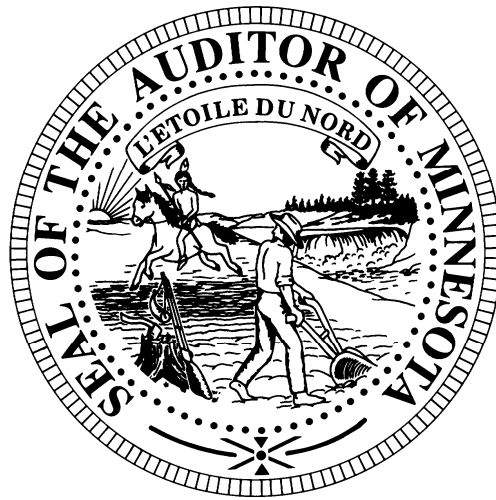


# STATE OF MINNESOTA

## Office of the State Auditor



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

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**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2011**

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

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

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

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

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

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

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

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

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

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

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**Year Ended December 31, 2011**



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

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2011

Office	Name	Term Expires
Board of County Commissioners		
District 1	Glen Mathiason	January 2013
District 2	Daniel Belshan*	January 2015
District 3	James Nelson	January 2013
District 4	Christopher Shoff	January 2015
District 5	Mike Lee	January 2013
County Officers		
Elected		
Attorney	Craig Nelson	January 2015
Auditor/Treasurer	Dennis A. Distad	January 2015
District Judge	Ross Leuning	January 2015
District Judge	Steven Schwab	January 2015
Recorder	Kelly Callahan	January 2015
Registrar of Titles	Kelly Callahan	January 2015
Sheriff	Robert Kindler	January 2015
Appointed		
Administrator	John Kluever	Indefinite
Assessor	Ryan Rasmussen	Indefinite
County Engineer	Susan Miller	Indefinite
Court Services	Tom Jensen	Indefinite
Court Administrator	Kristi Maiers	Indefinite
Finance Manager	William Helfritz	Indefinite
Veterans Service Officer	Jon Rhiger	Indefinite

\*Chair

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2011  
(Continued)

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Human Services		
Board		
Chair	Glen Mathiason	January 2015
Vice Chair	James Nelson	January 2013
Member	Daniel Belshan	January 2015
Member	Christopher Shoff	January 2013
Member	Mike Lee	January 2013
Appointed		
Director	Brian Buhmann	Indefinite
Accountant	Alan Olson	Indefinite



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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Freeborn County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Freeborn County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of December 31, 2011, and the respective changes in financial position 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.11. to the financial statements, during the year ended December 31, 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2012

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

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

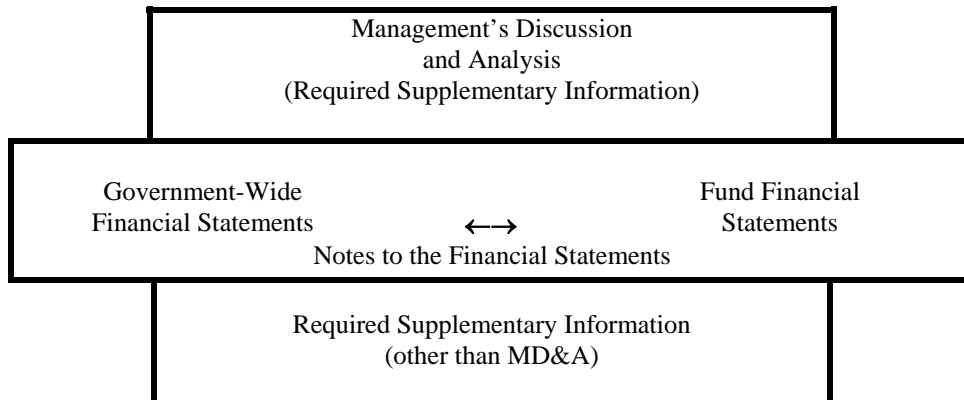
Freeborn County’s Management’s Discussion and Analysis (MD&A) provides an overview of the County’s financial activities for the fiscal year ended December 31, 2011. Since this information is designed to focus on the current year’s activities, resulting changes, and currently known facts, it should be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

**FINANCIAL HIGHLIGHTS**

- Governmental activities’ total net assets are \$78,244,473 , of which \$55,735,038 is invested in capital assets, net of related debt, and \$13,563,329 is restricted to specific purposes.
- Freeborn County’s net assets increased by \$4,809,697 for the year ended December 31, 2011.
- The net cost of governmental activities was \$16,795,544 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$21,605,241.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. Freeborn County’s basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



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 statements provide 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, the County reports its governmental activities. The County has no business-type activities or discretely presented component units.

Governmental activities reported here include the County's basic services of general government, public safety, highways and streets, human services, health, environmental services, culture and recreation, and conservation of natural resources. Property taxes and state and federal grants finance most of these activities.

## **Fund Financial Statements**

Our analysis of the County's major funds begins on Exhibit 3. These fund financial statements provide 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 that are 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 reconciliation in a statement following each governmental fund financial statement.
- **Proprietary funds**--When the County charges customers for the services it provides--whether to outside customers or to other units of the County--these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. We use internal service funds to report activities that provide services for the County's other programs and activities, such as building rental.

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

The County is the trustee, or fiduciary, over assets which can only be used for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 10 and 11. 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 increased from \$73,434,776 to \$78,244,473. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

**Table 1**  
**Net Assets**  
**(in millions)**

	Governmental Activities	
	2011	2010
Assets		
Current and other assets	\$ 38.5	\$ 29.2
Capital assets	74.6	74.8
Total Assets	<u>\$ 113.1</u>	<u>\$ 104.0</u>
Liabilities		
Long-term debt outstanding	\$ 33.1	\$ 28.4
Other liabilities	1.8	2.2
Total Liabilities	<u>\$ 34.9</u>	<u>\$ 30.6</u>
Net Assets		
Invested in capital assets, net of debt	\$ 55.7	\$ 54.6
Restricted	13.6	5.0
Unrestricted	8.9	13.8
Total Net Assets	<u>\$ 78.2</u>	<u>\$ 73.4</u>

Net assets of the County's governmental activities increased (\$78.2 million compared to \$73.4 million). 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 a \$13.8 million surplus at December 31, 2010, to \$8.9 million at the end of this year (2011).

**Table 2**  
**Changes in Net Assets**  
**(in millions)**

	Governmental Activities	
	2011	2010
<b>Revenues</b>		
Program revenues		
Fees, fines, charges, and other	\$ 5.2	\$ 5.1
Operating grants and contributions	12.8	13.1
Capital grants and contributions	1.1	0.2
General revenues		
Property taxes	17.2	14.9
Grants and contributions	2.6	2.6
Other general revenues	1.8	0.5
<b>Total Revenues</b>	<b>\$ 40.7</b>	<b>\$ 36.4</b>
<b>Program Expenses</b>		
General government	\$ 4.9	\$ 4.4
Public safety	8.0	9.6
Highways and streets	7.8	10.4
Human services	7.7	7.3
Health	3.3	3.4
Sanitation	0.4	0.4
Culture and recreation	0.4	0.6
Conservation of natural resources	2.1	1.6
Interest	1.3	1.2
<b>Total Program Expenses</b>	<b>\$ 35.9</b>	<b>\$ 38.9</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 4.8</b>	<b>\$ (2.5)</b>

### **Governmental Activities**

Revenues were \$40.7 million, and expenses were \$35.9 million for the County's governmental activities. This resulted in an increase of \$4.8 million to net assets in the year ended December 31, 2011.

The amount that taxpayers ultimately financed for these activities through County taxes and other general sources was only \$21.6 million because some of the cost was paid by those who directly benefited from the programs (\$5.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$13.9 million). The County paid for the remaining "public benefit" portion of governmental activities with \$21.6 million 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 six 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**  
**(in millions)**

	2011		2010	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Public safety	\$ 8.0	\$ 4.0	\$ 9.6	\$ 6.4
Highways and streets	7.8	2.1	10.4	4.8
Human services	7.7	3.7	7.3	3.4
General government	4.9	3.8	4.4	3.5
Health	3.3	0.8	3.4	0.5
Conservation of natural resources	2.1	0.7	1.6	0.3
All others	2.1	1.7	2.2	1.6
<b>Total</b>	<b>\$ 35.9</b>	<b>\$ 16.8</b>	<b>\$ 38.9</b>	<b>\$ 20.5</b>

## 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 \$28.6 million, which is \$8.9 million more than 2010. Included in this year’s total fund balance is a fund balance of \$10.4 million in the County’s General Fund, approximately \$2.4 million more than last year. The Ditch Special Revenue Fund’s decreased by \$0.8 million. The Social Services Special Revenue Fund had an increase of \$1.0 million. The Road and Bridge Special Revenue Fund had a decrease of \$0.3 million.

### General Fund Budgetary Highlights

During the year, the County made no budget amendments. The largest variance occurred in the General Fund. Revenues were \$2.7 million higher than budget, and expenses were \$0.3 million higher than budget. This was due to budgeting \$1.4 million in debt services and transferring it to the General Fund. We also received \$0.4 million in disaster aid that was not budgeted. There was also a sale of radio equipment to other Freeborn County Government Agencies in the amount of \$1.1 million, which was not budgeted for 2011. The Ditch Special Revenue Fund was underbudgeted by \$0.8 million due to ongoing re-evaluation of various ditch systems.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2011, the County had \$74.6 million invested in a broad range of capital assets including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net decrease (including additions and deductions) of \$0.2 million, or 0.2 percent, from last year. This came mainly from current year depreciation.

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

	Governmental Activities	
	2011	2010
Land	\$ 4.2	\$ 4.1
Land improvements	0.8	0.7
Construction in progress	-	-
Buildings and improvements	25.7	26.5
Machinery, vehicles, furniture, and equipment	2.2	2.2
Infrastructure	41.7	41.3
Total	<u>\$ 74.6</u>	<u>\$ 74.8</u>

### Debt

At year-end, the County had \$31.0 million in bonds and notes outstanding versus \$27.0 million last year, an increase of 14.8 percent, as shown in Table 5.

**Table 5**  
**Outstanding Debt at Year-End**  
**(in millions)**

	Governmental Activities	
	2011	2010
General obligation bonds and notes (backed by the County)	\$ 18.0	\$ 7.6
Special assessment bonds	2.7	3.1
General obligation capital notes	3.2	3.6
General obligation lease revenue	0.3	5.5
Lease revenue bonds	6.8	7.2
Total	<u>\$ 31.0</u>	<u>\$ 27.0</u>

The County's general obligation bond rating was "Aa3" at its last bond issuance in October 2011. Other obligations include accrued vacation pay and sick leave payable. More detailed information about the County's long-term liabilities is presented in Note 3.C. 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 2012 budget, tax rates, and fees that will be charged for the business-type activities.

- County General Fund expenditures for 2012 are budgeted to increase 2.9 percent over 2011.
- The combined budget for 2012 increased \$913,841 or 2.3 percent, over the 2011 budget.
- Property tax levies have increased 2.9 percent for 2012.

## **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 the County Finance Manager, William M. Helfritz, at 411 South Broadway, Albert Lea, Minnesota 56007.



## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT 1**

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

**Assets**

Cash and pooled investments	\$	19,649,583
Petty cash and change funds		2,275
Cash with escrow agent		260,655
Taxes receivable		
Prior - net		537,495
Special assessments receivable		
Prior - net		75,052
Noncurrent - net		2,538,659
Accounts receivable - net		3,307,083
Accrued interest receivable		304
Loan receivable		402,313
Due from other governments		3,573,990
Inventories		299,024
Restricted assets		
Restricted cash and investments - temporary		6,359,722
Restricted cash and investments on deposit for debt service		1,079,151
Deferred charges		207,795
Leases receivable		270,000
Capital assets		
Non-depreciable		4,860,775
Depreciable - net of accumulated depreciation		69,736,221
		69,736,221
<b>Total Assets</b>	<b>\$</b>	<b>113,160,097</b>

**Liabilities**

Accounts payable	\$	646,442
Salaries payable		391,403
Due to other governments		175,845
Accrued interest payable		588,799
Long-term liabilities		
Due within one year		8,382,152
Due in more than one year		24,730,983
		24,730,983
<b>Total Liabilities</b>	<b>\$</b>	<b>34,915,624</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

***EXHIBIT 1  
(Continued)***

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

**Net Assets**

Invested in capital assets - net of related debt	\$	55,735,038
Restricted for		
General government		377,863
Public safety		613,753
Highways and streets		1,719,685
Conservation of natural resources		1,208,708
Debt service		9,369,801
Economic development		138,280
Endowment - nonexpendable		135,239
Unrestricted		<u>8,946,106</u>
<b>Total Net Assets</b>	<b>\$</b>	<b><u><u>78,244,473</u></u></b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT 2**

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

	Program Revenues			Net (Expense)
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<b><u>Functions/Programs</u></b>				
<b>Primary government</b>				
<b>Governmental activities</b>				
General government	\$ 4,862,792	\$ 811,161	\$ 203,143	\$ -
Public safety	8,096,946	2,447,262	1,600,359	-
Highways and streets	7,781,427	92,212	4,554,340	1,047,763
Sanitation	366,181	381,347	23,446	-
Human services	7,673,360	585,738	3,434,776	-
Health	3,318,388	723,528	1,756,507	-
Culture and recreation	378,002	24,884	38,138	-
Conservation of natural resources	2,106,960	141,233	1,233,115	-
Economic development	15,000	-	-	-
Interest	1,295,440	-	-	-
<b>Total Governmental Activities</b>	<b><u>\$ 35,894,496</u></b>	<b><u>\$ 5,207,365</u></b>	<b><u>\$ 12,843,824</u></b>	<b><u>\$ 1,047,763</u></b>
<b>General Revenues</b>				
Property taxes				\$ 17,248,761
Gravel taxes				104,462
Mortgage registry and deed tax				17,119
Payments in lieu of tax				50,343
Grants and contributions not restricted to specific programs				2,630,103
Unrestricted investment earnings				172,524
Miscellaneous				1,368,024
Gain on sale of capital assets				13,905
<b>Total general revenues</b>				<b><u>\$ 21,605,241</u></b>
<b>Change in net assets</b>				<b>\$ 4,809,697</b>
<b>Net Assets - Beginning</b>				<b><u>73,434,776</u></b>
<b>Net Assets - Ending</b>				<b><u>\$ 78,244,473</u></b>

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## **FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Special Revenue Social Services</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 7,842,512	\$ 2,597,784	\$ 6,381,937
Petty cash and change funds	2,275	-	-
Cash with escrow agent	-	-	-
Taxes receivable			
Prior	258,451	92,109	156,289
Special assessments			
Prior	58,661	-	-
Noncurrent	-	-	-
Accounts receivable	1,268,198	16,922	960,548
Accrued interest receivable	-	-	-
Loans receivable	315,181	-	-
Due from other funds	50,547	3,293	-
Due from other governments	973,771	1,764,041	685,601
Leases receivable	270,000	-	-
Inventories	-	299,024	-
Advances to other funds	1,850,772	-	-
Restricted cash and pooled investments	-	-	-
<b>Total Assets</b>	<b>\$ 12,890,368</b>	<b>\$ 4,773,173</b>	<b>\$ 8,184,375</b>

**EXHIBIT 3**

<u>Funds</u>	<u>Debt Service Funds</u>		<u>Nonmajor Funds</u>	<u>Total</u>
	<u>Courthouse Improvement</u>	<u>Refunding Courthouse Bonds</u>		
<u>Ditch</u>				
\$ 1,964,116	\$ 605,795	\$ -	\$ 257,439	\$ 19,649,583
-	-	-	-	2,275
-	-	260,655	-	260,655
-	22,910	-	7,736	537,495
16,378	-	-	13	75,052
2,518,659	-	-	20,000	2,538,659
-	-	-	-	2,245,668
-	-	-	304	304
-	-	-	87,132	402,313
-	-	-	-	53,840
150,577	-	-	-	3,573,990
-	-	-	-	270,000
-	-	-	-	299,024
-	-	-	-	1,850,772
-	-	6,359,722	-	6,359,722
<u>\$ 4,649,730</u>	<u>\$ 628,705</u>	<u>\$ 6,620,377</u>	<u>\$ 372,624</u>	<u>\$ 38,119,352</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

	<b>General</b>	<b>Road and Bridge</b>	<b>Special Revenue Social Services</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 250,555	\$ 82,489	\$ 275,788
Salaries payable	190,326	116,190	84,887
Due to other funds	-	-	25,749
Due to other governments	117,002	2,294	47,597
Deferred revenue - unavailable	1,884,951	1,761,975	1,164,202
Advance from other funds	-	-	-
	<b>\$ 2,442,834</b>	<b>\$ 1,962,948</b>	<b>\$ 1,598,223</b>
<b>Fund Balances</b>			
Nonspendable			
Advances to other funds	\$ 1,850,772	\$ -	\$ -
Long-term loans/notes receivable	315,181	-	-
Inventories	-	299,024	-
Endowment permanent	-	-	-
Restricted for			
Law library	88,485	-	-
Recorder's technology equipment	112,269	-	-
Recorder's equipment	173,528	-	-
Attorney forfeited property	3,581	-	-
Gravel pit postclosure	35,224	-	-
Economic development	-	-	-
Debt service	-	-	-
Assigned			
Subsequent year's appropriated budget	148,645	-	-
Road and bridge	-	2,511,201	-
Human services	-	-	6,586,152
Unassigned	7,719,849	-	-
	<b>\$ 10,447,534</b>	<b>\$ 2,810,225</b>	<b>\$ 6,586,152</b>
<b>Total Fund Balances</b>	<b>\$ 10,447,534</b>	<b>\$ 2,810,225</b>	<b>\$ 6,586,152</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 12,890,368</b>	<b>\$ 4,773,173</b>	<b>\$ 8,184,375</b>

**EXHIBIT 3**  
**(Continued)**

<u>Funds</u>	<u>Debt Service Funds</u>			
<u>Ditch</u>	<u>Courthouse Improvement</u>	<u>Refunding Courthouse Bonds</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 37,610	\$ -	\$ -	\$ -	\$ 646,442
-	-	-	-	391,403
-	-	-	-	25,749
8,468	-	-	484	175,845
2,651,945	19,228	-	25,869	7,508,170
814,100	-	-	3,348	817,448
<b>\$ 3,512,123</b>	<b>\$ 19,228</b>	<b>\$ -</b>	<b>\$ 29,701</b>	<b>\$ 9,565,057</b>
\$ -	\$ -	\$ -	\$ -	\$ 1,850,772
-	-	-	-	315,181
-	-	-	-	299,024
-	-	-	135,239	135,239
-	-	-	-	88,485
-	-	-	-	112,269
-	-	-	-	173,528
-	-	-	-	3,581
-	-	-	-	35,224
-	-	-	66,551	66,551
1,137,836	609,477	6,620,377	142,601	8,510,291
-	-	-	-	148,645
-	-	-	-	2,511,201
-	-	-	-	6,586,152
(229)	-	-	(1,468)	7,718,152
<b>\$ 1,137,607</b>	<b>\$ 609,477</b>	<b>\$ 6,620,377</b>	<b>\$ 342,923</b>	<b>\$ 28,554,295</b>
<b>\$ 4,649,730</b>	<b>\$ 628,705</b>	<b>\$ 6,620,377</b>	<b>\$ 372,624</b>	<b>\$ 38,119,352</b>

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT 4**

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

**Fund balances - total governmental funds (Exhibit 3) \$ 28,554,295**

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. 74,596,996

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 7,508,170

An Internal Service Fund is used by management to charge the cost of building facilities to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets. (See Exhibit 7.)

Total Internal Service Fund net assets	\$ 8,258,351	
Net assets representing capital assets included above	(14,444,269)	
Net assets representing long-term debt included below	<u>7,265,069</u>	1,079,151

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	\$ (18,040,000)	
General obligation lease revenue bonds	(7,100,000)	
General obligation capital notes	(3,205,000)	
Compensated absences	(1,383,601)	
Loans payable	(69,706)	
Special assessment debt payable	(2,740,000)	
Accrued interest payable	(588,799)	
Deferred debt issuance costs	207,795	
Unamortized premium	(645,912)	
Unamortized discount	<u>71,084</u>	<u>(33,494,139)</u>

**Net Assets of Governmental Activities (Exhibit 1) \$ 78,244,473**

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>
<b>Revenues</b>			
Taxes	\$ 7,732,560	\$ 3,234,764	\$ 5,226,121
Special assessments	380,154	-	-
Licenses and permits	86,766	17,525	-
Intergovernmental	4,866,926	4,828,267	4,385,016
Charges for services	3,463,210	-	350,784
Fines and forfeits	36,064	-	1,645
Gifts and contributions	10,834	-	39,802
Investment earnings	101,857	-	-
Miscellaneous	1,908,945	240,131	530,525
	<u>1,908,945</u>	<u>240,131</u>	<u>530,525</u>
<b>Total Revenues</b>	<b>\$ 18,587,316</b>	<b>\$ 8,320,687</b>	<b>\$ 10,533,893</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ 5,281,337	\$ -	\$ -
Public safety	7,797,748	-	190,876
Highways and streets	2,842	8,158,861	-
Sanitation	351,197	-	-
Human services	88,192	-	7,596,186
Health	1,512,130	-	1,813,247
Culture and recreation	378,002	-	-
Conservation of natural resources	593,393	-	-
Economic development	15,000	-	-
<b>Capital outlay</b>	78,170	479,990	-
<b>Debt service</b>			
Principal	-	-	-
Interest	-	-	-
Bond issuance costs	-	-	-
Administrative (fiscal) charges	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Expenditures</b>	<b>\$ 16,098,011</b>	<b>\$ 8,638,851</b>	<b>\$ 9,600,309</b>

