-	-
Net OPEB liability	427,370	-	427,370	-	-
<b>Total Liabilities</b>	<b>\$ 15,352,363</b>	<b>\$ 68,547</b>	<b>\$ 15,420,910</b>	<b>\$ 100</b>	<b>\$ 50,568</b>
<b><u>Net Assets</u></b>					
Invested in capital assets - net of related debt	\$ 43,144,167	\$ 1,584,949	\$ 44,729,116	\$ -	\$ -
Restricted for					
General government	341,152	-	341,152	-	-
Public safety	276,571	-	276,571	-	-
Highways and streets	732,596	-	732,596	-	-
Debt service	443,056	-	443,056	-	-
Housing assistance payments	-	-	-	36,661	-
Unrestricted	4,279,912	(292,117)	3,987,795	-	555,393
<b>Total Net Assets</b>	<b>\$ 49,217,454</b>	<b>\$ 1,292,832</b>	<b>\$ 50,510,286</b>	<b>\$ 36,661</b>	<b>\$ 555,393</b>

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

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

			Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
	Expenses	Fees, Charges, Fines, and Other		
<b><u>Functions/Programs</u></b>				
<b>Primary government</b>				
<b>Governmental activities</b>				
General government	\$ 3,248,397	\$ 622,096	\$ 9,198	\$ -
Public safety	2,437,849	305,988	230,911	-
Highways and streets	6,262,867	454,625	1,841,905	2,358,295
Sanitation	91,917	134,413	55,000	-
Human services	1,971,877	-	-	-
Culture and recreation	326,768	37,958	-	-
Conservation of natural resources	1,449,107	300,227	292,300	-
Economic development	734,250	-	538,226	-
Interest	531,618	-	-	-
<b>Total governmental activities</b>	<b>\$ 17,054,650</b>	<b>\$ 1,855,307</b>	<b>\$ 2,967,540</b>	<b>\$ 2,358,295</b>
<b>Business-type activities</b>				
Huntley Sewer District System	56,744	7,834	-	104,069
<b>Total Primary Government</b>	<b>\$ 17,111,394</b>	<b>\$ 1,863,141</b>	<b>\$ 2,967,540</b>	<b>\$ 2,462,364</b>
<b>Component units</b>				
Housing and Redevelopment Authority	\$ 311,963	\$ -	\$ 327,138	\$ -
Economic Development Authority	41,167	16,539	-	-
<b>Total Component Units</b>	<b>\$ 353,130</b>	<b>\$ 16,539</b>	<b>\$ 327,138</b>	<b>\$ -</b>

**General Revenues**

Property taxes  
Mortgage registry and deed tax  
Payments in lieu of tax  
Grants and contributions not restricted to specific programs  
Unrestricted investment earnings  
Miscellaneous

**Total general revenues**

**Change in net assets**

**Net Assets - January 1**

**Net Assets - December 31**



**EXHIBIT 2**

Net (Expense) Revenue and Changes in Net Assets				
Governmental Activities	Primary Government		Discretely Presented Component Units	
	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
\$ (2,617,103)	\$ -	\$ (2,617,103)		
(1,900,950)	-	(1,900,950)		
(1,608,042)	-	(1,608,042)		
97,496	-	97,496		
(1,971,877)	-	(1,971,877)		
(288,810)	-	(288,810)		
(856,580)	-	(856,580)		
(196,024)	-	(196,024)		
(531,618)	-	(531,618)		
<b>\$ (9,873,508)</b>	<b>\$ -</b>	<b>\$ (9,873,508)</b>		
-	55,159	55,159		
<b>\$ (9,873,508)</b>	<b>\$ 55,159</b>	<b>\$ (9,818,349)</b>		
			\$ 15,175	\$ -
			-	(24,628)
			<b>\$ 15,175</b>	<b>\$ (24,628)</b>
\$ 6,475,660	\$ -	\$ 6,475,660	\$ -	\$ -
8,944	-	8,944	-	-
29,618	-	29,618	-	-
1,432,422	-	1,432,422	-	107,078
445,992	-	445,992	136	-
229,552	-	229,552	-	-
<b>\$ 8,622,188</b>	<b>\$ -</b>	<b>\$ 8,622,188</b>	<b>\$ 136</b>	<b>\$ 107,078</b>
<b>\$ (1,251,320)</b>	<b>\$ 55,159</b>	<b>\$ (1,196,161)</b>	<b>\$ 15,311</b>	<b>\$ 82,450</b>
<b>50,468,774</b>	<b>1,237,673</b>	<b>51,706,447</b>	<b>21,350</b>	<b>472,943</b>
<b>\$ 49,217,454</b>	<b>\$ 1,292,832</b>	<b>\$ 50,510,286</b>	<b>\$ 36,661</b>	<b>\$ 555,393</b>

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## **FUND FINANCIAL STATEMENTS**

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## **GOVERNMENTAL FUNDS**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 2,921,676	\$ 919,574	\$ 1,377,778	\$ 31,447	\$ 2,066,785	\$ 7,317,260
Petty cash and change funds	2,305	297	-	-	-	2,602
Taxes receivable						
Prior	54,587	16,315	22,534	-	2,708	96,144
Special assessments						
Noncurrent	1,228,821	-	-	943,837	-	2,172,658
Prior	4,113	-	-	3,510	-	7,623
Accounts receivable	21,173	1,320	-	-	-	22,493
Accrued interest receivable	37,712	-	-	-	6,523	44,235
Interfund receivable	382,137	-	-	-	-	382,137
Due from other funds	1,498,083	2,676	-	-	-	1,500,759
Due from other governments	23,965	770,934	-	95,264	455,000	1,345,163
Prepaid expense	4,214	13,120	-	-	-	17,334
Advance to other funds	803,820	-	-	-	-	803,820
Advance to other governments	45,000	-	-	-	-	45,000
Inventories	-	1,449,520	-	-	-	1,449,520
<b>Total Assets</b>	<b>\$ 7,027,606</b>	<b>\$ 3,173,756</b>	<b>\$ 1,400,312</b>	<b>\$ 1,074,058</b>	<b>\$ 2,531,016</b>	<b>\$ 15,206,748</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 3  
(Continued)**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2008**

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 89,150	\$ 48,033	\$ -	\$ 30,711	\$ 681	\$ 168,575
Salaries payable	153,390	57,188	-	-	-	210,578
Contracts payable	275,698	171,390	-	7,914	-	455,002
Due to other funds	2,676	-	-	-	1,498,083	1,500,759
Due to other governments	15,986	60,012	159,171	72,019	131,346	438,534
Deferred revenue - unavailable	1,284,925	767,548	16,916	1,037,634	457,450	3,564,473
Deferred revenue - unearned	11,560	623	993	-	400	13,576
Advance from other funds	-	-	-	803,820	-	803,820
Advance from other governments	-	144,516	-	-	-	144,516
<b>Total Liabilities</b>	<b>\$ 1,833,385</b>	<b>\$ 1,249,310</b>	<b>\$ 177,080</b>	<b>\$ 1,952,098</b>	<b>\$ 2,087,960</b>	<b>\$ 7,299,833</b>
<b>Fund Balances</b>						
Reserved for						
Encumbrances	\$ 1,888,664	\$ -	\$ -	\$ -	\$ -	\$ 1,888,664
Inventories	-	1,449,520	-	-	-	1,449,520
Advance to other funds	803,820	-	-	-	-	803,820
Advance to other governments	45,000	-	-	-	-	45,000
Law library	28,230	-	-	-	-	28,230
Recorder's equipment purchases	115,505	-	-	-	-	115,505
Recorder's compliance fund	141,001	-	-	-	-	141,001
Enhanced 911	256,595	-	-	-	-	256,595
DARE	19,976	-	-	-	-	19,976
HAVA election plan	56,416	-	-	-	-	56,416
Unreserved						
Designated for						
Debt service	-	-	-	-	443,056	443,056
Future expenditures	375,000	-	-	-	-	375,000
Compensated absences	501,880	313,750	-	-	-	815,630
Environmental trust fund	30,000	-	-	-	-	30,000
Courthouse improvements	100,000	-	-	-	-	100,000
Undesignated	832,134	161,176	1,223,232	(878,040)	-	1,338,502
<b>Total Fund Balances</b>	<b>\$ 5,194,221</b>	<b>\$ 1,924,446</b>	<b>\$ 1,223,232</b>	<b>\$ (878,040)</b>	<b>\$ 443,056</b>	<b>\$ 7,906,915</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,027,606</b>	<b>\$ 3,173,756</b>	<b>\$ 1,400,312</b>	<b>\$ 1,074,058</b>	<b>\$ 2,531,016</b>	<b>\$ 15,206,748</b>



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

***EXHIBIT 4***

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS  
TO NET ASSETS - GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2008**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>7,906,915</b>
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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.		51,601,424
--	--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,564,473
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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	\$ (11,685,000)	
Special assessment bonds	(715,000)	
Loans payable	(86,980)	
Bond discount	29,529	
Net OPEB liability	(427,370)	
Deferred debt issuance charges	66,224	
Accrued interest payable	(199,882)	
Compensated absences	(822,239)	
Capital leases payable	(14,640)	
	<u>          </u>	<u>(13,855,358)</u>