**EXHIBIT 5**

<u>Ditch</u>	<u>Courthouse Improvement Bonds Debt Service Fund</u>	<u>Refunding Courthouse Bonds Debt Service Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ -	\$ 743,840	\$ -	\$ 459,088	\$ 17,396,373
1,081,862	-	-	496	1,462,512
-	-	-	-	104,291
-	-	-	-	14,080,209
-	-	-	-	3,813,994
-	-	-	-	37,709
-	-	-	-	50,636
-	-	66,607	4,060	172,524
99,786	-	-	-	2,779,387
<b>\$ 1,181,648</b>	<b>\$ 743,840</b>	<b>\$ 66,607</b>	<b>\$ 463,644</b>	<b>\$ 39,897,635</b>
\$ -	\$ -	\$ -	\$ -	\$ 5,281,337
-	-	-	-	7,988,624
-	-	-	-	8,161,703
-	-	-	-	351,197
-	-	-	-	7,684,378
-	-	-	-	3,325,377
-	-	-	-	378,002
1,509,393	-	-	1,363	2,104,149
-	-	-	-	15,000
-	-	-	-	558,160
352,472	6,620,000	-	463,967	7,436,439
94,296	305,702	-	116,058	516,056
-	-	177,534	-	177,534
1,024	-	24,018	1,326	26,368
<b>\$ 1,957,185</b>	<b>\$ 6,925,702</b>	<b>\$ 201,552</b>	<b>\$ 582,714</b>	<b>\$ 44,004,324</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 2,489,305</b>	<b>\$ (318,164)</b>	<b>\$ 933,584</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	\$ -	\$ -	\$ -
Transfers out	(65,956)	-	-
Refunding bonds issued	-	-	-
Premium on bonds/notes issued	-	-	-
Proceeds from sale of capital assets	13,905	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (52,051)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ 2,437,254</b>	<b>\$ (318,164)</b>	<b>\$ 933,584</b>
<b>Fund Balance - January 1</b>	<b>8,010,280</b>	<b>3,068,946</b>	<b>5,652,568</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>59,443</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 10,447,534</b>	<b>\$ 2,810,225</b>	<b>\$ 6,586,152</b>

**EXHIBIT 5**  
**(Continued)**

<u>Ditch</u>	<u>Courthouse Improvement Bonds Debt Service Fund</u>	<u>Refunding Courthouse Bonds Debt Service Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ (775,537)	\$ (6,181,862)	\$ (134,945)	\$ (119,070)	\$ (4,106,689)
\$ -	\$ 6,195,000	\$ -	\$ 65,956	\$ 6,260,956
-	-	(11,010,590)	-	(11,076,546)
-	-	17,120,000	-	17,120,000
-	-	645,912	-	645,912
-	-	-	-	13,905
<u>\$ -</u>	<u>\$ 6,195,000</u>	<u>\$ 6,755,322</u>	<u>\$ 65,956</u>	<u>\$ 12,964,227</u>
\$ (775,537)	\$ 13,138	\$ 6,620,377	\$ (53,114)	\$ 8,857,538
1,913,144	596,339	-	396,037	19,637,314
-	-	-	-	59,443
<u>\$ 1,137,607</u>	<u>\$ 609,477</u>	<u>\$ 6,620,377</u>	<u>\$ 342,923</u>	<u>\$ 28,554,295</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT 6**

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

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 8,857,538**

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

In the funds, under the modified accrual basis, distributions of joint venture equity interest are recorded as revenues. In the statement of net assets, an asset is reported for the equity interest in joint ventures, and distributions (decreases) and increases in joint venture equity are reported in the statement of activities. The change in the net assets differs from the change in fund balance by the increases and decreases in the investment in joint venture. (1,445,117)

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	\$ 7,508,170	
Deferred revenue - January 1	<u>(5,280,143)</u>	2,228,027

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	\$ 2,489,229	
Net book value of assets disposed	(4,089)	
Current year depreciation	<u>(2,247,553)</u>	237,587

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. (10,153,440)

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	\$ (133,630)	
Change in compensated absences	2,964	
Change in inventories	<u>59,443</u>	(71,223)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Fund are reported with governmental activities. 5,156,325

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 4,809,697**

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

**PROPRIETARY FUND**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FUND NET ASSETS  
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND  
DECEMBER 31, 2011**

**Assets**

**Restricted assets**

Cash and pooled investments on deposit for debt service	<b>\$ 1,079,151</b>
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**Noncurrent assets**

Deferred debt issuance costs	\$ 30,261
Capital assets	
Depreciable - net	<u>14,444,269</u>

<b>Total noncurrent assets</b>	<b>\$ 14,474,530</b>
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<b>Total Assets</b>	<b>\$ 15,553,681</b>
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**Liabilities**

**Current liabilities payable from restricted assets**

Interest payable	\$ 249,905
Revenue bonds payable - current	<u>7,045,425</u>

<b>Total Liabilities</b>	<b>\$ 7,295,330</b>
--------------------------	---------------------

**Net Assets**

Invested in capital assets - net of related debt	\$ 7,398,841
Restricted for debt service	<u>859,510</u>

<b>Total Net Assets</b>	<b>\$ 8,258,351</b>
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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Operating Revenues</b>	
Rental income	\$ 1,385,349
<b>Operating Expenses</b>	
Depreciation	<u>426,729</u>
<b>Operating Income (Loss)</b>	<b><u>\$ 958,620</u></b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest expense	\$ (605,773)
Bond issuance expense	<u>(12,112)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>\$ (617,885)</u></b>
<b>Income (loss) before contributions and transfers</b>	
Transfers in	<u>\$ 4,815,590</u>
<b>Change in Net Assets</b>	<b>\$ 5,156,325</b>
<b>Net Assets - January 1</b>	<u>3,102,026</u>
<b>Net Assets - December 31</b>	<b><u><u>\$ 8,258,351</u></u></b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF CASH FLOWS  
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	<u>\$ 1,385,349</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal paid on long-term debt	\$ (750,000)
Interest paid on long-term debt	<u>(620,023)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>\$ (1,370,023)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	\$ 15,326
<b>Cash and Cash Equivalents at January 1</b>	<u>1,063,825</u>
<b>Cash and Cash Equivalents at December 31</b>	<u><u>\$ 1,079,151</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
Operating income (loss)	\$ 958,620
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	<u>426,729</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u><u>\$ 1,385,349</u></u>

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**FIDUCIARY FUNDS**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 10*

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

	<b>Private-Purpose Trust</b>	<b>Agency Funds</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 11,532	\$ 926,967
Due from other governments	-	867,274
	<b>\$ 11,532</b>	<b>\$ 1,794,241</b>
<b><u>Liabilities</u></b>		
Due to other funds	\$ -	\$ 28,091
Due to other governments	-	732,826
Advance from General Fund	-	1,033,324
	<b>\$ -</b>	<b>\$ 1,794,241</b>
<b><u>Net Assets</u></b>		
Net assets, held in trust for other purposes	<b>\$ 11,532</b>	

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 11*

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Private-Purpose Trust</u>
<u>Additions</u>	
Investment earnings	
Interest	\$ 105
<b>Change in Net Assets</b>	<b>\$ 105</b>
<b>Net Assets - January 1</b>	<b>11,427</b>
<b>Net Assets - December 31</b>	<b>\$ 11,532</b>



**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Freeborn 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 Freeborn 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. The County Administrator, appointed by the Board, serves as the clerk of the Board of Commissioners but has no vote.

Blended Component Unit

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

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Freeborn County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-.047.	County Commissioners are the HRA Board, and the HRA is a financial burden.	Separate financial statements are not prepared.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures described in Note 5.C. The County also participates in jointly-governed organizations described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

The government-wide statement of net assets (a) is presented on a consolidated basis, and (b) is 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.

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

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for restricted revenues from the federal and state government, as well as committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Services Special Revenue Fund is used to account for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

The Ditch Special Revenue Fund is used to account for special assessments revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

The Courthouse Improvement Debt Service Fund is used to account for the accumulation of restricted resources for, and the payment of the 2002 courthouse project.

The Refunding Courthouse Bonds Debt Service Fund is used to account for the accumulation of restricted resources for, and the payment of the refunding bonds on the courthouse project.

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

Debt service funds are used to account for all financial resources restricted for payment of principal, interest, and related costs of long term bonded debt.

The Internal Service Fund accounts for HRA building facilities (jail and other general office space) activities provided to other departments and funds on a cost-reimbursement basis.

Private-purpose trust funds are used to account for resources legally held in trust for others.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Freeborn County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated

**FREEBORN COUNTY**  
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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2011 were \$101,857.

3. Receivables and Payables

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund to indicate that they are not in spendable format.

All receivables are shown net of an allowance for uncollectibles.

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

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

**FREEBORN COUNTY**  
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1. Summary of Significant Accounting Policies

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 75
Building improvements	20 - 30
Public domain infrastructure	25 - 75
Furniture, equipment, and vehicles	3 - 15

7. Compensated Absences

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

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1. Summary of Significant Accounting Policies

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

8. Deferred Revenue

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

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the 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 other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Classification of Net Assets

Net assets in the government-wide and proprietary fund financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.



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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Classification of Net Assets (Continued)

Restricted net assets - the amount of net assets for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

11. Classification of Fund Balance

Beginning in 2011, Freeborn County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

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

Nonspendable - amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not is spendable from" criterion includes items that are not expected to be converted to cash.

Restricted - amounts in which constraints have been placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

11. Classification of Fund Balance (Continued)

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

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

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

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

**FREEBORN COUNTY**  
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1. Summary of Significant Accounting Policies

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

12. Minimum Fund Balance

Freeborn County has adopted a minimum fund balance policy to address cash flow or working capital needs for the General Fund and other special revenue funds which are heavily reliant on property tax revenues to fund current operations. However, property tax revenues are not available for distribution until June. Therefore, the County Board has determined the need to maintain a minimum unassigned fund balance in the General Fund and an unrestricted fund balance in the remaining special revenue funds until the tax revenues are distributed. The County Board has determined this amount to be approximately 35 to 50 percent of General Fund operating expenses and 20 to 40 percent of the subsequent year's budgeted revenues for special revenue funds. This amount will provide adequate funds until the next property tax revenues are received.

13. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

For the year ended December 31, 2011, expenditures exceeded budgeted amounts in the General Fund and the Ditch Special Revenue Fund. The General Fund received disaster cleanup aid and distributed it in the amount of \$378,801. The Ditch Special Revenue Fund had a final determination and the expenses that related to it. These items were not budgeted. The Ditch Special Revenue Fund is paid for by the affected landowners and does not impact the County's levy or budget.

	<u>Final Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Ditch Special Revenue Fund	\$ 1,281,000	\$ 1,957,185	\$ 676,185

**FREEBORN COUNTY**  
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2. Stewardship, Compliance, and Accountability (Continued)

B. Deficit Fund Equity

The Radio Bond Debt Service Fund had a deficit fund balance of \$1,468 as of December 31, 2011. The deficit can be attributed to tax collections that were less than anticipated.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 19,649,583
Petty cash and change funds	2,275
Cash with escrow	260,655
Restricted cash and investments	6,359,722
Internal Service Fund	
Restricted cash and pooled investments on deposit for debt service	1,079,151
Fiduciary funds	
Cash and pooled investments	
Private-Purpose Trust Fund	11,532
Agency funds	<u>926,967</u>
 Total Cash and Investments	 <u>\$ 28,289,885</u>

a. Deposits

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

**FREEBORN COUNTY  
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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better and revenue obligations rated “AA” or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution 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 other than complying with the requirements of Minnesota statutes. The County does not have custodial credit risk as of December 31, 2011.

b. Investments

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

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

**FREEBORN COUNTY  
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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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.