<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>49,217,454</u></b>
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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Public Works</u>
<b>Revenues</b>		
Taxes	\$ 3,432,598	\$ 998,943
Special assessments	266,495	-
Licenses and permits	1,407	-
Intergovernmental	2,292,920	5,711,822
Charges for services	773,741	223,722
Fines and forfeits	43,085	-
Gifts and contributions	6,398	-
Investment earnings	189,901	-
Miscellaneous	216,573	224,396
<b>Total Revenues</b>	<b><u>\$ 7,223,118</u></b>	<b><u>\$ 7,158,883</u></b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 10,305,947	\$ -
Public safety	2,402,328	-
Highways and streets	193,506	6,708,815
Human services	-	-
Sanitation	91,917	-
Culture and recreation	171,853	151,978
Conservation of natural resources	705,448	-
Economic development	734,250	-
<b>Debt service</b>		
Principal	17,067	-
Interest	2,963	-
Administrative (fiscal) charges	-	-
<b>Total Expenditures</b>	<b><u>\$ 14,625,279</u></b>	<b><u>\$ 6,860,793</u></b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b><u>\$ (7,402,161)</u></b>	<b><u>\$ 298,090</u></b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 604,423	\$ -
Transfers out	(108,705)	-
<b>Total Other Financing Sources (Uses)</b>	<b><u>\$ 495,718</u></b>	<b><u>\$ -</u></b>
<b>Change in Fund Balances</b>	<b><u>\$ (6,906,443)</u></b>	<b><u>\$ 298,090</u></b>
Fund Balances - January 1, as previously reported	\$ 12,119,443	\$ 1,546,068
Restatement (Note 1.E.)	(18,779)	-
<b>Fund Balances - January 1, as restated</b>	<b><u>\$ 12,100,664</u></b>	<b><u>\$ 1,546,068</u></b>
<b>Increase (decrease) in reserved for inventories</b>	<b><u>\$ -</u></b>	<b><u>\$ 80,288</u></b>
<b>Fund Balances - December 31</b>	<b><u>\$ 5,194,221</u></b>	<b><u>\$ 1,924,446</u></b>

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

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**EXHIBIT 5**

<b>Human Services</b>	<b>Ditch</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
\$ 1,396,665	\$ -	\$ 648,288	\$ 6,476,494
-	444,908	279,426	990,829
-	-	-	1,407
141,184	63,650	80,329	8,289,905
-	-	-	997,463
-	-	-	43,085
-	-	-	6,398
-	-	252,239	442,140
-	-	149,200	590,169
<b>\$ 1,537,849</b>	<b>\$ 508,558</b>	<b>\$ 1,409,482</b>	<b>\$ 17,837,890</b>
\$ -	\$ -	\$ -	\$ 10,305,947
-	-	-	2,402,328
-	-	-	6,902,321
1,971,877	-	-	1,971,877
-	-	-	91,917
-	-	-	323,831
-	740,316	-	1,445,764
-	-	-	734,250
-	50,000	490,000	557,067
-	28,645	461,899	493,507
-	431	3,518	3,949
<b>\$ 1,971,877</b>	<b>\$ 819,392</b>	<b>\$ 955,417</b>	<b>\$ 25,232,758</b>
<b>\$ (434,028)</b>	<b>\$ (310,834)</b>	<b>\$ 454,065</b>	<b>\$ (7,394,868)</b>
\$ -	\$ -	\$ 108,705	\$ 713,128
-	-	(604,423)	(713,128)
<b>\$ -</b>	<b>\$ -</b>	<b>\$ (495,718)</b>	<b>\$ -</b>
<b>\$ (434,028)</b>	<b>\$ (310,834)</b>	<b>\$ (41,653)</b>	<b>\$ (7,394,868)</b>
\$ 1,657,260	\$ (567,206)	\$ 484,709	\$ 15,240,274
-	-	-	(18,779)
<b>\$ 1,657,260</b>	<b>\$ (567,206)</b>	<b>\$ 484,709</b>	<b>\$ 15,221,495</b>
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 80,288</b>
<b>\$ 1,223,232</b>	<b>\$ (878,040)</b>	<b>\$ 443,056</b>	<b>\$ 7,906,915</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Net change in fund balances - total governmental funds (Exhibit 5)** **\$ (7,394,868)**

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	\$ 3,564,473	
Deferred revenue - January 1	(5,599,033)	(2,034,560)

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

Expenditures for general capital assets and infrastructure	\$ 11,105,058	
Net book value of assets sold	(56,654)	
Current year depreciation	(2,935,022)	8,113,382

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

Capital leases entered into		(6,784)
-----------------------------	--	---------

Principal repayments		
General obligation bonds	\$ 490,000	
Special assessment bonds	50,000	
Capital lease	5,601	
Loans payable	11,466	557,067

Amortization of discount on bonds and issuance costs		(10,726)
--	--	----------

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	\$ (23,436)	
Change in compensated absences	(104,313)	
Change in OPEB liabilities	(427,370)	
Change in inventories	80,288	(474,831)

**Change in Net Assets of Governmental Activities (Exhibit 2)** **\$ (1,251,320)**

**PROPRIETARY FUND**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FUND NET ASSETS  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
DECEMBER 31, 2008**

	<u>Business-Type Activities</u>
<b><u>Assets</u></b>	
<b>Current assets</b>	
Special assessments	
Noncurrent	\$ 91,464
Prior	2,064
Due from other governments	<u>65,039</u>
<b>Total current assets</b>	<b><u>\$ 158,567</u></b>
<b>Noncurrent assets</b>	
Capital assets	
Nondepreciable	\$ 27,643
Depreciable - net of accumulated depreciation	<u>1,557,306</u>
<b>Total noncurrent assets</b>	<b><u>\$ 1,584,949</u></b>
<b>Total Assets</b>	<b><u>\$ 1,743,516</u></b>
<b><u>Liabilities</u></b>	
<b>Current liabilities</b>	
Accounts payable	\$ 3,508
Contracts payable	65,039
Interfund payable	<u>382,137</u>
<b>Total Liabilities</b>	<b><u>\$ 450,684</u></b>
<b><u>Net Assets</u></b>	
Invested in capital assets	\$ 1,584,949
Unrestricted	<u>(292,117)</u>
<b>Total Net Assets</b>	<b><u>\$ 1,292,832</u></b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u><b>Business-Type Activities</b></u>
<b>Operating Expenses</b>	
Professional services	\$ 630
Depreciation	<u>56,114</u>
<b>Total Operating Expenses</b>	<b>\$ 56,744</b>
<b>Nonoperating Revenues</b>	
Special assessments	<u>7,834</u>
<b>Income (Loss) Before Capital Contributions</b>	<b>\$ (48,910)</b>
<b>Capital contributions</b>	
Capital contributions - federal	44,301
Capital contributions - state	<u>59,768</u>
<b>Change in Net Assets</b>	<b>\$ 55,159</b>
<b>Net Assets - January 1</b>	<u><b>1,237,673</b></u>
<b>Net Assets - December 31</b>	<u><b>\$ 1,292,832</b></u>



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 9**

**STATEMENT OF CASH FLOWS  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Business-Type Activities</b>
<b>Cash Flows from Operating Activities</b>	
Payments to suppliers	<u>\$ (630)</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Interfund loan	<u>\$ 382,137</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Capital contribution - state grant	\$ 572,134
Capital contribution - federal grant	556,669
Capital contribution - special assessments	24,506
Construction of capital assets	<u>(1,572,516)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>\$ (419,207)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>\$ (37,700)</u>
<b>Cash and Cash Equivalents at January 1</b>	<u>37,700</u>
<b>Cash and Cash Equivalents at December 31</b>	<u><u>\$ -</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
Operating income (loss)	\$ (56,744)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	<u>56,144</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u><u>\$ (630)</u></u>

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## **FIDUCIARY FUNDS**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

***EXHIBIT 10***

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2008**

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and pooled investments	\$ <u><u>162,140</u></u>
<b><u>Liabilities</u></b>	
Due to other governments	\$ <u><u>162,140</u></u>

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

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**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, 2008. 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 fund, 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**

Faribault County was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Faribault 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.

**Discretely Presented Component Units**

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

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Faribault County Economic Development Authority (EDA) provides services pursuant to Minn. Stat. §§ 469.090-469.1081.	County appoints all members and is able to impose its will on the EDA.	Separate financial statements are not prepared.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Faribault County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints the Board member and must approve debt.	Faribault County HRA Minnesota Valley Action Council 410 Jackson Street P. O. Box 3327 Mankato, Minnesota 56002-3327

Joint Ventures

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

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 for support.

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, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.



**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities and the 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. 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.

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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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 relating to public works for the establishment, location, vacation, construction, reconstruction, improvement, and maintenance of roads, bridges, and other projects affecting County roadways and parks.

The Human Services Special Revenue Fund is used to account for the transfer of Faribault County's share of the Faribault-Martin County Human Services Board.

The Ditch Special Revenue 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 Debt Service Fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of County debt.

The County considers all governmental funds to be major.

The County reports the following major enterprise fund:

The Huntley Sewer District Fund is used to account for the operation, maintenance, and development of the Huntley Sewer District. The County established the service district in 2006 to account for the activity of the sewer system built for the unincorporated area in Verona Township known as Huntley.

Additionally, the County reports the following fund type:

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, 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. Faribault 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 long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, 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 in the General Fund for 2008 were \$189,901.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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;
- (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.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Cash and Cash Equivalents

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.

3. Receivables and Payables

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

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balance 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 reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

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.

4. Inventories

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased. Inventories at the government-wide level are reported as expenses when consumed.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, 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 have initial useful lives extending beyond two years and a dollar amount for capitalization per asset category as follows: all land and construction in progress are capitalized regardless of cost; machinery and equipment when the cost of individual items exceeds \$5,000; other improvements and buildings and improvements when the cost exceeds \$25,000; and infrastructure when the cost of projects exceeds \$50,000.

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.

Capital assets of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	7 - 40
Other improvements	15 - 25
Machinery and equipment	3 - 20
Infrastructure	25 - 30

6. Compensated Absences

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. 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.

Beginning in 2008, Faribault County implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement required the County to calculate and record a net other postemployment benefits (OPEB) obligation at December 31, 2008. The net OPEB obligation is, in general, the cumulative difference between the actuarial required contribution and the actual contributions since the actuarial valuation date of January 1, 2008.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. 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.

E. Restatement of Fund Balance

At January 1, 2008, the fund balance of the General Fund was restated to correct for interest revenue that was recognized in 2007 that should have been deferred to 2008. The following table summarizes the change:

Fund Balance - January 1, as previously reported	\$ 12,119,443
Restatement	<u>(18,779)</u>
Fund Balance - January 1, as restated	<u>\$ 12,100,664</u>

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance as of December 31, 2008, as follows:

Fund Balance - modified accrual basis	\$ (878,040)
Bonds payable	(715,000)
Deferred revenue - unavailable	<u>1,037,634</u>
Net Assets - full accrual basis	<u>\$ (555,406)</u>



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

Deficit Fund Equity (Continued)

The deficit will be eliminated with future special assessment levies against benefited properties. Following is a summary of the individual ditch systems:

122 ditches with positive net asset balances	\$ 435,392
60 ditches with deficit net asset balances	<u>(990,798)</u>
Net Assets - full accrual basis	<u>\$ (555,406)</u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Governmental activities	
Cash and pooled investments	\$ 7,317,260
Petty cash and change funds	2,602
Component unit - EDA	
Cash and pooled investments	358,268
Restricted temporary investment	18,000
Fiduciary funds	
Cash and pooled investments	<u>162,140</u>
Total Cash and Investments	<u>\$ 7,858,270</u>

The HRA component unit cash is held by its fiscal agent (See Note 8).

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2008, the County's deposits were not exposed to custodial credit risk.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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 limiting long-term investments. County policy states that approximately one-third of the County's total portfolio balance as of May 31 of the year reporting may be invested in items that mature in more than one year.

	Maturity Dates	
	0 - 1 Year	Over 1 Year
Deposits	\$ 5,551,564	\$ -
Petty cash	2,602	-
MAGIC Fund	576	-
Federal Home Loan Mortgage Corporation (1)	-	552,375
Federal Home Loan Bank (1)	-	200,030
Federal National Mortgage Association (1)	-	200,187
Freddie MAC (1)	-	200,088
Negotiable certificates of deposit	771,052	379,796
Total Cash and Investments	<u>\$ 6,325,794</u>	<u>\$ 1,532,476</u>

(1) These notes have step-provisions, which could result in the notes being called prior to maturity.

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. All of the Federal Home Loan Bank notes have been rated Aaa by Moody's.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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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 that are in the possession of an outside party. The County's investment policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2008, \$1,803,528 of the U.S. government agency securities investments were held by the investments' counterparties, not in the name of Faribault County and, therefore, subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to minimize concentration of credit risk by diversifying the investment so that the impact of potential losses from any one type of security will be minimized. The only investments in any one issuer that represent five percent or more of the County's investments are as follows:

<u>Issuer</u>		
Federal Home Loan Mortgage Corporation	\$	552,375
Federal Home Loan Bank		200,030
Federal National Mortgage Association		200,187
Freddie MAC		200,088

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2008, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - prior	\$ 96,144	\$ -
Special assessments - prior	7,623	-
Special assessments - noncurrent	2,172,658	1,710,579
Accounts	22,493	-
Accrued interest	44,235	-
Due from other governments	1,345,163	205,000
	<u>3,688,316</u>	<u>1,915,579</u>
Total Governmental Activities	\$ <u>3,688,316</u>	\$ <u>1,915,579</u>
Business-Type Activities		
Special assessments		
Prior	\$ 2,064	\$ -
Noncurrent	91,464	83,828
Due from other governments	65,039	-
	<u>158,567</u>	<u>83,828</u>
Total Business-Type Activities	\$ <u>158,567</u>	\$ <u>83,828</u>

3. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,022,882	\$ 36,053	\$ -	\$ 1,058,935
Construction in progress	3,471,101	8,829,561	1,485,939	10,814,723
	<u>4,493,983</u>	<u>8,865,614</u>	<u>1,485,939</u>	<u>11,873,658</u>
Total capital assets not depreciated	\$ <u>4,493,983</u>	\$ <u>8,865,614</u>	\$ <u>1,485,939</u>	\$ <u>11,873,658</u>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings and improvements	\$ 3,364,104	\$ -	\$ -	\$ 3,364,104
Other improvements	161,597	-	-	161,597
Machinery and equipment	5,419,187	415,842	201,590	5,633,439
Infrastructure	64,507,551	3,309,541	27,229	67,789,863
Total capital assets depreciated	\$ 73,452,439	\$ 3,725,383	\$ 228,819	\$ 76,949,003
Less: accumulated depreciation for				
Buildings and improvements	\$ 2,008,951	\$ 71,304	\$ -	\$ 2,080,255
Other improvements	45,493	8,956	-	54,449
Machinery and equipment	3,391,447	498,346	147,484	3,742,309
Infrastructure	29,012,489	2,356,416	24,681	31,344,224
Total accumulated depreciation	\$ 34,458,380	\$ 2,935,022	\$ 172,165	\$ 37,221,237
Total capital assets depreciated, net	\$ 38,994,059	\$ 790,361	\$ 56,654	\$ 39,727,766
Capital Assets, Net	\$ 43,488,042	\$ 9,655,975	\$ 1,542,593	\$ 51,601,424

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ -	\$ 27,643	\$ -	\$ 27,643
Construction in progress	1,519,170	-	1,519,170	-
Total capital assets not depreciated	\$ 1,519,170	\$ 27,643	\$ 1,519,170	\$ 27,643
Capital assets depreciated				
Machinery and equipment	\$ -	\$ 70,000	\$ -	\$ 70,000
Infrastructure	-	1,543,420	-	1,543,420
Total capital assets depreciated	\$ -	\$ 1,613,420	\$ -	\$ 1,613,420
Less: accumulated depreciation for				
Machinery and equipment	\$ -	\$ 4,667	\$ -	\$ 4,667
Infrastructure	-	51,447	-	51,447
Total accumulated depreciation	\$ -	\$ 56,114	\$ -	\$ 56,114
Total capital assets depreciated, net	\$ -	\$ 1,557,306	\$ -	\$ 1,557,306
Capital Assets, Net	\$ 1,519,170	\$ 1,584,949	\$ 1,519,170	\$ 1,584,949

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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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	\$ 102,870
Public safety	126,613
Highways and streets, including depreciation of infrastructure assets	<u>2,705,539</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,935,022</u>
Business-Type Activities	
Huntley Sewer District	<u>\$ 56,114</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2008, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Debt Service	\$ 1,498,083	Bond proceeds
Public Works	General	<u>2,676</u>	Fuel usage
		<u>\$ 1,500,759</u>	

These interfund receivables and payables are expected to be paid within one year of December 31, 2008.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

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

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 803,820</u>

The advance from the General Fund to the Ditch Special Revenue Fund was to cover individual negative ditch balances. This advance is not expected to be eliminated within one year of December 31, 2008.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of a transfer from the General Fund to the Debt Service Fund of \$108,705 for debt service payments and from the Debt Service Fund to the General Fund of \$604,423 to transfer bond proceeds to reimburse the General Fund for construction costs on the law enforcement center.

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Plan Description

The County provides post-retirement health care benefits for certain retirees and their dependents. The County pays the premium for eligible retired employees and one-half of the premiums for the retiree's spouse based on the County's \$1,000 CMM plan. As of year-end, the County has 33 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2008, the County expended \$146,943 for these benefits.