**FREEBORN COUNTY**  
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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 will 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) coverage and excess SIPC coverage available. Securities purchased that exceed SIPC coverages shall be transferred to the County custodian. As of December 31, 2011, the County does not have any investments exposed 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 does not have a policy on concentration of credit risk.

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Non-negotiable certificates of deposit					
Alliance B&T	N/A	N/A	<5%	02/20/2014	\$ 248,793
BMW Bank North America	N/A	N/A	<5%	08/13/2013	248,420
American Express Centurion	N/A	N/A	<5%	11/10/2014	199,458
GE Capital Financial Inc.	N/A	N/A	<5%	11/17/2014	199,444
Goldman Sachs Bank	N/A	N/A	<5%	12/15/2014	199,258
Sallie Mae Bank	N/A	N/A	<5%	12/15/2014	199,216
Total non-negotiable certificates of deposit					\$ 1,294,589

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Carrying (Fair) Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	
Mutual Funds					
Wells Fargo Advantage Heritage Fund	Aaa	Moody's	94%	N/A	\$ 19,000,000
Total investments					\$ 20,294,589
Deposits					7,993,021
Petty cash					2,275
Total Cash and Investments					<u>\$ 28,289,885</u>

N/A - Not Applicable  
N/R - Not Rated

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$ 4,230,203
Less: allowance for uncollectible Social Services Special Revenue Fund	<u>(923,120)</u>
Net Accounts Receivables	<u>\$ 3,307,083</u>

Receivables are expected to be collected within the next year.



**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land				
General	\$ 625,953	\$ -	\$ -	\$ 625,953
Highway infrastructure	3,534,332	-	-	3,534,332
Improvements other than buildings	700,490	-	-	700,490
Total capital assets not depreciated	<u>\$ 4,860,775</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,860,775</u>
Capital assets depreciated				
Buildings and improvements	\$ 31,886,633	\$ 131,571	\$ -	\$ 32,018,204
Other land improvements	110,838	-	-	110,838
Machinery, furniture, and equipment	6,058,225	564,383	383,608	6,239,000
Infrastructure - sewer	391,579	-	-	391,579
Infrastructure - highway	84,510,292	1,793,275	4,089	86,299,478
Total capital assets depreciated	<u>\$ 122,957,567</u>	<u>\$ 2,489,229</u>	<u>\$ 387,697</u>	<u>\$ 125,059,099</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 5,508,167	\$ 803,749	\$ -	\$ 6,311,916
Other land improvements	17,088	5,542	-	22,630
Machinery, furniture, and equipment	3,861,261	529,752	383,608	4,007,405
Infrastructure - sewer	168,967	15,834	-	184,801
Infrastructure - highway	43,476,721	1,319,405	-	44,796,126
Total accumulated depreciation	<u>\$ 53,032,204</u>	<u>\$ 2,674,282</u>	<u>\$ 383,608</u>	<u>\$ 55,322,878</u>
Total capital assets depreciated, net	<u>\$ 69,925,363</u>	<u>\$ (185,053)</u>	<u>\$ 4,089</u>	<u>\$ 69,736,221</u>
Capital Assets, Net	<u>\$ 74,786,138</u>	<u>\$ (185,053)</u>	<u>\$ 4,089</u>	<u>\$ 74,596,996</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 1,109,668
Public safety	89,278
Highways and streets, including depreciation of infrastructure assets	1,452,424
Human services	7,928
Sanitation	14,984
Total Depreciation Expense - Governmental Activities	<u>\$ 2,674,282</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Social Services Special Revenue Fund	Services provided	\$ 22,456
	Collaborative Agency Fund	Services provided	28,091
	Total General Fund		\$ 50,547
Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	Services provided	3,293
Total Due To/From Other Funds			<u>\$ 53,840</u>

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ditch Special Revenue Fund	\$ 814,100
	Motor Vehicle Agency Fund	25,000
	Payroll Clearing Agency Fund	28,274
	Insurance Agency Fund	141,050
	Turtle Creek Watershed Agency Fund	839,000
	Debt Service Radio Bond	3,348
Total Advances To/From Other Funds		<u>\$ 1,850,772</u>

3. Interfund Transfers

In 2011, \$65,956 was transferred from the General Fund to a non-major debt service fund to cover debt service interest and charges. A transfer was also made from the Refunding Courthouse Debt Service Fund of \$11,010,590 to the Courthouse Improvement Debt Service Fund (\$6,195,000) and the Internal Service Fund (\$4,185,590) to pay for the bonds from refunding issues.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
General obligation bonds					
2002 G.O. Criminal Justice Bonds	2023	\$255,000 - \$695,000	3.00 - 5.00	\$ 9,600,000	\$ 440,000
2010A G.O. Waste Disposal Bonds	2022	\$40,000 - \$45,000	2.25 - 5.25	525,000	480,000
2011A G.O. Refunding Bonds	2023	\$480,000 - \$645,000	3.00 - 4.00	6,120,000	6,120,000
2011B G.O. Refunding Bonds	2023	\$375,000 - \$515,000	3.00 - 4.00	4,800,000	4,800,000
2011C G.O. Refunding Bonds	2023	\$470,000 - \$635,000	2.00 - 3.00	6,200,000	6,200,000
Total General Obligation Bonds				<u>\$ 27,245,000</u>	<u>\$ 18,040,000</u>
2010B G.O. Radio Capital Notes	2019	\$370,000 - \$440,000	2.00 - 3.75	<u>\$ 3,575,000</u>	<u>\$ 3,205,000</u>
Ditch Series 2006 G.O. Special Assessment Bonds	2022	\$325,000 - \$35,000	3.625 - 4.15	\$ 3,020,000	\$ 1,765,000
Ditch Series 2009 G.O. Special Assessment Bonds	2022	\$85,000 - \$90,000	1.15 - 3.75	1,060,000	975,000
Total G.O. Special Assessment Bonds				<u>\$ 4,080,000</u>	<u>\$ 2,740,000</u>
Lease Revenue Bonds					
Law Enforcement Center Lease Revenue Bonds with government commitment	2012	\$85,000 - \$90,000	3.25 - 5.00	<u>\$ 7,470,000</u>	\$ 340,000
Less: unamortized discount					(1,756)
Total Lease Revenue Bonds with Government Commitment, net					<u>\$ 338,244</u>
Criminal Justice Center Lease Revenue Bonds	2012	\$190,000 - \$550,000	3.50 - 5.50	\$ 9,630,000	\$ 6,760,000
Less: unamortized discount					(52,816)
Total Lease Revenue Bonds, net					<u>\$ 6,707,184</u>
Minnesota Department of Economic Development loan	2013	\$6,007 - \$42,606	3.00	\$ 280,000	<u>\$ 69,706</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Special Assessment Ditch Bonds	
	Principal	Interest	Principal	Interest
2012	\$ 485,000	\$ 680,731	\$ 370,000	\$ 86,300
2013	1,370,000	538,669	340,000	75,363
2014	1,445,000	498,794	345,000	64,632
2015	1,475,000	454,656	335,000	53,694
2016	1,510,000	409,544	265,000	43,869
2017 - 2021	8,185,000	1,319,300	960,000	97,482
2022 - 2024	3,570,000	130,824	125,000	2,414
Total	<u>\$ 18,040,000</u>	<u>\$ 4,032,518</u>	<u>\$ 2,740,000</u>	<u>\$ 423,754</u>

Year Ending December 31	Law Enforcement Center G.O. Lease Revenue Bonds		Criminal Justice Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2012	<u>\$ 6,760,000</u>	<u>\$ 183,263</u>	<u>\$ 340,000</u>	<u>\$ 116,624</u>

Year Ending December 31	General Obligation Capital Notes		Loans Payable	
	Principal	Interest	Principal	Interest
2012	\$ 375,000	\$ 82,506	\$ 37,547	\$ 1,578
2013	380,000	75,006	32,159	444
2014	385,000	67,406	-	-
2015	390,000	59,706	-	-
2016	400,000	50,931	-	-
2016 - 2020	1,275,000	83,414	-	-
Total	<u>\$ 3,205,000</u>	<u>\$ 418,969</u>	<u>\$ 69,706</u>	<u>\$ 2,022</u>

**FREEBORN COUNTY  
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3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 7,585,000	\$ 17,120,000	\$ 6,665,000	\$ 18,040,000	\$ 485,000
Special assessment G.O. bond	3,105,000	-	365,000	2,740,000	370,000
G.O. lease revenue	5,535,000	-	5,195,000	340,000	340,000
Lease revenue bonds	7,180,000	-	420,000	6,760,000	6,760,000
Premiums	-	645,912	-	645,912	-
Less: deferred amounts for issuance discounts	(96,813)	-	(25,729)	(71,084)	(54,575)
Total bonds payable	\$ 23,308,187	\$ 17,765,912	\$ 12,619,271	\$ 28,454,828	\$ 7,900,425
Loans payable	106,145	-	36,439	69,706	37,547
Capital notes payable	3,575,000	-	370,000	3,205,000	375,000
Compensated absences	1,386,565	-	2,964	1,383,601	69,180
Long-Term Liabilities	<u>\$ 28,375,897</u>	<u>\$ 17,765,912</u>	<u>\$ 13,028,674</u>	<u>\$ 33,113,135</u>	<u>\$ 8,382,152</u>

Payments on the general obligation ditch special assessment bonds are made by the affected land owners, not the general populace of Freeborn County.

There were two refunding bonds issued in June, and one in October of 2011. The new bonds are Series 2011A, 2011B, and 2011C. The proceeds will be used to retire the three 2002 bonds used to build the new jail and courthouse complex. This will result in a Net Present Value interest savings of \$1,968,366. The final payments on the 2002 bonds will be made in February 2012.

**FREEBORN COUNTY  
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4. Employee Retirement Systems and Pension Plan

A. Plan Description

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

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

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

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

**FREEBORN COUNTY  
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4. Employee Retirement Systems and Pension Plan

A. Plan Description (Continued)

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

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the internet at [www.mnpera.org](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.

**FREEBORN COUNTY  
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4. Employee Retirement Systems and Pension Plan (Continued)

B. Funding Policy

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

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

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

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

	2011	2010	2009
General Employees Retirement Fund	\$ 710,013	\$ 708,252	\$ 660,611
Public Employees Police and Fire Fund	182,437	182,007	166,107
Public Employees Correctional Fund	237,779	251,016	137,658

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



**FREEBORN COUNTY  
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4. Employee Retirement Systems and Pension Plan (Continued)

C. Defined Contribution Plan

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,195	\$ 4,195
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

**FREEBORN COUNTY  
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4. Employee Retirement Systems and Pension Plan (Continued)

D. Other Postemployment Benefits (OPEB)

The County provides health insurance benefits for qualifying retired employees under a single-employer self-insured plan, financed and administered by Freeborn County and the Southeast Service Cooperative. Blue Cross and Blue Shield of Minnesota (BCBSM), under contract with Southeast Service Cooperative, is the claims administrator. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees, who retire from the County when eligible to receive a retirement benefit from PERA (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Retirees are required to pay 100 percent of the total group rate. Retirees hired prior to April 7, 1987, are entitled to a fixed County contribution of \$113.02 per month. This benefit can only be used with the County insurance plan. The premium is based on a Medicare Supplement rate determined on retiree population for all retirees 65 and older. As of January 1, 2008, there were 60 retirees receiving Medicare Supplements health benefits from the County's health plan. There were 9 retirees rated with the active employee plan. The County's health insurance plan is a defined contribution plan.

As of year-end, the County has 56 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2011, the County expended \$88,061 for these benefits.

Elected Officials

The County offers the same benefit to elected officials. This benefit is funded on a pay-as-you-go basis. Freeborn County has five former elected officials eligible for this benefit. The County expended \$6,805 for this benefit in 2011.

Annual OPEB Cost and Net OPEB Obligations

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer. The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 total plan members. 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

**FREEBORN COUNTY  
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4. Employee Retirement Systems and Pension Plan

D. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligations (Continued)

excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2011, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	\$	62,160
Interest on net OPEB obligation		-
Adjustment to ARC		24,074
		24,074
Annual OPEB cost	\$	94,866
Contribution during the year		(94,866)
		(94,866)
Decrease in net OPEB obligation	\$	-
Net OPEB Obligation - Beginning of Year		-
		-
Net OPEB Obligation - End of Year	\$	-
		-

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2011, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2008	\$ 75,271	\$ 90,881	120.74%	\$ (15,610)
December 31, 2011	99,737	99,737	100.00	-

Funded Status and Funding Progress

As of December 31, 2011, the actuarial accrued liability for benefits was \$1,857,974, all of which was unfunded. The covered payroll (annual payroll of 27 active employees covered by the plan) was \$1,497,191, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 124.1 percent. This compares to 41 active employees in 2008. The total liability was \$2,242,530, and the total payroll was \$2,159,836 with a ratio of 103.8 percent. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include

**FREEBORN COUNTY  
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4. Employee Retirement Systems and Pension Plan

D. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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.

The following simplifying assumptions were made:

Retirement age for 31 active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the members would qualify for benefits.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the "Social Security On-Line" statistics. The 2011 Trustee Report Cohort Life Tables V.A4 for Males and for Females were used.

**FREEBORN COUNTY  
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4. Employee Retirement Systems and Pension Plan

D. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Turnover - Nongroup-specific, age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Cost trend rate - The benefit is a fixed amount with no escalators.

Health insurance premiums - The benefit is fixed at \$113.02 per month. The actual health insurance premium has no bearing on the County's future cost.

Inflation rate - The cost is fixed; there is no inflation rate.

In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2011, was 27 years.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. 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.

**FREEBORN COUNTY  
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5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

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

B. Contingent Liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Family Services Collaborative

The Freeborn County Family Services Collaborative was established in 1996 under the authority of Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Freeborn County; the City of Albert Lea; and Independent School Districts 241, 242, and 2866, each of which appoints members to the Collaborative's governing board. The purpose of the Collaborative is to provide a coordinated approach to support and nurture individuals and families through prevention and intervention so as to ensure success for every child.

Control of the Collaborative is vested in a Board of Directors. Freeborn County appoints 2 members to this 13-member Board. The Freeborn County Department of Social Services acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2011, Freeborn County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the Minnesota Department of Education.

The Collaborative was audited by Ahrens, Montag, and Voglar for 2005. Financial information can be obtained by contacting Alan Olson, Accountant, Freeborn County Social Services, and P. O. Box 1248, Albert Lea, Minnesota 56007.

D. Jointly-Governed Organizations

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

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Freeborn County expended \$109,825 to the Cooperative.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

South Central Minnesota County Comprehensive Water Planning Project

The South Central Minnesota County Comprehensive Water Planning Project was established to provide regional water quality to Minnesota River Basin member counties. During the year, Freeborn County expended \$625 to the Project.

Southeast Minnesota Emergency Management Services

The Southeast Minnesota Emergency Management Services (EMS) was established to provide various health services to member counties. During the year, Freeborn County made no payments to the EMS.

Southeast Minnesota Water Quality Board

The Southeast Minnesota Water Quality Board was established to provide regional water quality services to member counties. During the year, Freeborn County made no payments to the Board.

Southeastern Minnesota Library

The Southeastern Minnesota Library was established to provide library services to member counties. During the year, Freeborn County expended \$262,000 to the Library.

Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force was established to provide drug investigation services to member counties. During the year, Freeborn County expended \$6,500 to the Task Force.



**REQUIRED SUPPLEMENTARY INFORMATION**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

***EXHIBIT A-1***

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
December 31, 2008	\$ -	\$ 2,242,530	\$ 2,242,530	0.0%	\$ 2,159,836	103.8%
December 31, 2011	-	1,857,974	1,857,974	0.0	1,497,191	124.1

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-2*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 7,624,849	\$ 7,624,849	\$ 7,732,560	\$ 107,711
Special assessments	305,000	305,000	380,154	75,154
Licenses and permits	115,800	115,800	86,766	(29,034)
Intergovernmental	3,991,032	3,991,032	4,866,926	875,894
Charges for services	3,323,850	3,323,850	3,463,210	139,360
Fines and forfeits	45,500	45,500	36,064	(9,436)
Gifts and contributions	-	-	10,834	10,834
Investment earnings	501,000	501,000	101,857	(399,143)
Miscellaneous	1,345,450	1,345,450	1,908,945	563,495
<b>Total Revenues</b>	<b>\$ 17,252,481</b>	<b>\$ 17,252,481</b>	<b>\$ 18,587,316</b>	<b>\$ 1,334,835</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 175,843	\$ 175,843	\$ 174,433	\$ 1,410
Courts	100,000	100,000	191,118	(91,118)
County administration	1,439,256	1,439,256	878,614	560,642
County auditor-treasurer	611,349	611,349	554,731	56,618
License bureau	271,604	271,604	238,156	33,448
County assessor	463,158	463,158	414,999	48,159
Elections	50,000	50,000	13,925	36,075
Data processing	400,277	400,277	458,771	(58,494)
Attorney	577,584	577,584	564,878	12,706
Law library	29,500	29,500	17,368	12,132
Recorder	393,500	393,500	464,710	(71,210)
Surveyor	10,000	10,000	75	9,925
Planning and zoning	139,396	139,396	191,145	(51,749)
Buildings and plant	905,706	905,706	831,953	73,753
Veterans service officer	151,804	151,804	153,267	(1,463)
Other general government	-	-	133,194	(133,194)
<b>Total general government</b>	<b>\$ 5,718,977</b>	<b>\$ 5,718,977</b>	<b>\$ 5,281,337</b>	<b>\$ 437,640</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-2  
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 3,615,007	\$ 3,615,007	\$ 3,518,272	\$ 96,735
Boat and water safety	5,291	5,291	4,235	1,056
Ambulance	3,500	3,500	3,500	-
Coroner	82,078	82,078	67,557	14,521
E-911 system	64,520	64,520	307,011	(242,491)
County jail	3,353,598	3,353,598	2,661,529	692,069
Law enforcement center	159,000	159,000	19,664	139,336
Community corrections	777,038	777,038	750,579	26,459
Sheriff's contingent	4,000	4,000	6,500	(2,500)
Civil defense	72,359	72,359	458,901	(386,542)
Other public safety	6,100	6,100	-	6,100
<b>Total public safety</b>	<b>\$ 8,142,491</b>	<b>\$ 8,142,491</b>	<b>\$ 7,797,748</b>	<b>\$ 344,743</b>
<b>Highways and streets</b>				
Administration	<b>\$ 10,000</b>	<b>\$ 10,000</b>	<b>\$ 2,842</b>	<b>\$ 7,158</b>
<b>Sanitation</b>				
Solid waste	\$ -	\$ -	\$ 1,299	\$ (1,299)
Recycling	412,625	412,625	349,898	62,727
<b>Total sanitation</b>	<b>\$ 412,625</b>	<b>\$ 412,625</b>	<b>\$ 351,197</b>	<b>\$ 61,428</b>
<b>Human services</b>				
Income maintenance	\$ -	\$ -	\$ 44,096	\$ (44,096)
Social services	-	-	44,096	(44,096)
<b>Total human services</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 88,192</b>	<b>\$ (88,192)</b>
<b>Health</b>				
Community health	\$ 436,218	\$ 436,218	\$ 395,634	\$ 40,584
Administration	301,829	301,829	259,130	42,699
Health education	81,866	81,866	263,505	(181,639)
WIC	169,442	169,442	192,133	(22,691)
Maternal and child health	51,980	51,980	24,311	27,669
Disease prevention	78,723	78,723	68,395	10,328
Child and teen checkups	58,926	58,926	36,865	22,061
Home health	431,991	431,991	272,157	159,834
<b>Total health</b>	<b>\$ 1,610,975</b>	<b>\$ 1,610,975</b>	<b>\$ 1,512,130</b>	<b>\$ 98,845</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-2  
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Culture and recreation</b>				
Parks	\$ 70,900	\$ 70,900	\$ 87,490	\$ (16,590)
Museum	30,000	30,000	27,337	2,663
County/regional library	262,000	262,000	262,000	-
Other culture and recreation	1,275	1,275	1,175	100
<b>Total culture and recreation</b>	<b>\$ 364,175</b>	<b>\$ 364,175</b>	<b>\$ 378,002</b>	<b>\$ (13,827)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 176,696	\$ 176,696	\$ 173,156	\$ 3,540
Soil and water conservation	149,000	149,000	149,000	-
Agricultural inspection	61,448	61,448	33,032	28,416
Agricultural society/County fair	65,000	65,000	65,000	-
Water planning	119,409	119,409	102,839	16,570
Water quality	19,600	19,600	70,366	(50,766)
Environmental services	82,605	82,605	-	82,605
<b>Total conservation of natural resources</b>	<b>\$ 673,758</b>	<b>\$ 673,758</b>	<b>\$ 593,393</b>	<b>\$ 80,365</b>
<b>Economic development</b>				
Community development	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Other economic development	5,000	5,000	5,000	-
<b>Total economic development</b>	<b>\$ 15,000</b>	<b>\$ 15,000</b>	<b>\$ 15,000</b>	<b>\$ -</b>
<b>Capital outlay</b>				
General government	\$ 160,000	\$ 160,000	\$ -	\$ 160,000
Public safety	23,500	23,500	35,543	(12,043)
Highways and streets	32,600	32,600	42,627	(10,027)
Human services	10,000	10,000	-	10,000
<b>Total capital outlay</b>	<b>\$ 226,100</b>	<b>\$ 226,100</b>	<b>\$ 78,170</b>	<b>\$ 147,930</b>
<b>Total Expenditures</b>	<b>\$ 17,174,101</b>	<b>\$ 17,174,101</b>	<b>\$ 16,098,011</b>	<b>\$ 1,076,090</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-2  
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 78,380</b>	<b>\$ 78,380</b>	<b>\$ 2,489,305</b>	<b>\$ 2,410,925</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ -	\$ -	\$ (65,956)	\$ (65,956)
Sale of capital assets	-	-	13,905	13,905
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (52,051)</b>	<b>\$ (52,051)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 78,380</b>	<b>\$ 78,380</b>	<b>\$ 2,437,254</b>	<b>\$ 2,358,874</b>
<b>Fund Balance - January 1</b>	<b>8,010,280</b>	<b>8,010,280</b>	<b>8,010,280</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 8,088,660</b>	<b>\$ 8,088,660</b>	<b>\$ 10,447,534</b>	<b>\$ 2,358,874</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,356,897	\$ 3,356,897	\$ 3,234,764	\$ (122,133)
Licenses and permits	-	-	17,525	17,525
Intergovernmental	6,375,000	6,375,000	4,828,267	(1,546,733)
Charges for services	1,000	1,000	-	(1,000)
Miscellaneous	55,750	55,750	240,131	184,381
<b>Total Revenues</b>	<b>\$ 9,788,647</b>	<b>\$ 9,788,647</b>	<b>\$ 8,320,687</b>	<b>\$ (1,467,960)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 372,773	\$ 372,773	\$ 263,206	\$ 109,567
Maintenance	3,731,857	3,731,857	2,825,406	906,451
Construction	5,095,000	5,095,000	3,598,824	1,496,176
Equipment maintenance and shop	654,570	654,570	1,177,952	(523,382)
Other	-	-	293,473	(293,473)
<b>Total highways and streets</b>	<b>\$ 9,854,200</b>	<b>\$ 9,854,200</b>	<b>\$ 8,158,861</b>	<b>\$ 1,695,339</b>
<b>Capital outlay</b>				
Highways and streets	\$ -	\$ -	\$ 479,990	\$ (479,990)
<b>Total Expenditures</b>	<b>\$ 9,854,200</b>	<b>\$ 9,854,200</b>	<b>\$ 8,638,851</b>	<b>\$ 1,215,349</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (65,553)</b>	<b>\$ (65,553)</b>	<b>\$ (318,164)</b>	<b>\$ (252,611)</b>
<b>Fund Balance - January 1</b>	<b>3,068,946</b>	<b>3,068,946</b>	<b>3,068,946</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>59,443</b>	<b>59,443</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,003,393</b>	<b>\$ 3,003,393</b>	<b>\$ 2,810,225</b>	<b>\$ (193,168)</b>