**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Plan Description (Continued)

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis. For 2008, there were approximately 110 participants in the plan, including 33 retirees. The implicit rate subsidy amount was determined by an actuarial study to be \$1,266 for 2008.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 575,579
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost (expense)	\$ 575,579
Contributions made	(148,209)
	<hr/>
Increase in net OPEB obligation	\$ 427,370
Net OPEB Obligation - January 1	-
	<hr/>
Net OPEB Obligation - December 31	<u>\$ 427,370</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost for December 31, 2008, was \$575,579. The percentage of annual OPEB cost contributed to the plan was 25.75 percent, and the net OPEB obligation for 2008 was \$427,370. Trend information for the previous two years is not available at this time based on the implementation date of December 31, 2008.

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$5,646,666, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,646,666. The covered payroll (annual payroll of active employees covered by the plan) was \$3,196,823, and the ratio of the UAAL to the covered payroll was 176.63 percent.

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

1. 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 benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a four percent investment rate of return (net of investment expenses), which is Faribault County's implicit rate of return on the General Fund. The annual health care cost trend is ten percent initially reduced by decrements to an ultimate rate of five percent over ten years. Both rates included a four percent inflation assumption. The UAAL is being amortized over 30 years on a level dollar amount. The remaining amortization period at December 31, 2008, was 29 years.

2. Leases

Capital Leases

The County has entered into two capital lease agreements as lessee for financing the acquisition of 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. The capital leases consist of the following at December 31, 2008:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2008 general copier	2013	Monthly	\$ 216	\$ 11,407	\$ 10,046
2005 extension copier	2010	Monthly	266	12,000	4,594
Total Leases					<u>\$ 14,640</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Leases

Capital Leases (Continued)

Lease payments are made from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2008, were as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2009	\$ 5,772
2010	4,443
2011	2,583
2012	2,583
2013	862
Total lease payments	\$ 16,243
Less: amount representing interest	(1,603)
Present Value of Minimum Lease Payments	<u>\$ 14,640</u>

3. Long-Term Debt

<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, 2008</u>
General obligation bonds					
2001 G.O. Bonds Taxable Refunding Waste Disposal Bonds	2016	\$20,000 - \$30,000	6.20 - 6.70	\$ 300,000	\$ 190,000
2001 G.O. Solid Waste Revenue Refunding Bonds	2012	\$25,000 - \$35,000	5.75 - 6.40	285,000	130,000
2001 G.O. Refunding Bonds	2009	\$140,000 - \$160,000	6.20	1,435,000	160,000

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
2005 G.O. Solid Waste Revenue Refunding Bonds	2010	\$205,000 - \$250,000	2.10 - 2.70	1,165,000	455,000
2007 G.O. Jail Bonds	2028	\$320,000 - \$745,000	3.75 - 4.25	10,000,000	10,000,000
2007 G.O. Waste Disposal Bonds	2018	\$60,000 - \$95,000	5.25 - 6.00	<u>750,000</u>	<u>750,000</u>
Total general obligation bonds				<u>\$ 13,935,000</u>	\$ 11,685,000
Less: unamortized discount					<u>(23,163)</u>
Total General Obligation Bonds, Net					<u>\$ 11,661,837</u>
General obligation special assessment bonds					
1999 G.O. Ditch Bonds	2014	\$15,000 - \$20,000	4.40 - 4.95	\$ 280,000	\$ 100,000
2003 G.O. Ditch Bonds	2024	\$30,000 - \$50,000	1.85 - 4.10	<u>725,000</u>	<u>615,000</u>
Total general obligation special assessment bonds				<u>\$ 1,005,000</u>	\$ 715,000
Less: unamortized discount					<u>(6,366)</u>
Total General Obligation Special Assessment Bonds, Net					<u>\$ 708,634</u>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Loans Payable

The County entered into a loan agreement with the Minnesota Pollution Control Agency for funding Clean Water Partnership projects in the Blue Earth River Watershed. The loans are secured by special assessments placed on the individual parcels. Loan payments will be reported in the General Fund.

Type of Indebtedness	Final Maturity	Installments Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
2005 Minnesota Pollution Control Agency loan	2015	\$ 13,378	2.00	\$ 120,704	<u>\$ 86,980</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 840,000	\$ 472,778	\$ 50,000	\$ 26,935
2010	650,000	445,134	50,000	25,205
2011	470,000	423,051	45,000	23,395
2012	495,000	402,564	45,000	21,745
2013	475,000	380,545	50,000	19,995
2014 - 2018	2,665,000	1,567,240	200,000	74,861
2019 - 2023	2,700,000	1,004,949	225,000	34,785
2024 - 2028	3,390,000	372,520	50,000	1,063
Total	<u>\$ 11,685,000</u>	<u>\$ 5,068,781</u>	<u>\$ 715,000</u>	<u>\$ 227,984</u>

Year Ending December 31	Loan Payable	
	Principal	Interest
2009	\$ 11,696	\$ 1,682
2010	11,932	1,446
2011	12,171	1,206
2012	12,416	962
2013	12,665	712
2014 - 2017	26,100	656
Total	<u>\$ 86,980</u>	<u>\$ 6,664</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 12,175,000	\$ -	\$ 490,000	\$ 11,685,000	\$ 840,000
General obligation special assessment bonds	765,000	-	50,000	715,000	50,000
Less: deferred amounts for issuance discounts	(32,297)	-	(2,768)	(29,529)	-
Total bonds payable	\$ 12,907,703	\$ -	\$ 537,232	\$ 12,370,471	\$ 890,000
Capital leases	13,457	11,408	10,225	14,640	4,933
Loans payable	98,446	-	11,466	86,980	11,696
Net OPEB payable	-	427,370	-	427,370	-
Compensated absences	717,926	104,313	-	822,239	10,688
Long-Term Liabilities	\$ 13,737,532	\$ 543,091	\$ 558,923	\$ 13,721,700	\$ 917,317

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Faribault County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public 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.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Public 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. 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 jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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.



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public 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](http://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. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	<u>2008</u>	<u>2009</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.50	6.75
Public Employees Police and Fire Fund	12.90	14.10
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	<u>Public Employees Retirement Fund</u>	<u>Public Employees Police and Fire Fund</u>	<u>Public Employees Correctional Fund</u>
2008	\$ 153,466	\$ 66,759	\$ 37,972
2007	146,179	57,248	36,915
2006	135,775	52,911	36,658

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

B. Defined Contribution Plan

Seven employees of Faribault County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. 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.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

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 five percent of salary, which is matched by the employer.

Employees may 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 ending December 31, 2008, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 13,782	\$ 13,782
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

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. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County has entered into joint powers agreements with other Minnesota municipalities to form the South Central Service Cooperative (SCSC) to establish, procure, and administer group employee benefits. 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.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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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 \$410,000 per claim in 2008 and \$430,000 per claim in 2009. 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 SCSC contracts with Blue Cross/Blue Shield to administer the health insurance plan. All claims are pooled at year-end for the purpose of setting rates and reserves for the upcoming year. The SCSC provides financial risk management services that embody the concept of pooling risk for the purpose of stabilizing and/or reducing costs. Group employee benefits shall include, but not be limited to, health benefits coverage and other services as directed by the joint powers board. Members do not pay for deficiencies that arise in the current year.

6. Summary of Significant Contingencies and Other Items

A. 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.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

B. Joint Ventures

Faribault-Martin Human Services Board

Faribault, Martin, and Watonwan Counties entered into a joint powers agreement (Minn. Stat. § 471.59) to provide welfare and health services to county residents (Minn. Stat. §§ 402.01-.10). The Faribault-Martin-Watonwan Human Services Board was established on June 30, 1975. As of January 1, 1991, Watonwan County withdrew from the Human Services Board. Faribault and Martin Counties are continuing with the Joint Powers Agreement. The Board has 12 members, six from each county. Each county collects its share of local tax revenues and transfers these funds to the Board to fulfill its ongoing financial responsibility.

Complete financial information can be obtained from:

Faribault-Martin Human Services Board  
115 West First Street  
Fairmont, Minnesota 56031

Prairieland Solid Waste Board (Prairieland)

Faribault and Martin Counties entered into a joint venture in 1990 to build and operate a solid waste composting plant - Prairieland. Prairieland is composed of ten members, the County Commissioners from both Faribault and Martin Counties. Faribault County's proportionate interest in Prairieland is 43 percent. Prairieland reported a net loss of \$282,718 in 2008.

In 1996, the Solid Waste Resource Recovery Revenue Bonds issued by Prairieland were called with the funds received when both Faribault and Martin Counties issued county debt to repay these revenue bonds. On January 18, 2005, Faribault County issued \$1,165,000 of General Obligation Solid Waste Refunding Bonds to refund the County's General Obligation Refunding Bonds of 1996, which were called on June 1, 2005.