**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-4*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 5,332,994	\$ 5,332,994	\$ 5,226,121	\$ (106,873)
Intergovernmental	4,349,461	4,349,461	4,385,016	35,555
Charges for services	380,800	380,800	350,784	(30,016)
Fines and forfeits	2,000	2,000	1,645	(355)
Gifts and contributions	43,500	43,500	39,802	(3,698)
Miscellaneous	467,000	467,000	530,525	63,525
<b>Total Revenues</b>	<b>\$ 10,575,755</b>	<b>\$ 10,575,755</b>	<b>\$ 10,533,893</b>	<b>\$ (41,862)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Victim crisis	\$ 221,216	\$ 221,216	\$ 190,876	\$ 30,340
<b>Human services</b>				
Income maintenance	\$ 2,642,644	\$ 2,642,644	\$ 2,588,878	\$ 53,766
Social services	5,838,526	5,838,526	5,007,308	831,218
<b>Total human services</b>	<b>\$ 8,481,170</b>	<b>\$ 8,481,170</b>	<b>\$ 7,596,186</b>	<b>\$ 884,984</b>
<b>Health</b>				
Mental health center	\$ 1,873,369	\$ 1,873,369	\$ 1,813,247	\$ 60,122
<b>Total Expenditures</b>	<b>\$ 10,575,755</b>	<b>\$ 10,575,755</b>	<b>\$ 9,600,309</b>	<b>\$ 975,446</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ 933,584	\$ 933,584
<b>Fund Balance - January 1</b>	<b>5,652,568</b>	<b>5,652,568</b>	<b>5,652,568</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,652,568</b>	<b>\$ 5,652,568</b>	<b>\$ 6,586,152</b>	<b>\$ 933,584</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-5*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 1,281,000	\$ 1,281,000	\$ 1,081,862	\$ (199,138)
Miscellaneous	-	-	99,786	99,786
<b>Total Revenues</b>	<b>\$ 1,281,000</b>	<b>\$ 1,281,000</b>	<b>\$ 1,181,648</b>	<b>\$ (99,352)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	\$ 1,281,000	\$ 1,281,000	\$ 1,509,393	\$ (228,393)
<b>Debt service</b>				
Principal	-	-	352,472	(352,472)
Interest	-	-	94,296	(94,296)
Administrative (fiscal) charges	-	-	1,024	(1,024)
<b>Total Expenditures</b>	<b>\$ 1,281,000</b>	<b>\$ 1,281,000</b>	<b>\$ 1,957,185</b>	<b>\$ (676,185)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (775,537)</b>	<b>\$ (775,537)</b>
<b>Fund Balance - January 1</b>	<b>1,913,144</b>	<b>1,913,144</b>	<b>1,913,144</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,913,144</b>	<b>\$ 1,913,144</b>	<b>\$ 1,137,607</b>	<b>\$ (775,537)</b>

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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

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1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, all special revenue funds other than the Revolving Loan Fund. All annual appropriations lapse at fiscal year-end.

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2011, expenditures exceeded appropriations in the Ditch Special Revenue Fund by \$676,185.

3. Other Postemployment Benefits

Freeborn 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.

See Note 4.D. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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**SUPPLEMENTARY INFORMATION**

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**MAJOR FUND**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
COURTHOUSE IMPROVEMENT DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 758,000	\$ 758,000	\$ 743,840	\$ (14,160)
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 395,000	\$ 395,000	\$ 6,620,000	\$ (6,225,000)
Interest	353,000	353,000	305,702	47,298
Administrative (fiscal) charges	1,500	1,500	-	1,500
<b>Total Expenditures</b>	<b>\$ 749,500</b>	<b>\$ 749,500</b>	<b>\$ 6,925,702</b>	<b>\$ (6,176,202)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 8,500</b>	<b>\$ 8,500</b>	<b>\$ (6,181,862)</b>	<b>\$ (6,190,362)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ -	\$ -	\$ 6,195,000	\$ 6,195,000
<b>Net Change in Fund Balance</b>	<b>\$ 8,500</b>	<b>\$ 8,500</b>	<b>\$ 13,138</b>	<b>\$ 4,638</b>
<b>Fund Balance - January 1</b>	<b>596,339</b>	<b>596,339</b>	<b>596,339</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 604,839</b>	<b>\$ 604,839</b>	<b>\$ 609,477</b>	<b>\$ 4,638</b>

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

**SPECIAL REVENUE FUND**

Special revenue funds account for proceeds of specific revenue sources legally restricted to expenditures for specified purposes.

The Revolving Loan Fund accounts for economic development relating to the loan from the State of Minnesota's Department of Employment and Economic Development. Part of the money received back will be used again for new loans.

**DEBT SERVICE FUNDS**

Debt service funds account for the resources used to pay the County's long-term debt principal and interest.

The TIF #1 Fund accounts for the accumulation of resources used for the retirement of the 1998 General Obligation Taxable Tax Increment Bonds and related interest costs.

The Turtle Creek Watershed District Fund accounts for the accumulation of resources used for the retirement of the 2002 Turtle Creek Watershed District Special Assessment Refunding Bonds and related interest costs.

The Radio Bonds Fund accounts for the accumulation of resources used for the retirement of the 2010 General Obligation Capital Notes and related interest costs.

The Waste Disposal Bonds Fund accounts for the accumulation of resources used for the retirement of the 2010 General Obligation Waste Disposal Bonds and related interest costs.

**PERMANENT FUND**

Permanent funds report resources legally restricted to the extent that only earnings, and not principal, may be used to support the County's programs.

The U.S. Fish and Wildlife Fund accounts for money received because of land acquired and taken off the tax rolls. Interest is to be used to offset the taxes.

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT C-1*

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

	<u>Special Revenue</u>	<u>Debt Service</u>		<u>Permanent Fund</u>	<u>Total (Exhibit 3)</u>
	<u>Revolving Loan</u>	<u>Turtle Creek Watershed District</u>	<u>Radio Bond</u>	<u>U.S. Fish and Wildlife</u>	
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 50,930	\$ 70,872	\$ -	\$ 135,637	\$ 257,439
Taxes receivable					
Prior	-	-	7,736	-	7,736
Special assessments receivable					
Noncurrent	-	20,000	-	-	20,000
Prior	-	13	-	-	13
Accrued interest receivable	218	-	-	86	304
Loans receivable	87,132	-	-	-	87,132
	<u>87,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,132</u>
<b>Total Assets</b>	<b><u>\$ 138,280</u></b>	<b><u>\$ 90,885</u></b>	<b><u>\$ 7,736</u></b>	<b><u>\$ 135,723</u></b>	<b><u>\$ 372,624</u></b>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities</b>					
Due to other governments	\$ -	\$ -	\$ -	\$ 484	\$ 484
Deferred revenue - unavailable	-	20,013	5,856	-	25,869
Advance from other funds	-	-	3,348	-	3,348
	<u>-</u>	<u>-</u>	<u>3,348</u>	<u>-</u>	<u>3,348</u>
<b>Total Liabilities</b>	<b><u>\$ -</u></b>	<b><u>\$ 20,013</u></b>	<b><u>\$ 9,204</u></b>	<b><u>\$ 484</u></b>	<b><u>\$ 29,701</u></b>
<b>Fund Balances</b>					
<b>Nonspendable</b>					
Endowment permanent	\$ -	\$ -	\$ -	\$ 135,239	\$ 135,239
<b>Restricted</b>					
Debt service	71,729	70,872	-	-	142,601
Economic development	66,551	-	-	-	66,551
<b>Unassigned</b>	<u>-</u>	<u>-</u>	<u>(1,468)</u>	<u>-</u>	<u>(1,468)</u>
<b>Total Fund Balances</b>	<b><u>\$ 138,280</u></b>	<b><u>\$ 70,872</u></b>	<b><u>\$ (1,468)</u></b>	<b><u>\$ 135,239</u></b>	<b><u>\$ 342,923</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 138,280</u></b>	<b><u>\$ 90,885</u></b>	<b><u>\$ 7,736</u></b>	<b><u>\$ 135,723</u></b>	<b><u>\$ 372,624</u></b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT C-2*