Each county shows its share of the debt on its financial statements. Prairieland approved special assessments against all property owners and transfers this revenue to the individual county in sufficient amount to pay the principal, interest, and fees when due.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Prairieland Solid Waste Board (Prairieland) (Continued)

Separate financial information can be obtained from:

Prairieland Solid Waste Board  
801 East Fifth Street North  
P. O. Box 100  
Truman, Minnesota 56088

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The Board includes Cottonwood, Faribault, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nobles, Pipestone, Redwood, Renville, Rock, and Watonwan Counties. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use.

The governing board is composed of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During 2008, Faribault County contributed \$3,000 to the Board made payable to the Southwest Regional Development Commission.

C. Jointly-Governed Organizations

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

The Greater Blue Earth River Basin Joint Powers (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. During the year, the County made \$7,838 in contributions to the GBERBA.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Three Rivers Resource Conservation & Development (RC&D) is a locally initiated, sponsored, and directed organization that works to enhance the quality of life by improving the economic, social, and environmental conditions within the area. During the year, the County paid \$650 to the RC&D.

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, the County paid \$103,315 to the Cooperative.

The Minnesota Counties Insurance Trust (MCIT) Joint Powers Board provides property/casualty and workers' compensation coverage to several Minnesota counties. During the year, the County paid \$228,822 to MCIT and received \$79,659 in dividends.

The Minnesota River Board was established to promote orderly water quality improvement and management of the Minnesota River watersheds. During the year, the County paid \$3,326 to the Board.

The South Central Drug Task Force was established to coordinate efforts among participating local governments to apprehend and prosecute drug offenders. During the year, the County paid \$6,500 to the Task Force.

The South Central Emergency Medical Services (SEMS) provides various emergency medical services to several counties. During the year, the County made no payments to the SEMS.

The South Central Minnesota County Comprehensive Water Planning Project provides the preparation of comprehensive water plans for participating counties. During the year, the County made no payments to the Water Planning Project.

The South Central Service Cooperative establishes, procures, and administers group employee benefits and other financial and risk management services that embody the concept of pooling risk and the purpose of stabilizing and/or reducing costs. During the year, the County paid \$150 to the Cooperative.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The South Central Community Based Initiative was formed with nine other counties to provide mental health services to residents. Contributions to the group are made by the Faribault Martin Human Services Board. The County made no payments to the Community Based Initiative in 2008.

The South Central Regional Radio Board was formed for the planning, financing, development, design, construction, operation, management, control, and administration of the regional enhancement to the statewide public safety radio and communications system (ARMER) in accordance with the Statewide Public Safety Radio Plan and the operational standards of the Statewide Radio Board. The Regional Radio Board consists of one County Commissioner or City Council member of member organizations. The County made no payments to the Regional Radio Board in 2008.

D. Subsequent Events

In May, 2009, the County Board authorized the sale of \$360,000 General Obligation Taxable Revenue Bonds, Series 2009A, to the United States Department of Agriculture. The bonds are payable in annual installments, with the last installment due on January 1, 2049, with an interest rate of 4.375 percent. The bonds were sold as part of the financing of the Huntley Sewer project, which is accounted for in the Huntley Sewer District Enterprise Fund.

In September 2009, the County Board authorized the sale of \$1,500,000 Taxable General Obligation Waste Disposal Bonds of 2009. The bonds are payable in ten annual installments, with interest payable on a semi-annual basis with the rate ranging from 1.35 to 4.70 percent. The bonds are not subject to optional redemption and prepayment. The bonds will be used to finance the County's loan program to assist property owners in the County in the design, installation, repair, and replacement of individual septic systems and water wells and will be paid with special assessments on the borrowers' properties.



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Subsequent Events (Continued)

The Faribault County Board of Commissioners eliminated funding to the Faribault County Economic Development Authority (EDA) for the 2010 fiscal year. The County has been the only significant source of funding for the EDA. The EDA Board approved the elimination of the Director position effective January 31, 2010. The Board will continue to meet on a regular basis, but with limited ability to provide economic development resources to interested parties. The County Auditor/Treasurer will continue to provide oversight to the outstanding loans and provide accounting services to the EDA. The Faribault County Auditor/Treasurer's Office will be the safekeeper of EDA official records. Funding after 2010 is unknown. Future County Board funding is uncertain.

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the program. The County has met those responsibilities for 2008.

F. Construction Commitment

Faribault County has an active law enforcement center construction project as of December 31, 2008. During 2007, the Board approved \$1,114,534 in contracts for this project. On January 8 and 22, 2008, the County Board approved an additional \$9,314,516 in contracts for the project. As of December 31, 2008, change orders increased the total contracts by an additional \$30,373. As of December 31, 2008, the County has spent \$8,047,175, leaving a commitment of \$2,412,248. The commitment for the law enforcement center is being met by the 2007 issuance of bonds, the levying of funds, and the use of General Fund cash balances.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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7. Faribault County Economic Development Authority (EDA)

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented EDA component unit has the following significant accounting policies.

Reporting Entity

The EDA was created during 2003 to take over the operations of the Local Redevelopment Agency (LRA). The EDA is governed by a five-member Board of Directors who are appointed by the County Board. The LRA serves as an advisory committee to the EDA.

Basis of Presentation

The EDA does not prepare separate financial statements. The EDA presents its one fund as a governmental fund.

Basis of Accounting

The EDA General Fund is accounted for on the modified accrual basis of accounting.

Cash and Pooled Investments

Operating cash of the EDA is on deposit with the Faribault County Auditor/Treasurer and included within its pooled cash and investments.

B. Detailed Notes

1. Assets

Receivables as of December 31, 2008, consist of \$129,693 loans made to individuals and businesses for development and a \$100,000 advance to the Minnesota Community Capital Fund.

2. Liabilities

Advances from other governments of \$50,000 consist of two economic development program advances received from two cities within the County.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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8. Housing and Redevelopment Authority (HRA)

Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented HRA component unit has the following significant accounting policies.

Reporting Entity

The HRA is governed by a five-member Board of Directors who are appointed by the County Board. All programs of the HRA are administered by the Minnesota Valley Action Council, Inc. (MVAC). The purpose of the HRA is to promote economic development and to administer the public housing programs authorized by the U. S. Housing Act of 1937, as amended. These programs are subsidized by the federal government through the U. S. Department of Housing and Urban Development.

Basis of Presentation

The HRA prepares separate financial statements. The HRA presents its one fund as an enterprise fund.

Basis of Accounting

The HRA Fund is accounted for on the accrual basis of accounting.

Cash and Pooled Investments

All cash of the HRA is on deposit with MVAC and included within its pooled cash and investments.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 1**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 3,414,623	\$ 3,414,623	\$ 3,432,598	\$ 17,975
Special assessments	208,550	208,550	266,495	57,945
Licenses and permits	970	970	1,407	437
Intergovernmental	1,754,983	1,754,983	2,292,920	537,937
Charges for services	576,750	576,750	773,741	196,991
Fines and forfeits	16,000	16,000	43,085	27,085
Gifts and contributions	-	-	6,398	6,398
Investment earnings	260,000	260,000	189,901	(70,099)
Miscellaneous	212,850	212,850	216,573	3,723
<b>Total Revenues</b>	<b>\$ 6,444,726</b>	<b>\$ 6,444,726</b>	<b>\$ 7,223,118</b>	<b>\$ 778,392</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 263,134	\$ 263,134	\$ 271,687	\$ (8,553)
Courts	25,000	25,000	12,152	12,848
County auditor	259,635	259,635	259,308	327
Motor vehicle/license bureau	121,175	121,175	128,988	(7,813)
County treasurer	172,940	172,940	173,200	(260)
County assessor	272,590	272,590	264,858	7,732
Elections	30,000	30,000	36,540	(6,540)
Data processing	140,200	140,200	144,158	(3,958)
Central administration	129,600	129,600	128,176	1,424
Machine room	10,000	10,000	7,535	2,465
Attorney	187,690	187,690	208,958	(21,268)
Law library	15,000	15,000	18,284	(3,284)
Recorder	250,810	250,810	180,997	69,813
Vital statistics	16,100	16,100	1,640	14,460
Planning and zoning	97,390	97,390	126,181	(28,791)
Buildings and plant	609,050	609,050	7,912,157	(7,303,107)
Veterans service officer	139,780	139,780	139,820	(40)
Other general government	325,000	325,000	291,308	33,692
<b>Total general government</b>	<b>\$ 3,065,094</b>	<b>\$ 3,065,094</b>	<b>\$ 10,305,947</b>	<b>\$ (7,240,853)</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

***Schedule 1  
(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,620,770	\$ 1,620,770	\$ 1,765,798	\$ (145,028)
Public safety grants	7,000	7,000	-	7,000
Special investigations	4,500	4,500	7,898	(3,398)
Boat and water safety	1,000	1,000	2,967	(1,967)
County jail	156,500	156,500	204,383	(47,883)
Sentence to serve	36,000	36,000	35,806	194
Fraud investigator	60,155	60,155	61,617	(1,462)
Animal control	1,000	1,000	4,808	(3,808)
Probation and parole	217,695	217,695	236,812	(19,117)
Sheriff's contingency	1,000	1,000	-	1,000
Probation secretarial services	28,000	28,000	27,569	431
Emergency management	29,770	29,770	2,976	26,794
Enhanced 911	70,900	70,900	44,619	26,281
Medical examiner	5,000	5,000	6,672	(1,672)
DARE	-	-	403	(403)
<b>Total public safety</b>	<b>\$ 2,239,290</b>	<b>\$ 2,239,290</b>	<b>\$ 2,402,328</b>	<b>\$ (163,038)</b>
<b>Highways and streets</b>				
Transit	\$ 197,900	\$ 197,900	\$ 193,506	\$ 4,394
<b>Sanitation</b>				
Solid waste	\$ 61,500	\$ 61,500	\$ 50,543	\$ 10,957
Recycling	38,000	38,000	41,374	(3,374)
<b>Total sanitation</b>	<b>\$ 99,500</b>	<b>\$ 99,500</b>	<b>\$ 91,917</b>	<b>\$ 7,583</b>
<b>Culture and recreation</b>				
Historical society	\$ 14,000	\$ 14,000	\$ 14,000	\$ -
County/regional library	187,179	187,179	157,028	30,151
Other cultural and recreation	900	900	825	75
<b>Total culture and recreation</b>	<b>\$ 202,079</b>	<b>\$ 202,079</b>	<b>\$ 171,853</b>	<b>\$ 30,226</b>



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Conservation of natural resources</b>				
County extension	\$ 123,140	\$ 123,140	\$ 99,351	\$ 23,789
Soil and water conservation	58,000	58,000	58,000	-
Agricultural society/County fair	22,500	22,500	30,206	(7,706)
Predator control	-	-	56	(56)
Water planning	109,170	109,170	115,494	(6,324)
Septic loan program	291,575	291,575	401,189	(109,614)
Other conservation	-	-	1,152	(1,152)
<b>Total conservation of natural resources</b>	<b>\$ 604,385</b>	<b>\$ 604,385</b>	<b>\$ 705,448</b>	<b>\$ (101,063)</b>
<b>Economic development</b>				
Community development	\$ 19,350	\$ 19,350	\$ 9,108	\$ 10,242
SCDL program	-	-	619,052	(619,052)
Appropriations	106,090	106,090	106,090	-
<b>Total economic development</b>	<b>\$ 125,440</b>	<b>\$ 125,440</b>	<b>\$ 734,250</b>	<b>\$ (608,810)</b>
<b>Debt service</b>				
Principal	\$ 11,465	\$ 11,465	\$ 17,067	\$ (5,602)
Interest	1,910	1,910	2,963	(1,053)
<b>Total debt service</b>	<b>\$ 13,375</b>	<b>\$ 13,375</b>	<b>\$ 20,030</b>	<b>\$ (6,655)</b>
<b>Total Expenditures</b>	<b>\$ 6,547,063</b>	<b>\$ 6,547,063</b>	<b>\$ 14,625,279</b>	<b>\$ (8,078,216)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (102,337)</b>	<b>\$ (102,337)</b>	<b>\$ (7,402,161)</b>	<b>\$ (7,299,824)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 236,220	\$ 236,220	\$ 604,423	\$ 368,203
Transfers out	(106,220)	(106,220)	(108,705)	(2,485)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 130,000</b>	<b>\$ 130,000</b>	<b>\$ 495,718</b>	<b>\$ 365,718</b>
<b>Change in Fund Balance</b>	<b>\$ 27,663</b>	<b>\$ 27,663</b>	<b>\$ (6,906,443)</b>	<b>\$ (6,934,106)</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 1**  
***(Continued)***

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
Fund Balance - January 1, as previously reported	\$ 12,119,443	\$ 12,119,443	\$ 12,119,443	\$ -
Restatement (Note 1.E.)	-	-	(18,779)	(18,779)
<b>Fund Balance - January 1, as restated</b>	<b>\$ 12,119,443</b>	<b>\$ 12,119,443</b>	<b>\$ 12,100,664</b>	<b>\$ (18,779)</b>
<b>Fund Balance - December 31</b>	<b>\$ 12,147,106</b>	<b>\$ 12,147,106</b>	<b>\$ 5,194,221</b>	<b>\$ (6,952,885)</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 2**

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC WORKS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 1,014,950	\$ 1,014,950	\$ 998,943	\$ (16,007)
Intergovernmental	6,329,919	6,329,919	5,711,822	(618,097)
Charges for services	204,000	204,000	223,722	19,722
Miscellaneous	190,000	190,000	224,396	34,396
<b>Total Revenues</b>	<b>\$ 7,738,869</b>	<b>\$ 7,738,869</b>	<b>\$ 7,158,883</b>	<b>\$ (579,986)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 209,800	\$ 209,800	\$ 193,475	\$ 16,325
Maintenance	1,532,350	1,532,350	1,399,248	133,102
Construction	4,924,500	4,924,500	3,596,878	1,327,622
Equipment maintenance and shop	946,700	946,700	952,227	(5,527)
Material and services for resale	90,500	90,500	112,381	(21,881)
Other - highways and streets	476,382	476,382	454,606	21,776
<b>Total highways and streets</b>	<b>\$ 8,180,232</b>	<b>\$ 8,180,232</b>	<b>\$ 6,708,815</b>	<b>\$ 1,471,417</b>
<b>Culture and recreation</b>				
Parks	184,411	184,411	151,978	32,433
<b>Total Expenditures</b>	<b>\$ 8,364,643</b>	<b>\$ 8,364,643</b>	<b>\$ 6,860,793</b>	<b>\$ 1,503,850</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (625,774)</b>	<b>\$ (625,774)</b>	<b>\$ 298,090</b>	<b>\$ 923,864</b>
<b>Fund Balance - January 1</b>	<b>1,546,068</b>	<b>1,546,068</b>	<b>1,546,068</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>80,288</b>	<b>80,288</b>
<b>Fund Balance - December 31</b>	<b>\$ 920,294</b>	<b>\$ 920,294</b>	<b>\$ 1,924,446</b>	<b>\$ 1,004,152</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 3**

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 1,419,180	\$ 1,419,180	\$ 1,396,665	\$ (22,515)
Intergovernmental	160,820	160,820	141,184	(19,636)
<b>Total Revenues</b>	<b>\$ 1,580,000</b>	<b>\$ 1,580,000</b>	<b>\$ 1,537,849</b>	<b>\$ (42,151)</b>
<b>Expenditures</b>				
<b>Current</b>				
Human services	1,776,000	1,776,000	1,971,877	(195,877)
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (196,000)</b>	<b>\$ (196,000)</b>	<b>\$ (434,028)</b>	<b>\$ (238,028)</b>
<b>Fund Balance - January 1</b>	<b>1,657,260</b>	<b>1,657,260</b>	<b>1,657,260</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,461,260</b>	<b>\$ 1,461,260</b>	<b>\$ 1,223,232</b>	<b>\$ (238,028)</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 4**

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Special assessments	\$ 380,000	\$ 380,000	\$ 444,908	\$ 64,908
Intergovernmental	-	-	63,650	63,650
<b>Total Revenues</b>	<b>\$ 380,000</b>	<b>\$ 380,000</b>	<b>\$ 508,558</b>	<b>\$ 128,558</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Ditch maintenance	\$ 300,000	\$ 300,000	\$ 740,316	\$ (440,316)
<b>Debt service</b>				
Principal	50,000	50,000	50,000	-
Interest	30,000	30,000	28,645	1,355
Fiscal charges	-	-	431	(431)
<b>Total Expenditures</b>	<b>\$ 380,000</b>	<b>\$ 380,000</b>	<b>\$ 819,392</b>	<b>\$ (439,392)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ (310,834)	\$ (310,834)
<b>Fund Balance - January 1</b>	<b>(567,206)</b>	<b>(567,206)</b>	<b>(567,206)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (567,206)</b>	<b>\$ (567,206)</b>	<b>\$ (878,040)</b>	<b>\$ (310,834)</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 5**

**SCHEDULE OF FUNDING PROGRESS -  
OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2008**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
January 1, 2008	\$ -	\$ 5,646,666	\$ 5,646,666	0.0%	\$ 3,196,823	176.6%

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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**1. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year-end.

On or before mid-June of each year, all departments and agencies submit requests for appropriations to the 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 did not revise the General Fund budget. Expenditures for the law enforcement center project were part of the 2007 General Fund budget, but the majority of the expenditures were incurred in 2008.

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

**2. Excess of Expenditures Over Appropriations**

For the year ended December 31, 2008, the General Fund's expenditures exceeded appropriations by \$8,078,216 (the legal level of budgetary control). Law enforcement center expenditures contributed \$7,303,107, and an unbudgeted Small Cities Development Loan program contributed \$619,052 to the deficit. Bond funds recognized in 2007 and federal grants funded the expenditures in excess of budget, along with revenues in excess of the budget.

The Human Services Special Revenue Fund expenditures exceeded appropriations by \$195,877. The expenditures in excess of appropriations were funded by fund balances.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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2. Excess of Expenditures Over Appropriations (Continued)

The Ditch Special Revenue Fund expenditures exceed appropriations by \$439,392. The expenditures in excess of budget were funded by revenues in excess of budget and advances from the General Fund. Future special assessments will be made to pay for ditch repairs and improvements.

3. Other Postemployment Benefits Funding Status

Beginning in 2008, Faribault County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero. Currently, only one year's worth of data is available. Future reports will provide additional trend analysis to meet the three-year funding status requirement as the information becomes available.



## **SUPPLEMENTARY INFORMATION**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 6**

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
<b>Revenues</b>				
Taxes	\$ 657,450	\$ 657,450	\$ 648,288	\$ (9,162)
Special assessments	260,000	260,000	279,426	19,426
Intergovernmental	74,550	74,550	80,329	5,779
Investment income	-	-	252,239	252,239
Miscellaneous	149,200	149,200	149,200	-
<b>Total Revenues</b>	<b>\$ 1,141,200</b>	<b>\$ 1,141,200</b>	<b>\$ 1,409,482</b>	<b>\$ 268,282</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 490,000	\$ 490,000	\$ 490,000	\$ -
Interest	461,825	461,825	461,899	(74)
Administrative - fiscal charges	-	-	3,518	(3,518)
<b>Total Expenditures</b>	<b>\$ 951,825</b>	<b>\$ 951,825</b>	<b>\$ 955,417</b>	<b>\$ (3,592)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 189,375</b>	<b>\$ 189,375</b>	<b>\$ 454,065</b>	<b>\$ 264,690</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 106,220	\$ 106,220	\$ 108,705	\$ 2,485
Transfers out	(236,220)	(236,220)	(604,423)	(368,203)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (130,000)</b>	<b>\$ (130,000)</b>	<b>\$ (495,718)</b>	<b>\$ (365,718)</b>
<b>Change in Fund Balance</b>	<b>\$ 59,375</b>	<b>\$ 59,375</b>	<b>\$ (41,653)</b>	<b>\$ (101,028)</b>
<b>Fund Balance - January 1</b>	<b>484,709</b>	<b>484,709</b>	<b>484,709</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 544,084</b>	<b>\$ 544,084</b>	<b>\$ 443,056</b>	<b>\$ (101,028)</b>

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## **FIDUCIARY FUNDS**

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**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

**AGENCY FUNDS**

Agency funds are used to account for assets held as an agent by the County for others.

The Mortgage Registration Fund accounts for the taxes paid for registering a mortgage within the County.

The Deed Tax Fund accounts for money received from the sale of deed stamps.

The Tax and Penalty Fund accounts for the collection and distribution of property taxes, assessments, and forfeited taxes.

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*Schedule 7*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>MORTGAGE REGISTRATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (18,192)	\$ 106,444	\$ 106,196	\$ (17,944)
<b><u>Liabilities</u></b>				
Due to other governments	\$ (18,192)	\$ 106,444	\$ 106,196	\$ (17,944)
 <b><u>DEED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 28,866	\$ 163,367	\$ 163,578	\$ 28,655
<b><u>Liabilities</u></b>				
Due to other governments	\$ 28,866	\$ 163,367	\$ 163,578	\$ 28,655
 <b><u>TAX AND PENALTY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 113,209	\$ 15,180,196	\$ 15,141,976	\$ 151,429
<b><u>Liabilities</u></b>				
Due to other governments	\$ 113,209	\$ 15,180,196	\$ 15,141,976	\$ 151,429

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*Schedule 7*  
*(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>123,883</u>	\$ <u>15,450,007</u>	\$ <u>15,411,750</u>	\$ <u>162,140</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>123,883</u>	\$ <u>15,450,007</u>	\$ <u>15,411,750</u>	\$ <u>162,140</u>

## **COMPONENT UNIT**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 8**

**GOVERNMENTAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY  
DECEMBER 31, 2008**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Net Assets</u>
<b><u>Assets</u></b>			
Current assets			
Cash and pooled investments	\$ 358,268	\$ -	\$ 358,268
Loans receivable	129,693	-	129,693
Restricted assets			
Investments - temporary	18,000	-	18,000
Noncurrent assets			
Advance to other agencies	100,000	-	100,000
<b>Total Assets</b>	<b><u>\$ 605,961</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 605,961</u></b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 168	\$ -	\$ 168
Salaries payable	400	-	400
Deferred revenue	129,693	(129,693)	-
Long-term liabilities			
Advance from other governments	50,000	-	50,000
<b>Total Liabilities</b>	<b><u>\$ 180,261</u></b>	<b><u>\$ (129,693)</u></b>	<b><u>\$ 50,568</u></b>
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Reserved for long-term receivable	\$ 50,000	\$ (50,000)	
Reserved for economic development	18,000	(18,000)	
Unreserved, designated for redevelopment loans	357,700	(357,700)	
<b>Total Fund Balance</b>	<b><u>\$ 425,700</u></b>	<b><u>\$ (425,700)</u></b>	
<b>Net Assets</b>			
Unrestricted		<b><u>\$ 555,393</u></b>	<b><u>\$ 555,393</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 605,961</u></b>		

\*Note: Long-term loans receivable not available to pay for current period expenses are deferred in governmental funds.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 9**

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Net Assets</u>
<b>Revenues</b>			
Intergovernmental	\$ 107,078	\$ -	\$ 107,078
Charges for services	20,664	(14,581)	6,083
Miscellaneous	10,456	-	10,456
	<u>138,198</u>	<u>(14,581)</u>	<u>123,617</u>
<b>Total Revenues</b>	<b>\$ 138,198</b>	<b>\$ (14,581)</b>	<b>\$ 123,617</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Economic development	41,167	-	41,167
	<u>41,167</u>	<u>-</u>	<u>41,167</u>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 97,031</b>	<b>\$ (14,581)</b>	<b>\$ 82,450</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>328,669</b>	<b>144,274</b>	<b>472,943</b>
	<u>328,669</u>	<u>144,274</u>	<u>472,943</u>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 425,700</b>	<b>\$ 129,693</b>	<b>\$ 555,393</b>
	<u><u>425,700</u></u>	<u><u>129,693</u></u>	<u><u>555,393</u></u>

\*Note: Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund. This adjustment is the change in deferred revenues during the year.

## **OTHER SCHEDULE**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 10**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>Governmental Funds</b>	<b>Enterprise Fund</b>	<b>Total Primary Government</b>
<b>Shared Revenue</b>			
<b>State</b>			
Highway users tax	\$ 5,524,468	\$ -	\$ 5,524,468
PERA rate reimbursement	13,448	-	13,448
Disparity reduction aid	71,852	-	71,852
Police aid	48,235	-	48,235
County program aid	589,603	-	589,603
Market value credit	757,519	-	757,519
Enhanced 911	90,792	-	90,792
<b>Total Shared Revenue</b>	<b>\$ 7,095,917</b>	<b>\$ -</b>	<b>\$ 7,095,917</b>
<b>Payments</b>			
<b>Local</b>			
Payments in lieu of taxes	<b>\$ 29,618</b>	<b>\$ -</b>	<b>\$ 29,618</b>
<b>Grants</b>			
<b>State</b>			
Minnesota Department of			
Public Safety	\$ 25,093	\$ -	\$ 25,093
Natural Resources	52,363	-	52,363
Employment and Economic Development	-	59,768	59,768
Veterans Affairs	2,800	-	2,800
Corrections	82,206	-	82,206
Transportation	74,408	-	74,408
Water and Soil Resources Board	182,786	-	182,786
Pollution Control Agency	55,000	-	55,000
<b>Total State</b>	<b>\$ 474,656</b>	<b>\$ 59,768</b>	<b>\$ 534,424</b>
<b>Federal</b>			
Department of			
Agriculture	\$ -	\$ 44,301	\$ 44,301
Housing and Urban Development	538,226	-	538,226
Transportation	109,752	-	109,752
Homeland Security	41,736	-	41,736
<b>Total Federal</b>	<b>\$ 689,714</b>	<b>\$ 44,301</b>	<b>\$ 734,015</b>
<b>Total State and Federal Grants</b>	<b>\$ 1,164,370</b>	<b>\$ 104,069</b>	<b>\$ 1,268,439</b>
<b>Total Intergovernmental Revenue</b>	<b>\$ 8,289,905</b>	<b>\$ 104,069</b>	<b>\$ 8,393,974</b>

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 11**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses unqualified opinions on the basic financial statements of Faribault County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Faribault County and are reported in the "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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Faribault County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Faribault County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:

Community Development Block Grant

CFDA #14.228
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Faribault County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Capital Asset Records

The County Board has a capital asset policy that discusses capitalization thresholds and use of straight-line depreciation. The policy does not discuss estimated useful lives or use of salvage values. As a result, estimated useful lives are not used consistently. General government buildings are depreciated over 30 years, while highway buildings are depreciated over 39 and 40 years.

To improve control over capital assets, we recommend that the County Board approve policies and procedures that establish consistent useful lives and set guidance on when to use salvage values in computing depreciation. If exceptions to the capitalization threshold policy are allowed, those exceptions should be spelled out in the policy.

Client's Response:

*The County Auditor will propose changes to the Capital Asset Policy. The policy will spell out the exceptions to the policy which exist in the Public Works Department, the estimated useful lives and the use of salvage values. Staff reductions due to budget considerations have caused a delay in the completion of an accounting manual.*

03-1 General Ledger Items

While reviewing the County's general ledger account activity report, we noted the following items of concern. Certain funds in the general ledger were not in balance at the end of the year. The General Fund was out of balance by \$301,146, the Public Works Special Revenue Fund by \$3,037, the Ditch Special Revenue Fund by \$5,537, the Debt Service Fund by \$299,172, and the Economic Development Authority Component Unit by \$1,980.

In order to improve the financial records of the County, we recommend that, on a monthly basis, the County review each fund and the total for the general ledger to ensure that the funds and general ledger are in balance. This can be done by looking at the last line for each fund and the cumulative total for the general ledger. In each case, the last line in the report for the fund or the cumulative general total should have a zero amount. If the amount is other than zero, it means that either a debit or credit entry was not posted to the general ledger.

Client's Response:

*The County has hired a consultant who will be working on the problem beginning February 24, 2010. This is a data base issue and not a data integrity issue. A policy to balance the IFS general ledger will be put in place. The County does balance cash accounts on a monthly basis.*

06-1 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. One control deficiency that is typically considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the County's internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the County's financial statements.

- Adjustments to the General Fund reserved and designated fund balance: a \$501,880 reversing entry for the compensated absences designation amount recorded twice on the trial balance and a \$275,699 adjustment to record the correct reserve for encumbrances amount.
- Adjustment of \$382,137 from the General Fund to the Huntley Sewer District Fund to eliminate a deficit cash balance at year end.
- Adjustments to the Public Works Special Revenue Fund totaling \$740,594: to reclassify \$285,142 from other highway expenditures to maintenance expenditures and to allocate \$455,452 from unallocated expenditures to other highway expenditures.

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County modify internal controls over financial reporting to detect misstatements in the financial statements. We also encourage a thorough review of draft financial statements and supporting information to identify potential misstatements.

**Client's Response:**

*The County acknowledges and approves of the adjusting entries that the auditors made to the financial statement. This is one of the primary purposes for an audit. The Huntley Sewer District Fund deficit has been eliminated with bond funds and the payment of sewer fees. The Public Works Department classifies the expenditures for that fund. The County Auditor and the Public Works accountant will work with the audit crew to determine where certain items should be categorized.*

**06-2    Budgeting**

The County does not have a formal written budget policy. In general, local governments should have an adopted budget policy that includes elements such as:

- procedures for adopting the budget,
- which funds require budgets,
- the legal level of control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- the procedures for monitoring the budget.

After the County Board has adopted a budget, it should be entered into the Integrated Financial System (IFS) to be used as a monitoring tool. Someone who is independent of the budgeting process should enter the budget; alternatively, the budget could be reviewed by someone independent of the budgeting process after it has been entered into the IFS. At Faribault County, the budget is entered into the IFS by the County Auditor/Treasurer, who is not independent of the budgeting process.



The ability to modify the budget during the year for new circumstances makes the budget more valuable because budgetary differences are not distorted by the new circumstances. Budget modifications should be made throughout the year to maintain the value of the budget as an internal control tool. In Faribault County, budget modifications are not always made for significant changes in expected activity.

We recommend that the County Board amend its budget policy to include the elements recommended above, that budget amounts should be entered into the IFS by a person independent of the budgeting process, and that the County budget be modified as necessary for significant changes in expected activity.

**Client's Response:**

*The County plans to implement a written budget plan. Time has been limited as the State of Minnesota continues to eliminate program aid funding. A planned hiring of an accountant has been put on hold. There is no timeline for the completion of an accounting policy at this time due to the reduction in staff in the Auditor/Treasurer's Office. The County will consider modifying the budget as significant issues arise. Staff reductions due to budget considerations have caused a delay in the completion of an accounting manual.*

**PREVIOUSLY REPORTED ITEM RESOLVED**

**Deposit Daily Collections Timely (07-1)**

Daily collections were not deposited in a timely manner to prevent misuse or loss of County funds.

**Resolution**

Based on our testing, daily collections were being deposited in a timely manner.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

#### **IV. OTHER FINDINGS AND RECOMMENDATIONS**

##### MINNESOTA LEGAL COMPLIANCE

##### PREVIOUSLY REPORTED ITEM NOT RESOLVED

###### 96-1 Individual Ditch System Deficits

At December 31, 2008, 68 of the 182 individual ditch systems had deficit cash balances totaling \$401,547. Loans from ditch systems with a surplus or from the General Fund to a ditch system with insufficient cash to pay expenditures are authorized by Minn. Stat. § 103E.655, subd. 2. This statute requires that the fund from which the funds were borrowed be repaid with interest. Allowing a ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from the other ditch systems or other funds of the County and, as such, is in noncompliance with Minnesota law.

In addition, 60 individual ditch systems had negative fund balances on a full accrual basis totaling \$990,798. As provided by Minn. Stat. § 103E.735, subd. 1, a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefit of the ditch system or \$40,000, whichever is larger. This situation is caused by the nature of drainage maintenance. The County levies assessments to cover the cost of construction and repair of drainage systems.

We recommend Faribault County eliminate the individual ditch system deficit cash balances by borrowing from an eligible fund with a surplus cash balance and the County levy assessments pursuant to Minn. Stat. § 103E.735, subd. 1, to accumulate a cash balance sufficient to provide for the repair and maintenance costs of ditch systems.

##### Client's Response:

*The County will implement an aggressive plan to implement assessments to cover the cost of drainage construction and maintenance costs. In the past, the assessments were based on the cost. In the future, the individual activity in the systems will be considered as to the probability of repairs in the near future. Levies will be placed in anticipation of future repairs. This policy should allow the accumulation of funds to cover expenditures. The County will continue to advance funds to the drainage funds that have a deficit balance.*

ITEM ARISING THIS YEAR

08-1 Huntley Sewer District Enterprise Fund Cash Balance Deficit

At December 31, 2008, the Huntley Sewer District Enterprise Fund had a deficit cash balance of \$382,137. If cash balances in the funds are insufficient, Minn. Stat. §§ 385.31 and 385.32 provide that warrants are to be registered or funds borrowed from another fund with sufficient cash.

We recommend the County not make disbursements that cause a cash overdraft in a fund. We further recommend that, if appropriate, the County avail itself of one of the options provided by Minnesota statutes to avoid cash overdrafts.

Client's Response:

*The County acknowledges the deficit in this fund and the need for the adjusting entry on the audited financial statements. The deficit was caused by the construction of the project and the normal delay in the financing of the project. The issuance of bonds and the collection of user fees in 2009 and 2010 have eliminated the deficit.*

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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

Board of County Commissioners  
Faribault 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 Faribault County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 3, 2010. Our report was modified to include 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 Faribault County Housing and Redevelopment Authority, a discretely presented component unit of the County, as described in our report on Faribault 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

In planning and performing our audit, we considered Faribault 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 the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-5, 03-1, 06-1, and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Faribault County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Faribault 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 Local Government*, 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 Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Faribault County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-1 and 08-1.

Faribault County's written responses to the significant deficiencies and legal compliance 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 Faribault 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

March 3, 2010

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REBECCA OTTO  
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### **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners  
Faribault County

#### Compliance

We have audited the compliance of Faribault County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. Faribault County's major federal program is 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 its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Faribault County's financial statements include the operations of the Faribault County Housing and Redevelopment Authority (HRA) component unit, which expended \$327,138 in federal awards during the year ended December 31, 2008, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of Faribault County HRA because the HRA was audited by other auditors.

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 Faribault 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 on the County's compliance with those requirements.

In our opinion, Faribault County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

#### Internal Control Over Compliance

The management of Faribault 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Faribault County's internal control.

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

## Schedule of Expenditures of Federal Awards

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 Faribault County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 3, 2010. We did not audit the financial statements of the Faribault County HRA, a discretely presented component unit of the County. Our audit was performed for the purpose of forming opinions on Faribault County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

March 3, 2010

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Schedule 12**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Direct		
Water and Waste Disposal Loans and Grants	10.770	\$ <u>44,301</u>
<b>U.S. Department of Housing and Urban Development</b>		
Passed Through Minnesota Department of Employment and Economic Development		
Community Development Block Grant	14.228	\$ <u>538,226</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation		
Public Transportation for Non-Urbanized Areas	20.509	\$ <u>62,383</u>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
President-Declared Disaster Assistance	97.036	\$ 39,043
Emergency Management Performance Grant	97.042	<u>2,693</u>
<b>Total U.S. Department of Homeland Security</b>		<u>\$ 41,736</u>
<b>Total Federal Awards</b>		<u><u>\$ 686,646</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Faribault County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Expenditures shown are different than reported revenues by \$47,369 because they are not available.
3. During the year, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.