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

	<u>Special Revenue Revolving Loan</u>	<u>Turtle Creek Watershed District</u>	<u>Debt Service Radio Bonds</u>	<u>Waste Disposal Bonds</u>	<u>Permanent Fund U.S. Fish and Wildlife</u>	<u>Total (Exhibit 5)</u>
<b>Revenues</b>						
Taxes	\$ -	\$ -	\$ 459,088	\$ -	\$ -	\$ 459,088
Special assessments	-	496	-	-	-	496
Investment earnings	3,576	-	-	-	484	4,060
<b>Total Revenues</b>	<b>\$ 3,576</b>	<b>\$ 496</b>	<b>\$ 459,088</b>	<b>\$ -</b>	<b>\$ 484</b>	<b>\$ 463,644</b>
<b>Expenditures</b>						
<b>Current</b>						
Conservation of natural resources	\$ -	\$ -	\$ -	\$ -	\$ 1,363	\$ 1,363
<b>Debt service</b>						
Principal	36,439	12,528	370,000	45,000	-	463,967
Interest	2,686	3,160	89,906	20,306	-	116,058
Administrative (fiscal) charges	-	26	650	650	-	1,326
<b>Total Expenditures</b>	<b>\$ 39,125</b>	<b>\$ 15,714</b>	<b>\$ 460,556</b>	<b>\$ 65,956</b>	<b>\$ 1,363</b>	<b>\$ 582,714</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (35,549)</b>	<b>\$ (15,218)</b>	<b>\$ (1,468)</b>	<b>\$ (65,956)</b>	<b>\$ (879)</b>	<b>\$ (119,070)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	-	-	65,956	-	65,956
<b>Net Change in Fund Balance</b>	<b>\$ (35,549)</b>	<b>\$ (15,218)</b>	<b>\$ (1,468)</b>	<b>\$ -</b>	<b>\$ (879)</b>	<b>\$ (53,114)</b>
<b>Fund Balance - January 1</b>	<b>173,829</b>	<b>86,090</b>	<b>-</b>	<b>-</b>	<b>136,118</b>	<b>396,037</b>
<b>Fund Balance - December 31</b>	<b>\$ 138,280</b>	<b>\$ 70,872</b>	<b>\$ (1,468)</b>	<b>\$ -</b>	<b>\$ 135,239</b>	<b>\$ 342,923</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT C-3*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 475,000	\$ 475,000	\$ 459,088	\$ (15,912)
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 370,000	\$ 370,000	\$ 370,000	\$ -
Interest	100,000	100,000	89,906	10,094
Administrative (fiscal) charges	5,000	5,000	650	4,350
<b>Total Expenditures</b>	<b>\$ 475,000</b>	<b>\$ 475,000</b>	<b>\$ 460,556</b>	<b>\$ 14,444</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,468)</b>	<b>\$ (1,468)</b>
<b>Fund Balance - January 1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,468)</b>	<b>\$ (1,468)</b>

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Agency Collections Fund accounts for the following:

The Current School Section accounts for collection of penalty and interest on property taxes and transmission tax. These taxes are distributed according to Minn. Stat. §§ 276.131 and 127A.34.

The Group Insurance Section accounts for payroll deductions for group health insurance.

The Mortgage Registry Tax Section accounts for the taxes received in registering a mortgage within the County.

The Post Placement Program Section accounts for money received by court services to help adolescents adapt to living in the community.

The Prepaid Tax Section accounts for payments received on taxes before the preparation of the tax statements or prior to January 1 of the year due.

The Refunding Section accounts for the refunding of property taxes.

The State Deed Tax Section accounts for the transfer of money to the state received from the sale of state deed stamps.

The State Revenue Section accounts for funds held pending remittance to the state.

The Stream Maintenance Agreement Section accounts for money received to help maintain area streams.

The Collaborative Fund accounts for funds associated with the Family Collaborative Joint Powers Board.

The Recorder's Clearing Fund accounts for funds collected by the Recorder's Department for other governments.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS  
(Continued)

The Tax Collection Fund accounts for the collection and distribution of property taxes and other amounts.

The Payroll Clearing Fund accounts for payroll withholdings.

The Insurance Fund accounts for insurance payments.

The Motor Vehicle Fund accounts for drivers' licenses and vehicle licenses.

The Turtle Creek Watershed Fund accounts for the operations of the watershed district.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT D-1*

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

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>AGENCY COLLECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 125,074	\$ 4,619,241	\$ 4,603,277	\$ 141,038
<b><u>Liabilities</u></b>				
Due to other governments	\$ 125,074	\$ 4,619,241	\$ 4,603,277	\$ 141,038
 <b><u>COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 69,221	\$ 315,845	\$ 303,425	\$ 81,641
<b><u>Liabilities</u></b>				
Due to other funds	\$ 40,710	\$ 28,091	\$ 40,710	\$ 28,091
Due to other governments	28,511	287,754	262,715	53,550
<b>Total Liabilities</b>	<b>\$ 69,221</b>	<b>\$ 315,845</b>	<b>\$ 303,425</b>	<b>\$ 81,641</b>
 <b><u>RECORDER'S - CLEARING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 3,843	\$ 43,369	\$ 43,599	\$ 3,613
<b><u>Liabilities</u></b>				
Due to other governments	\$ 3,843	\$ 43,369	\$ 43,599	\$ 3,613

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT D-1  
(Continued)*

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

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAX COLLECTION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 307,262	\$ 45,764,702	\$ 45,725,815	\$ 346,149
<b><u>Liabilities</u></b>				
Due to other funds	\$ -	\$ 19,710,351	\$ 19,710,351	\$ -
Due to other governments	307,262	26,054,351	26,015,464	346,149
<b>Total Liabilities</b>	<b>\$ 307,262</b>	<b>\$ 45,764,702</b>	<b>\$ 45,725,815</b>	<b>\$ 346,149</b>
<b><u>PAYROLL CLEARING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 125,270	\$ 125,270	\$ -
Due from other governments	25,524	28,274	25,524	28,274
<b>Total Assets</b>	<b>\$ 25,524</b>	<b>\$ 153,544</b>	<b>\$ 150,794</b>	<b>\$ 28,274</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 125,270	\$ 125,270	\$ -
Advance from governmental funds	25,524	28,274	25,524	28,274
<b>Total Liabilities</b>	<b>\$ 25,524</b>	<b>\$ 153,544</b>	<b>\$ 150,794</b>	<b>\$ 28,274</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT D-1  
(Continued)*

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

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>INSURANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 127,116	\$ 15,000	\$ 1,066	\$ 141,050
<b><u>Liabilities</u></b>				
Due to other funds	\$ 413	\$ -	\$ 413	\$ -
Advance from governmental funds	126,703	15,000	653	141,050
<b>Total Liabilities</b>	<b>\$ 127,116</b>	<b>\$ 15,000</b>	<b>\$ 1,066</b>	<b>\$ 141,050</b>
<b><u>MOTOR VEHICLE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 25,000	\$ 6,905,075	\$ 6,905,075	\$ 25,000
<b><u>Liabilities</u></b>				
Advance from governmental funds	\$ 25,000	\$ 6,905,075	\$ 6,905,075	\$ 25,000

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT D-1  
(Continued)*

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

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TURTLE CREEK WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 322,005	\$ 868,312	\$ 1,001,841	\$ 188,476
Due from other governments	-	839,000	-	839,000
<b>Total Assets</b>	<b><u>\$ 322,005</u></b>	<b><u>\$ 1,707,312</u></b>	<b><u>\$ 1,001,841</u></b>	<b><u>\$ 1,027,476</u></b>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 153,105	\$ 188,476	\$ 153,105	\$ 188,476
Advance from governmental funds	168,900	1,518,836	848,736	839,000
<b>Total Liabilities</b>	<b><u>\$ 322,005</u></b>	<b><u>\$ 1,707,312</u></b>	<b><u>\$ 1,001,841</u></b>	<b><u>\$ 1,027,476</u></b>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 979,521	\$ 58,656,814	\$ 58,709,368	\$ 926,967
Due from other governments	25,524	867,274	25,524	867,274
<b>Total Assets</b>	<b><u>\$ 1,005,045</u></b>	<b><u>\$ 59,524,088</u></b>	<b><u>\$ 58,734,892</u></b>	<b><u>\$ 1,794,241</u></b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 125,270	\$ 125,270	\$ -
Due to other funds	41,123	19,738,442	19,751,474	28,091
Due to other governments	617,795	31,193,191	31,078,160	732,826
Advance from governmental funds	346,127	8,467,185	7,779,988	1,033,324
<b>Total Liabilities</b>	<b><u>\$ 1,005,045</u></b>	<b><u>\$ 59,524,088</u></b>	<b><u>\$ 58,734,892</u></b>	<b><u>\$ 1,794,241</u></b>

## **OTHER SCHEDULES**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT E-1**

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

**Shared Revenue**

**State**

Highway users tax	\$	3,677,733
PERA rate reimbursement		44,126
Disparity reduction aid		45,760
Police aid		149,119
County program aid		1,381,865
Market value credit		1,108,148
Disaster credit		50,204
Enhanced 911		113,570

**Total shared revenue** **\$ 6,570,525**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	482,052
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**Payments**

**Local**

Local contributions	\$	112,881
Payments in lieu of taxes		50,343

**Total payments** **\$ 163,224**

**Grants**

**State**

Minnesota Department/Board of		
Public Safety	\$	131,999
Health		346,073
Natural Resources		41,692
Human Services		1,608,227
Veterans Affairs		2,800
Corrections		166,850
Transportation		461,123
Water and Soil Resources		80,157
Pollution Control Agency		83,058
Peace Officer Standards and Training Board		10,226

**Total state** **\$ 2,932,205**

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

***EXHIBIT E-1  
(Continued)***

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

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 454,057
Housing and Urban Development	401,724
Justice	18,680
Education	8,000
Health and Human Services	2,224,444
Homeland Security	238,658
Transportation	586,640
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**Total federal** **\$ 3,932,203**

**Total state and federal grants** **\$ 6,864,408**

**Total Intergovernmental Revenue** **\$ 14,080,209**

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT E-2*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health		
WIC Farmers' Market Nutrition Program (FMNP)	10.572	600
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	207,462
Passed Through Minnesota Department of Human Services		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	201,131
<b>Total U.S. Department of Agriculture</b>		<b>\$ 409,193</b>
<b>U.S. Department of Commerce</b>		
Passed Through Southeastern Minnesota Regional Radio Board		
Public Safety Interoperable Communications Grant Program	11.555	\$ 64,729
<b>U.S. Department of Housing and Redevelopment</b>		
Passed Through Minnesota Department of Employment and Economic Development		
Community Development Block Grants/States Program and Non-Entitlement Grants in Hawaii	14.228	\$ 401,724
<b>U.S. Department of Justice</b>		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 18,680
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 586,640
<b>U.S. Department of Education</b>		
Passed Through Albert Lea School District #241		
Special Education - Grants for Infants and Families	84.181	\$ 8,000
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	\$ 22,366
Universal Newborn Hearing Screening	93.251	275
Immunization Cooperative Agreement	93.268	2,290
PPHF 2012 National Public Health Improvement Initiative	93.507	2,500
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	44,266
Maternal and Child Health Services Block Grant to the States	93.994	38,365

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT E-2  
(Continued)**

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	2,163
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	451,550
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	25,853
Child Support Enforcement	93.563	438,796
Child Care and Development Fund Cluster		
Child Care and Development Block Grant	93.575	11,455
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	12,187
Stephanie Tubbs Jones Child Welfare Services Program	93.645	14,815
Foster Care Title IV-E Cluster		
Foster Care Title IV-E	93.658	162,050
Foster Care Title IV-E - ARRA	93.658	1,612
Social Services Block Grant	93.667	221,832
Children's Health Insurance Program	93.767	126
Medical Assistance Program	93.778	740,699
Block Grants for Community Mental Health Services	93.958	2,920
Passed Through National Association of Counties and Cities Health Officials		
Medical Reserve Corps Small Grant Program	93.008	5,000
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 2,201,120</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	102,521
Hazard Mitigation Grant	97.039	5,441
Passed Through Southeastern Minnesota Regional Radio Board		
Interoperable Emergency Communications	97.055	2,739
Homeland Security Grant Program	97.067	83,062
Passed Through Region One - Southeast Minnesota		
Homeland Security Grant Program	97.067	20,195
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 213,958</b>
<b>Total Federal Awards</b>		<b>\$ 3,904,044</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

1. Reporting Entity

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

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual--when both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Freeborn County considers all revenues to be available if they are collected within 60 days of the current period. Expenditures are recorded when the liability is incurred.

The information in the schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

3. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 3,932,203
Deferred in 2010, recognized as revenue in 2011	
Wetland Reserve Program (CFDA #10.072)	(43,409)
State Administrative Matching Grants For SNAP (CFDA #0.561)	(1,455)
Child Support Enforcement (CFDA #93.563)	(26,603)
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA #93.596)	(2,201)
Foster Care Title IV-E (CFDA #93.658)	(5,276)
Disaster Grants -Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	(44,522)
Emergency Management Performance Grants (CFDA #97.042)	(3,130)
Grants received more than 60 days after year-end, deferred in 2011	
Medical Assistance Program (CFDA #93.778)	7,465
Foster Care Title IV-E (CFDA #93.658)	3,291
Disaster Grants -Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	87,681
Expenditures per Schedule of Expenditures of Federal Awards	\$ 3,904,044

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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4. Clusters

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

Temporary Assistance for Needy Families (TANF) Cluster	\$	521,669
Child Care and Development Fund Cluster		23,642
Foster Care Title IV-E Cluster		163,662

5. Passed Through to Subrecipients

During 2011, Freeborn County did not pass any federal money to sub-recipients.

6. American Recovery and Reinvestment Act

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



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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

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

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major programs are:

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CFDA #14.228
Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
ARRA- Emergency Temporary Assistance for Needy Families Supplemental Grant	CFDA #93.714
Child Support Enforcement	CFDA #93.563
Foster Care Title IV-E Cluster	
Foster Care Title IV-E	CFDA #93.658
Foster Care Title IV-E - ARRA	CFDA #93.658

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

Freeborn County qualified as low-risk auditee? **No**

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

### INTERNAL CONTROL

#### ITEM ARISING THIS YEAR

##### 11-1 Audit Adjustments

**Criteria:** A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

**Condition:** During our audit, we proposed audit adjustments which were reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

**Context:** The inability to detect significant misstatements in the financial statements increases the likelihood the financial statements would not be fairly presented.

**Effect:** Audit adjustments were proposed to record additional receivables found during the audit, additional deferred revenue, and to reclassify assets and revenues.

**Cause:** Freeborn County staff missed the additional items found by auditors.

**Recommendation:** We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

#### Client's Response:

*The County will make every effort to implement a system to monitor and review financial reporting.*

## PREVIOUSLY REPORTED ITEMS NOT RESOLVED

### 07-4 Segregation of Duties - Payroll

**Criteria:** A good system of internal control is to provide segregation of incompatible duties. In other words, responsibilities should be separated between input, processing, and disbursing functions.

**Condition:** During our review of the County's payroll function, we noted a lack of segregation of duties between input, processing, and disbursing functions.

**Context:** We noted the following segregation items:

- The individual who is entering the information from the time sheets is also the individual who is making the changes and adding new employees to the system.
- The same individual who inputs/processes payroll is also disbursing payroll.

**Effect:** The County should provide for the segregation of functions and responsibilities so that no one person has incompatible duties that would permit the perpetration and concealment of material errors or irregularities.

**Cause:** The County did not address this issue in 2011 since the County is considering a new payroll system that may provide the segregation needed.

**Recommendation:** We recommend the County segregate the duties in the payroll process. This would include segregating the input function from the disbursing function and changes/adding new employees.

Client's Response:

*The County is currently implementing a new payroll reporting system. The target date for completion is January 2013. All payroll duties will be reviewed at that time.*

### 08-2 Segregation of Duties - County Departments

**Criteria:** A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts. Specifically, we noted these issues in our review of receipting procedures in the Planning/Zoning Department.

**Context:** Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Freeborn County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

**Effect:** Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The County does not have the economic resources needed to hire additional qualified accounting staff in order to segregate duties in every department.

**Recommendation:** We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

*The County is aware of our limited number of staff and has implemented oversight procedures in the areas that we could. We will continue to monitor and review procedures.*

09-2 Information Technology Policies and Procedures

**Criteria:** All major policies and procedures related to the information technology systems should be documented so that employees are aware of the County's policies and procedures relating to security, operations development, risk assessments, termination of employees, and email encryption.

**Condition:** The County does not have documented policies and procedures in place to address the following for its information technology systems: information security, operation development, termination of employees, risk assessments of the systems, and email encryption methods.

**Context:** If employees are not aware of the policies and procedures, there may not be consistent application of procedures by all staff.

**Effect:** Not establishing documented policies and procedures could leave County information more vulnerable to loss or destruction of data.

**Cause:** The County realizes the importance of documenting information technology policies and procedures but has not had time.

**Recommendation:** We recommend the County Information Technology Department establish and document policies and procedures relating to information technology system specifically relating to information security, operations development, termination of employees, assessment of the systems, and email encryption methods. The County should also ensure that County staff are given the policies and procedures and are made aware that they are responsible for compliance with them.

Client's Response:

*The County will make every effort to implement the recommendations of the State Auditor.*

10-1 Access to Accounting System

**Criteria:** A good system of internal control provides for an adequate segregation of duties among those who are administering information technology security and those processing accounting transactions.

**Condition:** We noted in our review of user access to the accounting system the Information Technology Department personnel have user access to the accounting system.

**Context:** User access to the accounting system should be limited to those whose job positions are to process accounting transactions.

**Effect:** The current condition provides the opportunity for Information System Department personnel to make unauthorized entries to the accounting data files.

**Cause:** The AS400 administrator has been assigned payroll duties, and the County has not reassigned these duties or established compensating controls.

**Recommendation:** We recommend that user access of the accounting system be limited to those whose positions are to process accounting transactions.

Client's Response:

*This item will be addressed as part of 07-4, as stated above.*

## PREVIOUSLY REPORTED ITEMS RESOLVED

### **Disbursement Internal Controls (09-1)**

Two employees had the ability to enter new vendors, create disbursements, print the warrants, and access the check stock. The County had procedures in place for the review of new vendors created, but the review had not been done for 2010 since January.

### **Resolution**

The County has established control procedures over disbursements by limiting access to the disbursement functions.

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

### ITEM ARISING THIS YEAR

#### 11-2 Special Tests and Provisions

**Program:** Child Support Enforcement (CFDA No. 93.563)

**Criteria:** OMB Circular A-133 § .300(b) states that the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.

For all cases referred to the IV-D agency or applying for services under 45 CFR § 302.33 or 45 CFR § 309.65(a)(2) in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for monitoring compliance with the obligation and also enforcing the support obligation.

**Condition:** The state maintains the computer system, PRISM, which is used by the County to support monitoring support obligations. During our testing, three out of 40 case files were not monitored nor was there documentation to determine that action was taken within the required time frame to enforce the obligation.

**Questioned Costs:** None.

**Context:** The State of Minnesota contracts with the County Social Services Department to perform the child support services, while the state maintains PRISM, which supports the child support enforcement process.

**Effect:** In cases where there is no evidence of monitoring, there is no documentation of action taken to enforce an obligation, which creates the possibility that clients will not receive the obligation required or receive the obligation in a timely manner.

**Cause:** There was a turnover in staff, and new staff was not aware of the requirements.

**Recommendation:** We recommend the County monitor and maintain documentation to verify that enforcement action is initiated in the required time frame.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Alan Olson*

Corrective Action Planned:

*Our new staff have been trained on the time deadlines. Staff will attempt to complete Prism work lists before their due date and will not delete them without the work being done. I will weekly review child support staff work lists.*

Anticipated Completion Date:

*October 1, 2012*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

11-3 Sale of County Property

**Criteria:** Per Minn. Stat. § 15.054, no officer or employee shall sell or procure for sale or possess or control for sale to any other officer or employee any property or materials owned by the County. If the property or materials are not needed for public purposes, the items can be sold to employees only after reasonable public notice at a public auction or by sealed response. The employee purchasing the property or materials cannot be directly involved in the auction or process of the collection of sealed bids.

**Condition:** County property was sold to an elected County official and a contractor without complying with the statutory requirements.

**Context:** The former County Sheriff sold two pistols, one to himself and one to the contracted Emergency Management Coordinator.

**Effect:** By not giving reasonable public notice and then selling at a public auction or by sealed responses, the County is not in compliance with Minnesota statutes. By not complying with statutory requirements, the County may not have received the best competitive price for the property.

**Cause:** The County employee was not aware of the statute.

**Recommendation:** We recommend the County comply with Minn. Stat. § 15.054 and only sell County property to employees after giving reasonable notice and then selling the property at a public auction or by sealed responses.

Client's Response:

*The County agrees and will make every effort to monitor the policies that are already in place.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-5

Disaster Recovery Plan

**Criteria:** The County needs to provide for the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements. A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan as to how the County will continue operations until normal operations are re-established;
- a list of materials the County needs to continue operations and how they will be obtained;
- identification of the space to be used; and
- a schedule for developing and periodically reviewing and updating the plan.



**Condition:** While reviewing the Information Technology Department, we noted Freeborn County has not completed or approved a formal disaster recovery plan, although, the County has started a plan.

**Context:** A disaster recovery plan would give greater assurance that the County is prepared for a disaster or major computer breakdown.

**Effect:** In the event that a disaster occurred, the County could experience a delay in reporting of financial services to the public.

**Cause:** The County is aware of the issue but hasn't had time to address the completion of a plan.

**Recommendation:** We recommend the County continue to develop, implement, and test the disaster recovery plan. All County employees should be familiar with the plan.

Client Response:

*The Information and Technology Department continues to develop an Emergency Response plan specific to the Department. In addition, an Emergency Response plan for this Department is included in the Freeborn County Emergency Operations Plan which has been approved by the Board of Commissioners and the Minnesota Department of Public Safety.*

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REBECCA OTTO  
STATE AUDITOR

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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  
Freeborn County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2012. 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.

### Internal Control Over Financial Reporting

Management of Freeborn County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Freeborn 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified deficiencies in internal controls over financial reporting, described in the Schedule of Findings and Questioned Costs as items 07-4, 08-2, 09-2, 10-1, and 11-1 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study included all of the listed categories except that we did not test for compliance in tax increment financing because Freeborn County did not have any.

The results of our tests indicate that for the items tested, Freeborn County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 11-3.

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

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2012

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

Board of County Commissioners  
Freeborn County

### Compliance

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

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 Freeborn 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, Freeborn County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 11-2.

### Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as item 11-2. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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



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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 27, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR