

# STATE OF MINNESOTA

## Office of the State Auditor



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

---

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

YEAR ENDED DECEMBER 31, 2013

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

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

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

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

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

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

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

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

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

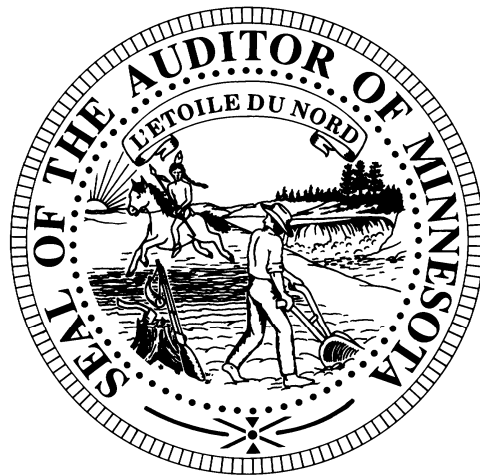
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Year Ended December 31, 2013**



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

This page was left blank intentionally.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	14
Statement of Activities	2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	18
Reconciliation of Fund Balances of Governmental Funds to Net Position - Governmental Activities	4	22
Statement of Revenues, Expenditures, and Changes in Fund Balances	5	23
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities - Governmental Activities	6	25
Proprietary Fund		
Huntley Sewer District Enterprise Fund		
Statement of Fund Net Position	7	26
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	27
Statement of Cash Flows	9	28
Fiduciary Funds		
Statement of Fiduciary Net Position	10	29
Notes to the Financial Statements		30
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	71
Public Works Special Revenue Fund	A-2	74
Human Services Special Revenue Fund	A-3	75
Ditch Special Revenue Fund	A-4	76
Schedule of Funding Progress - Other Postemployment Benefits	A-5	77
Notes to the Required Supplementary Information		78

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Financial Section (Continued)</b>		
Supplementary Information		
Budgetary Comparison Schedule - Debt Service Fund	B-1	80
Fiduciary Funds		
Agency Funds		81
Combining Statement of Changes in Assets and Liabilities	C-1	82
Component Unit		
Economic Development Authority		
Governmental Fund Balance Sheet and Governmental Activities - Statement of Net Position with Adjustments to Convert Modified to Full Accrual	D-1	83
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities - Statement of Activities with Adjustments to Convert Modified to Full Accrual	D-2	84
Schedule		
Schedule of Intergovernmental Revenue	E-1	85
<b>Management and Compliance Section</b>		
Schedule of Findings and Recommendations		86
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing     Standards</i>		92



This page was left blank intentionally.



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2013

			Term Expires
<b>Elected</b>			
<b>Commissioners</b>			
Board Member	John Roper	District 1	January 2017
Chair	Greg Young	District 2	January 2015
Board Member	William Groskreutz, Jr.	District 3	January 2017
Vice Chair	Tom Loveall	District 4	January 2015
Board Member	Tom Warmka	District 5	January 2017
Attorney	Troy Timmerman		January 2015
Auditor/Treasurer	John Thompson		January 2015
Judge	Douglas Richards		January 2015
County Recorder	Sheryl Asmus		January 2015
Registrar of Titles	Sheryl Asmus		January 2015
County Sheriff	Mike Gormley		January 2015
<b>Appointed</b>			
Assessor	Lynn Krachmer		December 2016
County Engineer	John McDonald		April 30, 2015
Veterans Service Officer	David Hanson		Indefinite
Medical Examiner	William Lee, M.D.		Indefinite
<b>Economic Development Authority Board</b>			
	John Herman	Wells	December 31, 2015
	Colleen Gronewald	Blue Earth	December 31, 2014
	Brad Wolf	Winnebago	December 31, 2016
	Jack Heinitz	Blue Earth	December 31, 2017
	Sharon Grunzke	Minnesota Lake	December 31, 2018

This page was left blank intentionally.



This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

## INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Faribault County  
Blue Earth, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Faribault County Housing and Redevelopment Authority (HRA), which represents 4 percent, 4 percent, and 99 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Faribault County HRA, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2013 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other

knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Faribault County's basic financial statements. The supplementary information as listed in the table of contents 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014, on our consideration of Faribault County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Faribault County's internal control over financial reporting and compliance.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

November 13, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

This page was left blank intentionally.



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

This page was left blank intentionally.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013  
(Unaudited)**

Faribault County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2013. 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 position is \$58,063,907, of which \$51,393,184 is the net investment in capital assets, and \$3,654,091 is restricted to specific purposes.
- Business-type activities' total net position is \$1,057,026 of which \$959,382 is the net investment in capital assets.
- Faribault County's governmental activities' net position increased by \$1,520,902 for the year ended December 31, 2013. The net position of the County's business-type activities decreased by \$46,636.
- The net cost of governmental activities was \$8,412,373 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$9,933,275. The net cost of business-type activities was \$46,636.
- Governmental funds' fund balances decreased by \$307,922.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the basic financial statements. Faribault County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and other information are required to accompany the basic financial statements and, therefore, are included as required supplementary information.

There are two government-wide financial statements. The Statement of Net Position 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 on Exhibit 3. For governmental activities, these statements tell how these services were

financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statement provides financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

### **Government-Wide Financial Statements--The Statement of Net Position and the Statement of Activities**

Our analysis of the County as a whole begins on Exhibit 1. The Statement of Net Position 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, deferred outflows/inflows of resources, 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 position and changes in it. You can think of the County's net position--the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources--as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net position 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 Position and the Statement of Activities, we divide the County into three kinds of activities:

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

## **Fund Financial Statements**

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

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

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

The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. 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 position increased from \$57,646,667 to \$59,120,933. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental activities and business-type activities.

**Table 1  
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
<b>Assets</b>						
Current and other assets	\$ 13,828,649	\$ 14,004,022	\$ 112,738	\$ 107,436	\$ 13,941,387	\$ 14,111,458
Capital assets	59,748,013	57,365,693	1,304,382	1,360,495	61,052,395	58,726,188
<b>Total Assets</b>	<b>\$ 73,576,662</b>	<b>\$ 71,369,715</b>	<b>\$ 1,417,120</b>	<b>\$ 1,467,931</b>	<b>\$ 74,993,782</b>	<b>\$ 72,837,646</b>
<b>Liabilities</b>						
Long-term liabilities	\$ 13,273,413	\$ 13,654,577	\$ 345,000	\$ 349,000	\$ 13,618,413	\$ 14,003,577
Other liabilities	1,093,415	1,172,133	15,094	15,269	1,108,509	1,187,402
<b>Total Liabilities</b>	<b>\$ 14,366,828</b>	<b>\$ 14,826,710</b>	<b>\$ 360,094</b>	<b>\$ 364,269</b>	<b>\$ 14,726,922</b>	<b>\$ 15,190,979</b>
Deferred Inflows of Resources	\$ 1,145,927	\$ -	\$ -	\$ -	\$ 1,145,927	\$ -
<b>Net Position</b>						
Net investment in capital assets	\$ 51,393,184	\$ 48,625,722	\$ 959,382	\$ 1,011,495	\$ 52,352,566	\$ 49,637,217
Restricted	3,654,091	4,143,040	-	-	3,654,091	4,143,040
Unrestricted	3,016,632	3,774,243	97,644	92,167	3,114,276	3,866,410
<b>Total Net Position</b>	<b>\$ 58,063,907</b>	<b>\$ 56,543,005</b>	<b>\$ 1,057,026</b>	<b>\$ 1,103,662</b>	<b>\$ 59,120,933</b>	<b>\$ 57,646,667</b>

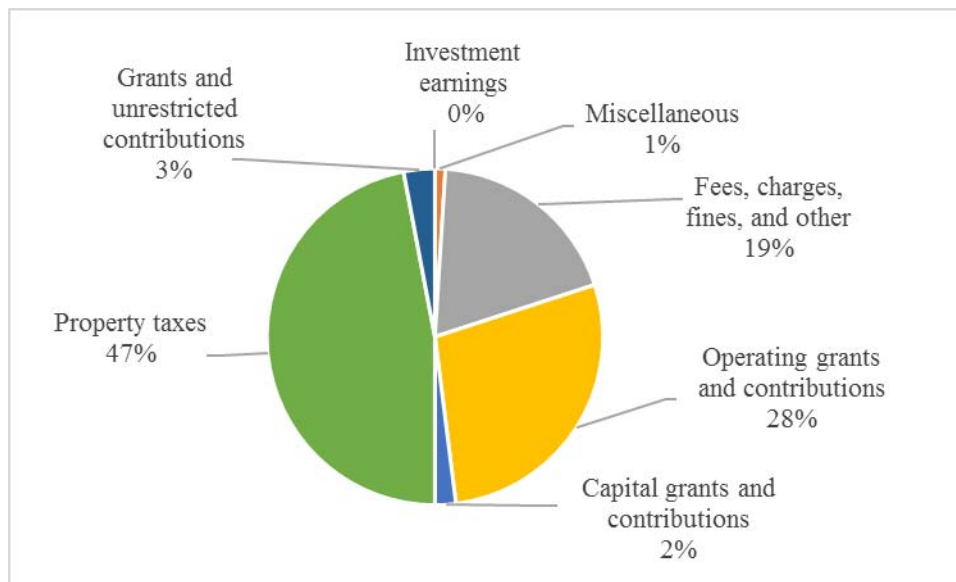
The net position of the County's governmental activities increased by 2.7 percent (\$1,520,902). Unrestricted net position--the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from \$3,774,243 at December 31, 2012, to \$3,016,632 at the end of this year. Net position of the business-type activities decreased by 4.2 percent (\$46,636).

**Table 2  
Change in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
Program revenues						
Fees, charges, fines, and other	\$ 3,653,396	\$ 4,106,533	\$ 27,340	\$ 25,611	\$ 3,680,736	\$ 4,132,144
Operating grants and contributions	5,512,790	5,668,166	-	-	5,512,790	5,668,166
Capital grants and contributions	276,312	340,032	-	-	276,312	340,032
General revenues						
Property taxes	9,082,465	8,715,283	-	-	9,082,465	8,715,283
Grants and contributions not restricted to specific programs	578,077	708,092	-	-	578,077	708,092
Unrestricted investment earnings	59,860	55,578	-	-	59,860	55,578
Miscellaneous and other	212,873	268,862	-	-	212,873	268,862
<b>Total Revenues</b>	<b>\$ 19,375,773</b>	<b>\$ 19,862,546</b>	<b>\$ 27,340</b>	<b>\$ 25,611</b>	<b>\$ 19,403,113</b>	<b>\$ 19,888,157</b>

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Expenses						
General government	\$ 3,277,001	\$ 3,340,392	\$ -	\$ -	\$ 3,277,001	\$ 3,340,392
Public safety	3,302,420	3,102,474	-	-	3,302,420	3,102,474
Highways and streets	5,560,099	5,996,955	-	-	5,560,099	5,996,955
Transit	166,202	186,395	-	-	166,202	186,395
Sanitation	253,620	392,113	73,976	76,030	327,596	468,143
Human services	1,968,696	1,959,075	-	-	1,968,696	1,959,075
Culture and recreation	333,178	327,900	-	-	333,178	327,900
Conservation of natural resources	2,422,782	1,895,645	-	-	2,422,782	1,895,645
Economic development	62,000	67,527	-	-	62,000	67,527
Interest	508,873	473,898	-	-	508,873	473,898
<b>Total Expenses</b>	<b>\$ 17,854,871</b>	<b>\$ 17,742,374</b>	<b>\$ 73,976</b>	<b>\$ 76,030</b>	<b>\$ 17,928,847</b>	<b>\$ 17,818,404</b>
<b>Net Change</b>	<b>\$ 1,520,902</b>	<b>\$ 2,120,172</b>	<b>\$ (46,636)</b>	<b>\$ (50,419)</b>	<b>\$ 1,474,266</b>	<b>\$ 2,069,753</b>

### Total County Revenues – Percent of Total



### Governmental Activities

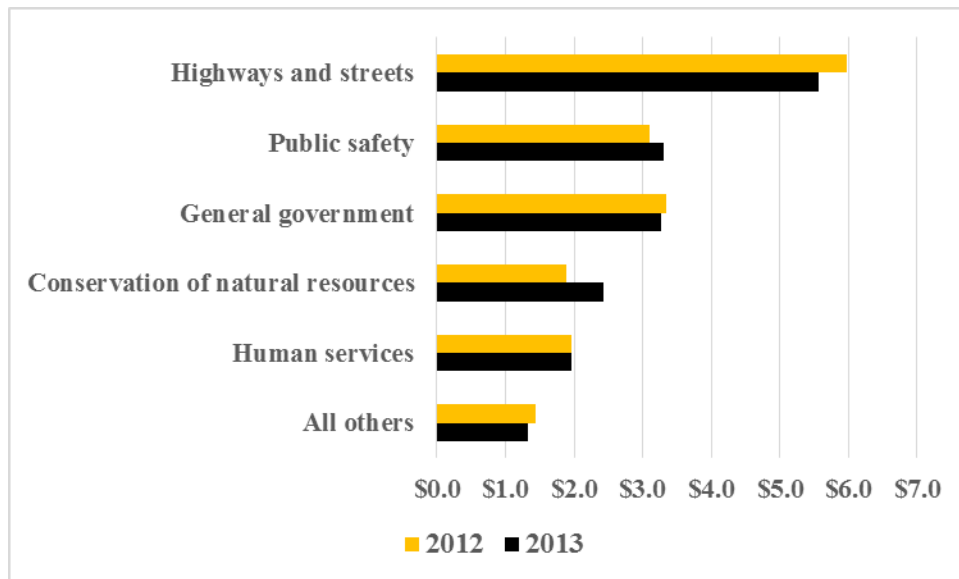
Revenues for the County’s governmental activities were \$19,375,773 while total expenses were \$17,854,871. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was \$9,082,465 because some of the cost was paid by those who directly benefited from the programs (\$3,653,396) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,789,102). Overall, the County’s governmental program revenues, including intergovernmental aid and fees for services, totaled \$9,442,498. The County paid for the remaining “public benefit” portion of governmental activities with \$9,933,275 in general revenues which consisted primarily of taxes (some of which could be used only for certain programs) and other revenues, such as interest and general entitlements.

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

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Highways and streets	\$ 5,560,099	\$ 5,996,955	\$ 164,620	\$ 490,430
Public safety	3,302,420	3,102,474	2,525,235	2,161,461
General government	3,277,001	3,340,392	2,624,476	2,734,783
Conservation of natural resources	2,422,782	1,895,645	277,848	(544,285)
Human services	1,968,696	1,959,075	1,968,696	1,959,075
All others	1,323,873	1,447,833	851,498	826,179
<b>Total Expenses</b>	<b>\$ 17,854,871</b>	<b>\$ 17,742,374</b>	<b>\$ 8,412,373</b>	<b>\$ 7,627,643</b>

**Governmental Activities Expenses  
(in millions)**



## THE COUNTY’S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit 3) reported a combined fund balance of \$7,925,947, which is below last year’s total of \$8,233,869. The General Fund showed an increase of \$1,025,171. The majority of the increase was due to positive variances in charges for services and miscellaneous revenues compared to budgeted amounts. General government expenditures also saw significantly fewer expenditures than budgeted due to the County’s plan to increase fund balances. The Public Works Special Revenue Fund showed a decrease of \$773,733 due to less than expected intergovernmental aid for road construction and maintenance. The Human Services Special Revenue Fund decreased



by \$32,114. The Ditch Special Revenue Fund showed a decrease of \$345,353 as repair, improvement, and redetermination costs were expended, and the assessments will be levied in future years. The Debt Service Fund decreased by \$181,893 as funds restricted for the Subsurface Sewage Treatment Systems projects were expended. The General Fund's fund balance is 77.2 percent of the total governmental funds, compared to 61.9 percent at the end of 2012.

**General Fund Budgetary Highlights**

Revenues exceeded budgeted amounts by \$258,666. Positive variances in several areas including \$163,301 in public safety charges for services contributed to the variance. General government expenditures were \$775,994 below budget primarily due to unspent recording compliance fees and \$510,093 in unspent funds budgeted for retiree insurance premiums. Sanitation expenditures were \$226,104 under budget as the County is keeping solid waste fees collected by assessments and distributing them to Prairieland Solid Waste Board on an as-needed basis. Public safety expenditures were \$234,917 over budget largely due to the negative variance of \$167,873 in the jail expenditures. Conservation of natural resources expenditures exceeded the budget largely due to the \$102,036 variance in the value of septic systems built.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2013, the County had \$61,052,395 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$2,326,207, or 4.0 percent greater than last year.

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

	2013	2012
Governmental Activities		
Land	\$ 1,717,074	\$ 1,707,074
Construction in progress	4,020,935	202,792
Building and improvements	10,054,628	10,295,917
Other improvements	63,116	71,324
Machinery and equipment	2,990,735	3,237,235
Infrastructure	40,901,525	41,851,351
<b>Total</b>	<b>\$ 59,748,013</b>	<b>\$ 57,365,693</b>

	<u>2013</u>	<u>2012</u>
Business-Type Activities		
Land	\$ 27,643	\$ 27,643
Machinery and equipment	42,001	46,667
Infrastructure	<u>1,234,738</u>	<u>1,286,185</u>
Total	<u>\$ 1,304,382</u>	<u>\$ 1,360,495</u>

There is more detailed information on capital assets in the notes to the financial statements.

## Debt

At year-end, the County had \$10,305,000 in governmental activities bonds outstanding, versus \$10,955,000 for last year. Table 5 shows the outstanding debt.

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

	<u>2013</u>	<u>2012</u>
Governmental Activities		
Bonds payable	\$ 10,305,000	\$ 10,955,000
Capital leases	22,088	4,004
Loans payable	26,100	38,765
Other postemployment benefits liability	1,953,201	1,715,610
Compensated absences	<u>989,208</u>	<u>970,569</u>
Totals	<u>\$ 13,295,597</u>	<u>\$ 13,683,948</u>
Business-Type Activities		
Bonds payable	<u>\$ 345,000</u>	<u>\$ 349,000</u>

The County's general obligation bond rating was set at an AA- rating by Standard and Poor's as rated in 2013. The state limits the amount of net debt that the County can issue to three percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this state-imposed limit. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

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

The County's elected and appointed officials considered many factors when setting the fiscal year 2014 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2014 are budgeted to increase 1.8 percent over 2013.
- The County continues to monitor the State of Minnesota's budget deficit situation. Reductions in county program aid amount to \$118,105 in 2013 and will drop \$47,719 in 2014. Significant increases in values of agricultural land cause program aid to decrease due to formulas based in statute.
- Property tax levies have increased 3.4 percent for 2014. This was a result of decreased state aid of \$47,719. Cost of living adjustments also affected the General Fund, Public Works Special Revenue Fund, and Human Services Special Revenue Fund.

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

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact County Auditor/Treasurer/Coordinator John Thompson, Faribault County Courthouse, 415 North Main Street, P. O. Box 130, Blue Earth, Minnesota 56013.

This page was left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
<b>Assets</b>					
Cash and pooled investments	\$ 7,940,608	\$ 33,058	\$ 7,973,666	\$ 100	\$ 339,431
Petty cash and change funds	2,562	-	2,562	-	-
Cash with fiscal agent	-	-	-	20,656	-
Taxes receivable					
Prior - net	134,885	-	134,885	-	-
Special assessments receivable					
Current	5,735	-	5,735	-	-
Prior	56,350	17,569	73,919	-	-
Noncurrent	2,877,264	57,123	2,934,387	-	-
Accounts receivable - net	14,304	-	14,304	-	-
Accrued interest receivable	10,802	-	10,802	-	-
Loans receivable	-	-	-	-	160,978
Due from other governments	1,176,187	4,988	1,181,175	-	-
Advance to other governments	45,000	-	45,000	-	-
Inventories	1,544,951	-	1,544,951	-	-
Prepaid items	20,001	-	20,001	-	-
Restricted assets					
Investments - temporary	-	-	-	-	10,844
Capital assets					
Non-depreciable	5,738,009	27,643	5,765,652	-	-
Depreciable - net of accumulated depreciation	54,010,004	1,276,739	55,286,743	-	-
<b>Total Assets</b>	<b>\$ 73,576,662</b>	<b>\$ 1,417,120</b>	<b>\$ 74,993,782</b>	<b>\$ 20,756</b>	<b>\$ 511,253</b>



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
<b><u>Liabilities</u></b>					
Accounts payable	\$ 233,536	\$ -	\$ 233,536	\$ -	\$ 5
Salaries payable	132,933	-	132,933	-	-
Contracts payable	357,413	-	357,413	-	-
Due to other governments	192,738	-	192,738	-	-
Accrued interest payable	172,017	15,094	187,111	-	-
Unearned revenue	4,778	-	4,778	-	-
Long-term liabilities					
Due within one year	735,999	4,000	739,999	-	-
Due in more than one year	12,537,414	341,000	12,878,414	-	-
<b>Total Liabilities</b>	<b>\$ 14,366,828</b>	<b>\$ 360,094</b>	<b>\$ 14,726,922</b>	<b>\$ -</b>	<b>\$ 5</b>
<b><u>Deferred Inflows of Resources</u></b>					
Advanced allotments	<b>\$ 1,145,927</b>	<b>\$ -</b>	<b>\$ 1,145,927</b>	<b>\$ -</b>	<b>\$ -</b>
<b><u>Net Position</u></b>					
Net investment in capital assets	\$ 51,393,184	\$ 959,382	\$ 52,352,566	\$ -	\$ -
Restricted for					
General government	474,285	-	474,285	-	-
Public safety	36,730	-	36,730	-	-
Highways and streets	1,002,801	-	1,002,801	-	-
Sanitation	396,614	-	396,614	-	-
Conservation of natural resources	1,014,597	-	1,014,597	-	-
Debt service	729,064	-	729,064	-	-
Housing assistance payments	-	-	-	20,756	-
Unrestricted	3,016,632	97,644	3,114,276	-	511,248
<b>Total Net Position</b>	<b>\$ 58,063,907</b>	<b>\$ 1,057,026</b>	<b>\$ 59,120,933</b>	<b>\$ 20,756</b>	<b>\$ 511,248</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>
<b>Primary government</b>			
<b>Governmental activities</b>			
General government	\$ 3,277,001	\$ 597,745	\$ 54,780
Public safety	3,302,420	557,151	220,034
Highways and streets	5,560,099	155,115	4,964,052
Transit	166,202	26,199	139,269
Sanitation	253,620	276,501	-
Human services	1,968,696	-	-
Culture and recreation	333,178	30,406	-
Conservation of natural resources	2,422,782	2,010,279	134,655
Economic development	62,000	-	-
Interest	508,873	-	-
<b>Total governmental activities</b>	<b>\$ 17,854,871</b>	<b>\$ 3,653,396</b>	<b>\$ 5,512,790</b>
<b>Business-type activities</b>			
Huntley Sewer District	73,976	27,340	-
<b>Total Primary Government</b>	<b>\$ 17,928,847</b>	<b>\$ 3,680,736</b>	<b>\$ 5,512,790</b>
<b>Component units</b>			
Housing and Redevelopment Authority	\$ 305,942	\$ 12,000	\$ 293,459
Economic Development Authority	74	2,505	-
<b>Total Component Units</b>	<b>\$ 306,016</b>	<b>\$ 14,505</b>	<b>\$ 293,459</b>

**General Revenues**

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

**Total general revenues**

**Change in net position**

**Net Position - January 1**

**Net Position - December 31**

**EXHIBIT 2**

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
\$ -	\$ (2,624,476)	\$ -	\$ (2,624,476)		
-	(2,525,235)	-	(2,525,235)		
276,312	(164,620)	-	(164,620)		
-	(734)	-	(734)		
-	22,881	-	22,881		
-	(1,968,696)	-	(1,968,696)		
-	(302,772)	-	(302,772)		
-	(277,848)	-	(277,848)		
-	(62,000)	-	(62,000)		
-	(508,873)	-	(508,873)		
<b>\$ 276,312</b>	<b>\$ (8,412,373)</b>	<b>\$ -</b>	<b>\$ (8,412,373)</b>		
-	-	(46,636)	(46,636)		
<b>\$ 276,312</b>	<b>\$ (8,412,373)</b>	<b>\$ (46,636)</b>	<b>\$ (8,459,009)</b>		
\$ -				\$ (483)	\$ -
-				-	2,431
<b>\$ -</b>				<b>\$ (483)</b>	<b>\$ 2,431</b>
	\$ 9,082,465	\$ -	\$ 9,082,465	\$ -	\$ -
	12,050	-	12,050	-	-
	28,784	-	28,784	-	-
	578,077	-	578,077	-	-
	59,860	-	59,860	-	100
	172,039	-	172,039	-	-
	<b>\$ 9,933,275</b>	<b>\$ -</b>	<b>\$ 9,933,275</b>	<b>\$ -</b>	<b>\$ 100</b>
	<b>\$ 1,520,902</b>	<b>\$ (46,636)</b>	<b>\$ 1,474,266</b>	<b>\$ (483)</b>	<b>\$ 2,531</b>
	<b>56,543,005</b>	<b>1,103,662</b>	<b>57,646,667</b>	<b>21,239</b>	<b>508,717</b>
	<b>\$ 58,063,907</b>	<b>\$ 1,057,026</b>	<b>\$ 59,120,933</b>	<b>\$ 20,756</b>	<b>\$ 511,248</b>

This page was left blank intentionally.

**FUND FINANCIAL STATEMENTS**

This page was left blank intentionally.

**GOVERNMENTAL FUNDS**

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	<b>General</b>	<b>Public Works</b>
<u><b>Assets</b></u>		
Cash and pooled investments	\$ 4,697,310	\$ 141,113
Petty cash and change funds	2,265	297
Taxes receivable		
Prior	79,201	16,759
Special assessments		
Current	-	-
Prior	53,320	-
Noncurrent	1,144,908	-
Accounts receivable	7,391	6,510
Accrued interest receivable	10,802	-
Due from other funds	11,250	4,228
Due from other governments	82,445	1,029,114
Prepaid expense	6,741	13,260
Advance to other funds	1,579,077	-
Advance to other governments	45,000	-
Inventories	-	1,544,951
	<b>\$ 7,719,710</b>	<b>\$ 2,756,232</b>
<b>Total Assets</b>	<b>\$ 7,719,710</b>	<b>\$ 2,756,232</b>



**EXHIBIT 3**

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 1,918,108	\$ 312,983	\$ 871,094	\$ 7,940,608
-	-	-	2,562
27,940	-	10,985	134,885
-	5,735	-	5,735
-	3,030	-	56,350
-	1,732,356	-	2,877,264
-	403	-	14,304
-	-	-	10,802
-	-	-	15,478
-	64,628	-	1,176,187
-	-	-	20,001
-	-	-	1,579,077
-	-	-	45,000
-	-	-	1,544,951
<u>\$ 1,946,048</u>	<u>\$ 2,119,135</u>	<u>\$ 882,079</u>	<u>\$ 15,423,204</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	<b>General</b>	<b>Public Works</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 114,802	\$ 22,082
Salaries payable	98,696	34,237
Contracts payable	34,658	95,796
Due to other funds	4,228	-
Due to other governments	73,853	-
Unearned revenue	2,836	599
Advance from other funds	-	-
	<b>\$ 329,073</b>	<b>\$ 152,714</b>
<b>Deferred Inflows of Resources</b>		
Advanced allotments	\$ -	\$ 1,145,927
Unavailable revenue	1,271,080	797,495
	<b>\$ 1,271,080</b>	<b>\$ 1,943,422</b>
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 1,544,951
Prepaid items	6,741	13,260
Advances to other funds	1,579,077	-
Advances to other governments	45,000	-
Restricted for		
Debt service	-	-
Law library	22,869	-
Highway projects	-	238,867
Recorder's technology equipment	269,767	-
Recorder's compliance	181,649	-
Individual Sewage Treatment System (ISTS) loans	-	-
E-911	7,742	-
Drug abuse resistance education (DARE)	28,988	-
Ditch maintenance and repairs	-	-
Solid waste projects	396,614	-
ISTS repayments	287,314	-
Committed for		
Software purchases	22,000	-
Human services	-	-
Unassigned	3,271,796	(1,136,982)
	<b>\$ 6,119,557</b>	<b>\$ 660,096</b>
	<b>\$ 7,719,710</b>	<b>\$ 2,756,232</b>

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

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ -	\$ 96,652	\$ -	\$ 233,536
-	-	-	132,933
-	226,959	-	357,413
-	11,250	-	15,478
-	118,885	-	192,738
967	-	376	4,778
-	1,579,077	-	1,579,077
<u>\$ 967</u>	<u>\$ 2,032,823</u>	<u>\$ 376</u>	<u>\$ 2,515,953</u>
\$ -	\$ -	\$ -	\$ 1,145,927
22,325	1,735,702	8,775	3,835,377
<u>\$ 22,325</u>	<u>\$ 1,735,702</u>	<u>\$ 8,775</u>	<u>\$ 4,981,304</u>
\$ -	\$ -	\$ -	\$ 1,544,951
-	-	-	20,001
-	-	-	1,579,077
-	-	-	45,000
-	-	596,274	596,274
-	-	-	22,869
-	-	-	238,867
-	-	-	269,767
-	-	-	181,649
-	-	276,654	276,654
-	-	-	7,742
-	-	-	28,988
-	562,133	-	562,133
-	-	-	396,614
-	-	-	287,314
-	-	-	22,000
1,922,756	-	-	1,922,756
-	(2,211,523)	-	(76,709)
<u>\$ 1,922,756</u>	<u>\$ (1,649,390)</u>	<u>\$ 872,928</u>	<u>\$ 7,925,947</u>
<u>\$ 1,946,048</u>	<u>\$ 2,119,135</u>	<u>\$ 882,079</u>	<u>\$ 15,423,204</u>

This page was left blank intentionally.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS  
TO NET POSITION - GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2013**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>7,925,947</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		59,748,013
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds.		3,835,377
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	\$ (9,805,000)	
Special assessment bonds	(500,000)	
Loans payable	(26,100)	
Bond discount	22,184	
Net other postemployment benefits liability	(1,953,201)	
Accrued interest payable	(172,017)	
Compensated absences payable	(989,208)	
Capital leases payable	(22,088)	
	(13,445,430)	(13,445,430)
<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>58,063,907</u></b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>General</b>	<b>Public Works</b>
<b>Revenues</b>		
Taxes	\$ 5,429,486	\$ 1,131,357
Special assessments	659,928	-
Licenses and permits	2,155	-
Intergovernmental	881,465	6,274,971
Charges for services	1,124,244	160,883
Fines and forfeits	38,750	-
Gifts and contributions	7,328	-
Investment earnings	60,118	-
Miscellaneous	267,715	24,638
	<b>\$ 8,471,189</b>	<b>\$ 7,591,849</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 2,709,403	\$ -
Public safety	3,332,765	-
Highways and streets	-	7,709,146
Transit	172,827	-
Human services	-	-
Sanitation	253,620	-
Culture and recreation	187,528	145,650
Conservation of natural resources	637,701	-
Economic development	62,000	-
<b>Intergovernmental</b>	-	393,479
<b>Debt service</b>		
Principal	18,456	-
Interest	1,179	-
Bond issuance costs	-	-
Administrative (fiscal) charges	-	-
	<b>\$ 7,375,479</b>	<b>\$ 8,248,275</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,095,710</b>	<b>\$ (656,426)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 227,036	\$ -
Transfers out	(321,450)	-
Capital lease purchase	23,875	-
Refunding bonds issued	-	-
	<b>\$ (70,539)</b>	<b>\$ -</b>
<b>Change in Fund Balances</b>	<b>\$ 1,025,171</b>	<b>\$ (656,426)</b>
<b>Fund Balances - January 1</b>	<b>5,094,386</b>	<b>1,433,829</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(117,307)</b>
<b>Fund Balances - December 31</b>	<b>\$ 6,119,557</b>	<b>\$ 660,096</b>

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

**EXHIBIT 5**

<b>Human Services</b>	<b>Ditch</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
\$ 1,822,688	\$ -	\$ 728,396	\$ 9,111,927
-	1,470,302	-	2,130,230
-	-	-	2,155
113,894	23,986	45,510	7,339,826
-	-	-	1,285,127
-	-	-	38,750
-	-	-	7,328
-	-	-	60,118
-	-	-	292,353
<b>\$ 1,936,582</b>	<b>\$ 1,494,288</b>	<b>\$ 773,906</b>	<b>\$ 20,267,814</b>
\$ -	\$ -	\$ -	\$ 2,709,403
-	-	-	3,332,765
-	-	-	7,709,146
-	-	-	172,827
1,968,696	-	-	1,968,696
-	-	-	253,620
-	-	-	333,178
-	1,781,966	-	2,419,667
-	-	-	62,000
-	-	-	393,479
-	510,000	625,000	1,153,456
-	15,394	423,483	440,056
-	16,100	-	16,100
-	1,181	1,730	2,911
<b>\$ 1,968,696</b>	<b>\$ 2,324,641</b>	<b>\$ 1,050,213</b>	<b>\$ 20,967,304</b>
<b>\$ (32,114)</b>	<b>\$ (830,353)</b>	<b>\$ (276,307)</b>	<b>\$ (699,490)</b>
\$ -	\$ -	\$ 321,450	\$ 548,486
-	-	(227,036)	(548,486)
-	-	-	23,875
-	485,000	-	485,000
<b>\$ -</b>	<b>\$ 485,000</b>	<b>\$ 94,414</b>	<b>\$ 508,875</b>
<b>\$ (32,114)</b>	<b>\$ (345,353)</b>	<b>\$ (181,893)</b>	<b>\$ (190,615)</b>
<b>1,954,870</b>	<b>(1,304,037)</b>	<b>1,054,821</b>	<b>8,233,869</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>(117,307)</b>
<b>\$ 1,922,756</b>	<b>\$ (1,649,390)</b>	<b>\$ 872,928</b>	<b>\$ 7,925,947</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (190,615)**

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

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

Unavailable revenue - December 31	\$ 3,835,377	
Unavailable revenue - January 1	<u>(4,727,418)</u>	(892,041)

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 position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 5,438,473	
Net book value of assets sold	(3,213)	
Current year depreciation	<u>(3,052,940)</u>	2,382,320

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 position. Also, governmental funds report the net effect of premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of activities.

Proceeds of new debt		
General obligation bonds	\$ (485,000)	
Capital lease purchase	<u>(23,875)</u>	(508,875)

Principal repayments		
General obligation bonds	\$ 625,000	
Special assessment bonds	510,000	
Capital lease payable	5,791	
Loans payable	<u>12,665</u>	1,153,456

Amortization of discount on bonds and issuance costs		(7,187)
Deferred charges not previously expensed		(57,454)

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	\$ 14,835	
Change in compensated absences	(18,639)	
Change in other postemployment benefits liabilities	(237,591)	
Change in inventories	<u>(117,307)</u>	(358,702)

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,520,902**

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



**PROPRIETARY FUND**

This page was left blank intentionally.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 7**

**STATEMENT OF FUND NET POSITION  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
DECEMBER 31, 2013**

	<b>Business-Type Activities</b>
<b><u>Assets</u></b>	
<b>Current assets</b>	
Cash and pooled investments	\$ 33,058
Special assessments	
Prior	17,569
Noncurrent	57,123
Due from other governments	4,988
<b>Total current assets</b>	<b>\$ 112,738</b>
<b>Noncurrent assets</b>	
Capital assets	
Nondepreciable	\$ 27,643
Depreciable - net of accumulated depreciation	1,276,739
<b>Total noncurrent assets</b>	<b>\$ 1,304,382</b>
<b>Total Assets</b>	<b>\$ 1,417,120</b>
<b><u>Liabilities</u></b>	
<b>Current liabilities</b>	
Accrued interest payable	\$ 15,094
General obligation bonds payable - current	4,000
<b>Total current liabilities</b>	<b>\$ 19,094</b>
<b>Noncurrent liabilities</b>	
General obligation bonds payable - long-term	341,000
<b>Total Liabilities</b>	<b>\$ 360,094</b>
<b><u>Net Position</u></b>	
Net investment in capital assets	\$ 959,382
Unrestricted	97,644
<b>Total Net Position</b>	<b>\$ 1,057,026</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Business-Type Activities</b>
<b>Operating Revenues</b>	
Charges for services	\$ 14,748
Special assessments	12,592
<b>Total Operating Revenues</b>	<b>\$ 27,340</b>
<b>Operating Expenses</b>	
Professional services	\$ 488
Depreciation	56,113
<b>Total Operating Expenses</b>	<b>\$ 56,601</b>
<b>Operating Income (Loss)</b>	<b>\$ (29,261)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest expense	(17,375)
<b>Change in Net Position</b>	<b>\$ (46,636)</b>
<b>Net Position - January 1</b>	<b>1,103,662</b>
<b>Net Position - December 31</b>	<b>\$ 1,057,026</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF CASH FLOWS  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Business-Type Activities</b>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 17,206
Payments to suppliers	(488)
	<b>\$ 16,718</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Special assessments	\$ 9,082
Principal paid on long-term debt	(4,000)
Interest paid on long-term debt	(15,269)
Unrestricted interest paid to General Fund	(8,364)
	<b>\$ (18,551)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (1,833)</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>34,891</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 33,058</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
Operating income (loss)	<b>\$ (29,261)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 56,113
(Increase) decrease in special assessments - prior	(3,720)
(Increase) decrease in special assessments - noncurrent	(6,954)
(Increase) decrease in due from other governments	540
	<b>\$ 45,979</b>
<b>Total adjustments</b>	<b>\$ 45,979</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 16,718</b>

This page was left blank intentionally.

**FIDUCIARY FUNDS**

This page was left blank intentionally.



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 10*

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2013**

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 218,808</u>
<b><u>Liabilities</u></b>	
Due to other governments	<u>\$ 218,808</u>

This page was left blank intentionally.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

---

---

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, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of GASB Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.8. for additional information regarding the County's deferred outflows/inflows of resources.

Restatement of December 31, 2012, net position or fund balance was not required as a result of adopting these changes in accounting principles.

A. Financial Reporting Entity

Faribault County was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Faribault County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

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

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Faribault County Economic Development Authority (EDA) provides services pursuant to Minn. Stat. §§ 469.090-469.1081.	County appoints all members and is able to impose its will on the EDA.	Separate financial statements are not prepared.
Faribault County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints the Board members and must approve debt.	Faribault County HRA Minnesota Valley Action Council 706 North Victory Drive Mankato, Minnesota 56001

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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 Public Works Special Revenue Fund is used to account for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the establishment, location, vacation, construction, reconstruction, improvement, and maintenance of roads, bridges, and other projects affecting County roadways and parks.

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

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

The Debt Service Fund is used to account for restricted property tax revenues for the payment of principal, interest, and related costs of County debt.

The County considers all governmental funds to be major.

The County reports the following major enterprise fund:

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

---

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings in the General Fund for 2013 were \$60,118.

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

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

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



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments (Continued)

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

Investments of the County are reported at fair value.

2. Cash and Cash Equivalents

Each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

3. Receivables and Payables

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

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balance outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

3. Receivables and Payables (Continued)

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

4. Inventories and Prepaid Items

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

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements and the proprietary fund financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset category as follows: all land and construction in progress are capitalized regardless of cost; machinery and equipment when the cost of individual items exceeds \$5,000; other improvements and buildings and improvements when the cost exceeds \$25,000; and infrastructure when the cost of projects exceeds \$50,000.

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

5. Capital Assets (Continued)

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

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

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual 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.

7. Long-Term Obligations

In the government-wide financial statements and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts 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.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

7. Long-Term Obligations (Continued)

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.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The County does not have any types of deferred outflows of resources in the current year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two items, which arise under the modified accrual basis of accounting, that qualify for reporting in this category. The items, advanced allotments and unavailable revenue, are reported in the governmental fund balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become recognizable. The advanced allotments are also reported as an inflow of resources under the full accrual basis in the statement of net position.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

9. Classification of Net Position

Net position in the government-wide and proprietary fund financial statements is classified in the following categories:

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

Restricted - the portion of net position 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 - the portion of net position that is not included in the net investment in capital assets or restricted components.

10. Classification of Fund Balances

The County fund balance policy established a minimum unassigned fund balance equal to 35 to 50 percent of total General Fund operating expenditures. Should the actual amount of fund balance fall below the desired range, the Board shall create a plan to restore the appropriate levels.

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

10. Classification of Fund Balances (Continued)

Restricted - amounts for 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 are imposed by law through constitutional provisions or enabling legislation.

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 actions (ordinance or resolution) it employed to previously commit these 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 not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the County Board or the County Auditor/Treasurer who has been delegated that authority by Board resolution.

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

---

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity  
(Continued)

11. 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

Deficit Fund Equity

On the full accrual basis of accounting, 67 of the 188 drainage systems have incurred expenses in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund equity as the December 31, 2013, using the full accrual basis of accounting.

Account balances	\$ 1,014,597
Account balance deficit	<u>(1,428,285)</u>
Fund Equity - Full Accrual Basis	<u>\$ (413,688)</u>

Using the modified accrual basis of accounting, noncurrent receivables do not affect fund balance. Noncurrent receivables are deferred inflows of resources. Using this basis of accounting, 107 ditches had fund deficits.

Account balances	\$ 562,133
Account balance deficit	<u>(2,211,523)</u>
Fund Equity - Modified Accrual Basis	<u>\$ (1,649,390)</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government		
Governmental activities		
Cash and pooled investments	\$	7,940,608
Petty cash and change funds		2,562
Business-type activities		
Cash and pooled investments		33,058
Component unit - EDA		
Cash and pooled investments		339,431
Restricted temporary investment		10,844
Fiduciary funds		
Cash and pooled investments		<u>218,808</u>
Total Cash and Investments	\$	<u>8,545,311</u>

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

a. Deposits

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

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



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2013, the County's deposits were not exposed to custodial credit risk.

b. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by limiting long-term investments. County policy states that approximately one-third of the County's total portfolio balance as of May 31 of the year reporting may be invested in items that mature in more than one year.

	Maturity Dates	
	0 - 1 Year	Over 1 Year
Deposits	\$ 7,242,169	\$ -
Petty cash	2,562	-
MAGIC Fund	580	-
Federal Home Loan Bank (1)	-	695,000
Negotiable certificates of deposit	-	605,000
Total Cash and Investments	\$ 7,245,311	\$ 1,300,000

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy is to minimize 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 available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2013, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to minimize concentration of credit risk by diversifying the investment so that the impact of potential losses from any one type of security will be minimized.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

The only investments in any one issuer that represent five percent or more of the County's investments are as follows:

Issuer		
Federal Home Loan Bank	\$	695,000
Goldman Sachs Bank		205,000
GE Capital Bank		200,000
GE Capital Retail Bank		200,000

2. Receivables

Receivables as of December 31, 2013, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes – prior	\$ 134,885	\$ -
Special assessments - current	5,735	-
Special assessments - prior	56,350	-
Special assessments - noncurrent	2,877,264	2,088,413
Accounts	14,304	-
Accrued interest	10,802	-
Due from other governments	1,176,187	-
Advance to other governments	45,000	-
Total Governmental Activities	\$ 4,320,527	\$ 2,088,413
Business-Type Activities		
Special assessments		
Prior	\$ 17,569	\$ -
Noncurrent	57,123	34,676
Due from other governments	4,988	-
Total Business-Type Activities	\$ 79,680	\$ 34,676

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,707,074	\$ 10,000	\$ -	\$ 1,717,074
Construction in progress	202,792	5,143,919	1,325,776	4,020,935
Total capital assets not depreciated	<u>\$ 1,909,866</u>	<u>\$ 5,153,919</u>	<u>\$ 1,325,776</u>	<u>\$ 5,738,009</u>
Capital assets depreciated				
Buildings and improvements	\$ 13,454,264	\$ 47,126	\$ -	\$ 13,501,390
Other improvements	161,597	-	-	161,597
Machinery and equipment	8,394,964	237,556	45,565	8,586,955
Infrastructure	82,866,151	1,325,648	-	84,191,799
Total capital assets depreciated	<u>\$ 104,876,976</u>	<u>\$ 1,610,330</u>	<u>\$ 45,565</u>	<u>\$ 106,441,741</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 3,158,347	\$ 288,415	\$ -	\$ 3,446,762
Other improvements	90,273	8,208	-	98,481
Machinery and equipment	5,157,729	480,843	42,352	5,596,220
Infrastructure	41,014,800	2,275,474	-	43,290,274
Total accumulated depreciation	<u>\$ 49,421,149</u>	<u>\$ 3,052,940</u>	<u>\$ 42,352</u>	<u>\$ 52,431,737</u>
Total capital assets depreciated, net	<u>\$ 55,455,827</u>	<u>\$ (1,442,610)</u>	<u>\$ 3,213</u>	<u>\$ 54,010,004</u>
Capital Assets, Net	<u>\$ 57,365,693</u>	<u>\$ 3,711,309</u>	<u>\$ 1,328,989</u>	<u>\$ 59,748,013</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 27,643	\$ -	\$ -	\$ 27,643
Capital assets depreciated				
Machinery and equipment	\$ 70,000	\$ -	\$ -	\$ 70,000
Infrastructure	1,543,420	-	-	1,543,420
Total capital assets depreciated	\$ 1,613,420	\$ -	\$ -	\$ 1,613,420
Less: accumulated depreciation for				
Machinery and equipment	\$ 23,333	\$ 4,666	\$ -	\$ 27,999
Infrastructure	257,235	51,447	-	308,682
Total accumulated depreciation	\$ 280,568	\$ 56,113	\$ -	\$ 336,681
Total capital assets depreciated, net	\$ 1,332,852	\$ (56,113)	\$ -	\$ 1,276,739
Capital Assets, Net	<u>\$ 1,360,495</u>	<u>\$ (56,113)</u>	<u>\$ -</u>	<u>\$ 1,304,382</u>

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

Governmental Activities	
General government	\$ 374,526
Public safety	167,105
Highways and streets, including depreciation of infrastructure assets	2,510,069
Conservation of natural resources	<u>1,240</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,052,940</u>
Business-Type Activities	
Huntley Sewer District	<u>\$ 56,113</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Ditch	\$ 11,250	Debt issuance costs
Public Works	General	4,228	Fuel and maintenance
		<u>\$ 15,478</u>	

These interfund receivables and payables are expected to be paid within one year of December 31, 2013.

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 1,579,077</u>

The advance from the General Fund to the Ditch Special Revenue Fund was to cover individual negative ditch balances. This advance is not expected to be eliminated within one year of December 31, 2013.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of a transfer from the General Fund to the Debt Service Fund of \$321,450 for debt service payments and from the Debt Service Fund to the General Fund of \$227,036 to transfer bond proceeds to reimburse the General Fund for Individual Sewage Treatment Systems loans issued.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Plan Description

The County provides postretirement health care benefits for certain retirees and their dependents. For employees and officers employed before January 1, 2002, the County pays 100 percent of the single premium and 50 percent of the family premium for life. The County's contribution depends on which bargaining unit the employee was a member of and the plan chosen at retirement. As of year-end, the County has 32 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2013, the County expended \$138,013 for these benefits.

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis. As of January 1, 2011, the date of the last valuation, there were approximately 37 retirees receiving health benefits from the County's health plan. The implicit rate subsidy amount was determined by an actuarial study to be \$13,279 for 2013.

Annual OPEB Cost and Net OPEB Obligation

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	419,473
Interest on net OPEB obligation		68,624
Adjustment to ARC		(99,214)
		_____
Annual OPEB cost (expense)	\$	388,883
Contributions made		(151,292)
		_____
Increase in net OPEB obligation	\$	237,591
Net OPEB Obligation - January 1		1,715,610
		_____
Net OPEB Obligation - December 31	\$	1,953,201

The County's annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligation for the years ended December 31, 2011, 2012, and 2013, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2011	\$ 376,393	\$ 186,488	49.5%	\$ 1,511,778
December 31, 2012	381,946	178,114	46.6	1,715,610
December 31, 2013	388,883	151,292	38.9	1,953,201

Funded Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$4,382,116, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,382,116. The covered payroll (annual payroll of active employees covered by the plan) was \$3,238,049, and the ratio of the UAAL to the covered payroll was 135.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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.

Actuarial Methods and Assumptions

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

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Faribault County's implicit rate of return on the General Fund. The annual health care cost trend is 9.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a level dollar amount. The remaining amortization period at December 31, 2013, was 24 years.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

The County has entered into capital lease agreements as lessee for financing the acquisition of copiers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases consist of the following at December 31, 2013:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2010 extension copier	2014	Monthly	\$ 233	\$ 9,990	\$ 463
2013 machine room copier	2018	Monthly	236	13,300	12,044
2013 County attorney copier	2018	Monthly	127	6,875	6,245
2013 veteran services copier	2017	Monthly	84	3,700	3,336
Total Leases					<u>\$ 22,088</u>

Lease payments are made from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2013, were as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2014	\$ 5,831
2015	5,364
2016	5,365
2017	4,899
2018	2,154
<hr/>	
Total lease payments	\$ 23,613
Less: amount representing interest	<u>(1,525)</u>
Present Value of Minimum Lease Payments	<u>\$ 22,088</u>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Governmental Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
General obligation bonds					
2001 G.O. Bonds Taxable Refunding Waste Disposal Bonds	2016	\$ 25,000 - \$ 30,000	6.70	\$ 300,000	\$ 80,000
2007 G.O. Jail Bonds	2028	\$ 395,000 - \$ 745,000	4.00 - 4.25	10,000,000	8,250,000
2007 G.O. Waste Disposal Bonds	2018	\$ 75,000 - \$ 95,000	5.45 - 6.00	750,000	425,000
2009 G.O. Waste Disposal Bonds	2020	\$ 150,000	2.75 - 4.70	<u>1,500,000</u>	<u>1,050,000</u>
Total general obligation bonds				<u>\$ 12,550,000</u>	\$ 9,805,000
Less: unamortized discount					<u>(22,184)</u>
Total General Obligation Bonds, Net					<u>\$ 9,782,816</u>

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
General obligation special assessment bonds					
1999 G.O. Ditch Bonds	2014	\$ 15,000	4.95	\$ 280,000	\$ 15,000
2013 G.O. Refunding Ditch Bonds	2024	\$ 40,000 - \$ 50,000	0.45 - 2.00	<u>485,000</u>	<u>485,000</u>
Total General Obligation Special Assessment Bonds				<u>\$ 765,000</u>	<u>\$ 500,000</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installments Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2013</u>
2005 Minnesota Pollution Control Agency Loan	2015	\$ 13,378	2.00	\$ 120,704	\$ 26,100

Business-Type Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2013</u>
2009 G.O. Revenue Bonds	2049	\$4,000 - \$18,000	4.38	\$ 360,000	\$ 345,000

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 645,000	\$ 398,684	\$ 60,000	\$ 6,879
2015	670,000	372,085	40,000	5,945
2016	695,000	343,742	40,000	5,675
2017	690,000	313,433	45,000	5,293
2018	715,000	283,332	45,000	4,887
2019 - 2023	3,000,000	1,018,935	225,000	15,050
2024 - 2028	3,390,000	372,519	45,000	450
Total	\$ 9,805,000	\$ 3,102,730	\$ 500,000	\$ 44,179

Year Ending December 31	Loan Payable	
	Principal	Interest
2014	\$ 12,920	\$ 458
2015	13,180	198
Total	\$ 26,100	\$ 656

Business-Type Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2014	\$ 4,000	\$ 15,094
2015	4,000	14,919
2016	4,000	14,744
2017	5,000	14,569
2018	5,000	14,350
2019 - 2023	28,000	68,338
2024 - 2028	34,000	61,644
2029 - 2033	43,000	53,462
2034 - 2038	53,000	43,181
2039 - 2043	66,000	30,537
2044 - 2048	81,000	14,919
2049	18,000	787
Total	\$ 345,000	\$ 346,544

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 10,430,000	\$ -	\$ 625,000	\$ 9,805,000	\$ 645,000
General obligation special assessment bonds	525,000	485,000	510,000	500,000	60,000
Less: unamortized discount	<u>(29,371)</u>	<u>-</u>	<u>(7,187)</u>	<u>(22,184)</u>	<u>-</u>
Total bonds payable	\$ 10,925,629	\$ 485,000	\$ 1,127,813	\$ 10,282,816	\$ 705,000
Capital leases	4,004	23,875	5,791	22,088	5,220
Loans payable	38,765	-	12,665	26,100	12,920
Net OPEB payable	1,715,610	388,883	151,292	1,953,201	-
Compensated absences	<u>970,569</u>	<u>18,639</u>	<u>-</u>	<u>989,208</u>	<u>12,859</u>
Long-Term Liabilities	<u>\$ 13,654,577</u>	<u>\$ 916,397</u>	<u>\$ 1,297,561</u>	<u>\$ 13,273,413</u>	<u>\$ 735,999</u>

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 349,000	\$ -	\$ 4,000	\$ 345,000	\$ 4,000

6. Construction Commitments

The County has no active construction projects as of December 31, 2013.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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 highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

4. Pension Plans

A. Defined Benefit Plans

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.



**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

---

4. Pension Plans

A. Defined Benefit Plans (Continued)

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 2013:

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, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 174,011	\$ 174,195	\$ 175,747
Public Employees Police and Fire Fund	86,170	82,114	77,280
Public Employees Correctional Fund	65,367	57,951	57,402

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

4. Pension Plans (Continued)

B. Defined Contribution Plan

Five employees of Faribault 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 ending December 31, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 8,880	\$ 8,880
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

---

5. Risk Management (Continued)

Central Service Cooperative (SCSC) to establish, procure, and administer group employee benefits. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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 \$470,000 per claim in 2013 and \$480,000 per claim in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

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

B. Joint Ventures

Human Services of Faribault and Martin Counties

Faribault, Martin, and Watonwan Counties entered into a joint powers agreement (Minn. Stat. § 471.59) to provide welfare and health services to county residents (Minn. Stat. §§ 402.01-.10). The Faribault-Martin-Watonwan Human Services Board was established on June 30, 1975. As of January 1, 1991, Watonwan County withdrew from the Human Services Board. Faribault and Martin Counties are continuing with the Joint Powers Agreement. The Board has 12 members, 6 from each county. Each county collects its share of local tax revenues and transfers these funds to the Board to fulfill its ongoing financial responsibility.

Complete financial information can be obtained from:

Human Services of Faribault and Martin Counties  
115 West First Street  
Fairmont, Minnesota 56031

Prairieland Solid Waste Board (Prairieland)

Faribault County entered into a joint powers agreement with Martin County in 1990 to build and operate a solid waste composting plant, the Prairieland Solid Waste Board. Prairieland continues to place a special assessment on homeowners to offset net losses, equipment, depreciation, and future plans. Fees not sent to Prairieland will be kept in the Solid Waste Fund of the County and are restricted for solid waste programs approved by the County Board.

Prairieland Solid Waste Board reported a change in net position of \$(103,433) in 2013. The full-faith and credit and taxing power of Faribault and Martin Counties is pledged to the payment of each County's proportional share of the principal and interest when due. Complete financial statements for the Prairieland Solid Waste Board can be obtained at 801 East Fifth Street North, P. O. Box 100, Truman, Minnesota 56088.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was formed under the authority of Minn. Stat. § 471.59. The Board was established in 2005 to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. It is the intention of the counties that they cooperate in a joint venture to provide the greatest public service benefit for the eighteen-county area encompassed by the Counties in planning, management, and implementation of methods to deal with energy and transmission in rural Minnesota.

Control of the Rural Minnesota Energy Board is vested in a Joint Powers Board. Faribault County appoints one voting member and one alternate member to this Board who shall both be County Commissioners. During 2013, Faribault County contributed \$2,000 to the Board made payable to the Southwest Regional Development Commission. The Board shall prepare an annual budget to cover the administrative and planning costs of and agree that it shall continue to do so for each year of its existence. These costs will be paid equally by each member county of the Board up to a ceiling of \$3,500 per county per year, and further costs shall be based on per capita.

Separate audited financial information can be obtained from:

Southwest Regional Development Commission  
2401 Broadway Avenue, Suite #1  
Slayton, Minnesota 56172

South Central Drug Investigation Unit (Drug Task Force)

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

South Central Minnesota Regional Radio Board

The South Central Minnesota Regional Radio Board was established pursuant to Minn. Stat. §§ 471.59 and 403.39 and a joint powers agreement effective May 27, 2008. It is comprised of Blue Earth, Brown, Faribault, Le Sueur, Martin, McLeod, Nicollet, Sibley, Waseca, and Watonwan Counties and the Cities of Hutchinson and Mankato. The primary function of the joint venture is to provide regional administration of enhancements to the Statewide Public Safety Radio and Communication System for the Allied Radio Matrix for Emergency Response (ARMER) owned and operated by the State of Minnesota and to enhance and improve interoperable public safety communications.

The Board consists of one County Commissioner from each county included in the agreement, one City Council member from each city included in the agreement, a member of the South Central Minnesota Regional Advisory Committee, a member of the South Central Minnesota Regional Radio System User Committee, and a member of the Owners and Operators Committee.

Blue Earth County acts as the fiscal agent for the Radio Board. During 2013, the County contributed \$6,866 to the Joint Powers Board. The Chair of the Board is Kip Bruender, and the address is: P. O. Box 8608, Mankato, Minnesota 56002-8608.

South Central Workforce Service Area Joint Powers Board

In June 2012, the County entered into a joint powers agreement with Blue Earth, Brown, LeSueur, Martin, Nicollet, Sibley, Waseca, and Watonwan Counties, creating the South Central Workforce Services Area Joint Powers Board. The agreement is authorized by Minn. Stat. §§ 471.59. The Board is comprised of one voting member and one alternate member for each participating County. The goal of the Board is to develop and maintain a quality workforce for South Central Minnesota.

Faribault County made no payments to this organization in 2013.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

South Central Workforce Service Area Joint Powers Board (Continued)

Separate financial information can be obtained from:

South Central Workforce Council  
706 North Victory Drive  
Mankato, Minnesota 56001

C. Jointly-Governed Organizations

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

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The Board consists of County Commissioners and members of the Soil and Water Conservation Districts. During the year, the County made \$7,446 in contributions to the GBERBA.

The Minnesota Counties Computer Cooperative (MCCC) was created under Minnesota Joint Powers Law, Minn. Stat. § 471.59, to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Faribault County expended \$2,500 to the MCCC in annual dues.

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

The Rural Minnesota River Board was established to promote orderly water quality improvement and management of the Minnesota River watersheds. During the year, the County paid \$832 to the Board.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The South Central Emergency Medical Service (SCEMS) Joint Powers Board consists of Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan Counties. The purpose of SCEMS is to ensure quality patient care is available throughout the nine-county area by maximizing the response capabilities of emergency medical personnel and to promote public education on injury prevention and appropriate response during a medical emergency. Each County appoints one member for the Joint Powers Board. During the year, the County made no payments to the SCEMS.

The South Central Service Cooperative (SCSC) is one of nine regional agencies called service cooperatives, established in 1976 by Minnesota legislation § 123A.21. The SCSC specializes in providing insurance services. Health insurance pools are formed by groups who band together to leverage economies of scale to lower costs and achieve claim cost stability. The SCSC manages the pools, manages premium collection, conducts carrier proposals every four years and negotiates stop loss and administrative costs which are approximately 20 percent lower than the commercial market. These pools are governed by state law and an elected board of directors and consist of public employers who maintain a Joint Powers Agreement with the Service Cooperative. During the year, the County made no payments to the Cooperative.

The South Central Community Based Initiative was established pursuant to Minn. Stat. §§ 471.59 and 245.4661 and a joint powers agreement effective June 20, 2008. The purpose of this joint powers agreement is to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state-operated services programs and community-based treatment. The membership of the Board is comprised of one representative appointed by Blue Earth, Brown, Faribault, Freeborn, Le Sueur, Martin, Nicollet, Rice, Sibley, and Watonwan Counties. The County made no payments to the Community Based Initiative in 2013.



**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

---

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Region One - Southeast Minnesota Homeland Security Emergency Management (SERHSEM) Joint Powers Board was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the SERHSEM region. There are 16 counties participating, with one member from each entity being represented on the Joint Powers Board. Faribault County's responsibility does not extend beyond making this appointment.

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County made no payments to the SW-MIIC.

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

D. Subsequent Event

On April 1, 2014, the County Board authorized the sale of \$7,480,000 General Obligation Jail Refunding Bonds, Series 2014A. The bonds were issued for the purpose of effecting an advance refunding of the County's \$10,000,000 General Obligation Jail Bonds, Series 2007A, dated August 29, 2007, in a "crossover refunding" as defined in Minn. Stat. § 475.67, subd. 13, and paying the costs associated with the issuance of the bonds. The original bonds, in the amount of \$7,440,000, will be redeemed on February 1, 2015. The bonds are payable in 13 annual installments beginning on February 1, 2016, with interest payable on a semi-annual basis with the interest rates ranging from 2.50 to 2.85 percent. The bonds maturing in 2022 and years thereafter are subject to redemption at the option of the County.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

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

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the program. The County has met those responsibilities for 2013.

7. Faribault County Economic Development Authority (EDA)

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

---

7. Faribault County Economic Development Authority (EDA) (Continued)

B. Detailed Notes

Assets

Receivables as of December 31, 2013, consist of \$160,978 in loans made to individuals and businesses for development.

8. Housing and Redevelopment Authority (HRA)

Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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

This page was left blank intentionally.

**REQUIRED SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-1*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 5,395,692	\$ 5,395,692	\$ 5,429,486	\$ 33,794
Special assessments	712,000	712,000	659,928	(52,072)
Licenses and permits	3,450	3,450	2,155	(1,295)
Intergovernmental	872,687	872,687	881,465	8,778
Charges for services	979,870	979,870	1,124,244	144,374
Fines and forfeits	19,000	19,000	38,750	19,750
Gifts and contributions	-	-	7,328	7,328
Investment earnings	65,000	65,000	60,118	(4,882)
Miscellaneous	164,824	164,824	267,715	102,891
<b>Total Revenues</b>	<b>\$ 8,212,523</b>	<b>\$ 8,212,523</b>	<b>\$ 8,471,189</b>	<b>\$ 258,666</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 277,735	\$ 277,735	\$ 277,666	\$ 69
Courts	39,550	39,550	32,520	7,030
County auditor/treasurer	426,080	426,080	411,919	14,161
Motor vehicle/license bureau	141,185	141,185	139,061	2,124
County assessor	309,420	309,420	280,004	29,416
Elections	-	-	15,074	(15,074)
Data processing	136,050	136,050	153,175	(17,125)
Central administration	141,735	141,735	171,507	(29,772)
Machine room	15,000	15,000	19,918	(4,918)
Attorney	238,150	238,150	228,341	9,809
Law library	14,000	14,000	18,425	(4,425)
Recorder	250,841	250,841	125,173	125,668
Vital statistics	20,075	20,075	10,292	9,783
Planning and zoning	107,625	107,625	118,658	(11,033)
Buildings and plant	438,030	438,030	255,810	182,220
Veterans service officer	177,770	177,770	197,988	(20,218)
Other general government	752,151	752,151	253,872	498,279
<b>Total general government</b>	<b>\$ 3,485,397</b>	<b>\$ 3,485,397</b>	<b>\$ 2,709,403</b>	<b>\$ 775,994</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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	\$ 1,285,183	\$ 1,285,183	\$ 1,307,450	\$ (22,267)
Public safety grants	3,000	3,000	14,783	(11,783)
Task force	8,000	8,000	6,500	1,500
Boat and water safety	1,000	1,000	1,549	(549)
SWAT	-	-	908	(908)
County jail	1,342,850	1,342,850	1,510,723	(167,873)
Sentence to serve	57,300	57,300	57,995	(695)
Fraud investigator	74,730	74,730	70,775	3,955
Animal control	4,000	4,000	5,916	(1,916)
Probation and parole	171,235	171,235	236,707	(65,472)
Sheriff's contingency	1,000	1,000	-	1,000
MRCI reimbursement	19,880	19,880	8,843	11,037
Emergency management	29,670	29,670	12,768	16,902
Enhanced 911	91,000	91,000	44,577	46,423
Radio project	-	-	35,262	(35,262)
Medical examiner	9,000	9,000	16,012	(7,012)
DARE	-	-	1,997	(1,997)
<b>Total public safety</b>	<b>\$ 3,097,848</b>	<b>\$ 3,097,848</b>	<b>\$ 3,332,765</b>	<b>\$ (234,917)</b>
<b>Transit</b>				
Transit	<b>\$ 203,900</b>	<b>\$ 203,900</b>	<b>\$ 172,827</b>	<b>\$ 31,073</b>
<b>Sanitation</b>				
Recycling/education	\$ 423,774	\$ 423,774	\$ 253,620	\$ 170,154
SCORE funds	55,950	55,950	-	55,950
<b>Total sanitation</b>	<b>\$ 479,724</b>	<b>\$ 479,724</b>	<b>\$ 253,620</b>	<b>\$ 226,104</b>
<b>Culture and recreation</b>				
Historical society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
County library	181,649	181,649	177,528	4,121
Other culture and recreation	825	825	-	825
<b>Total culture and recreation</b>	<b>\$ 192,474</b>	<b>\$ 192,474</b>	<b>\$ 187,528</b>	<b>\$ 4,946</b>



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-1  
(Continued)*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<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>Conservation of natural resources</b>				
Cooperative extension	\$ 114,410	\$ 114,410	\$ 105,390	\$ 9,020
Soil conservation	56,000	56,000	58,000	(2,000)
County agricultural society	18,500	18,500	18,000	500
Water planning	93,800	93,800	102,722	(8,922)
Drainage/septic inspection	101,770	101,770	126,553	(24,783)
Septic loan program	125,000	125,000	227,036	(102,036)
<b>Total conservation of natural resources</b>	<b>\$ 509,480</b>	<b>\$ 509,480</b>	<b>\$ 637,701</b>	<b>\$ (128,221)</b>
<b>Economic development</b>				
Community development	\$ 13,700	\$ 13,700	\$ 12,000	\$ 1,700
Economic development	50,000	50,000	50,000	-
<b>Total economic development</b>	<b>\$ 63,700</b>	<b>\$ 63,700</b>	<b>\$ 62,000</b>	<b>\$ 1,700</b>
<b>Debt service</b>				
Principal	\$ 12,665	\$ 12,665	\$ 18,456	\$ (5,791)
Interest	715	715	1,179	(464)
<b>Total debt service</b>	<b>\$ 13,380</b>	<b>\$ 13,380</b>	<b>\$ 19,635</b>	<b>\$ (6,255)</b>
<b>Total Expenditures</b>	<b>\$ 8,045,903</b>	<b>\$ 8,045,903</b>	<b>\$ 7,375,479</b>	<b>\$ 670,424</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 166,620</b>	<b>\$ 166,620</b>	<b>\$ 1,095,710</b>	<b>\$ 929,090</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 125,000	\$ 125,000	\$ 227,036	\$ 102,036
Transfers out	(291,620)	(291,620)	(321,450)	(29,830)
Capital lease purchase	-	-	23,875	23,875
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (166,620)</b>	<b>\$ (166,620)</b>	<b>\$ (70,539)</b>	<b>\$ 96,081</b>
<b>Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,025,171</b>	<b>\$ 1,025,171</b>
<b>Fund Balance - January 1</b>	<b>5,094,386</b>	<b>5,094,386</b>	<b>5,094,386</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,094,386</b>	<b>\$ 5,094,386</b>	<b>\$ 6,119,557</b>	<b>\$ 1,025,171</b>

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
PUBLIC WORKS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,129,282	\$ 1,129,282	\$ 1,131,357	\$ 2,075
Intergovernmental	7,565,665	7,565,665	6,274,971	(1,290,694)
Charges for services	350,000	350,000	160,883	(189,117)
Miscellaneous	5,000	5,000	24,638	19,638
<b>Total Revenues</b>	<b>\$ 9,049,947</b>	<b>\$ 9,049,947</b>	<b>\$ 7,591,849</b>	<b>\$ (1,458,098)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 199,275	\$ 199,275	\$ 181,000	\$ 18,275
Maintenance	1,500,810	1,500,810	1,254,051	246,759
Construction	5,175,137	5,175,137	4,936,320	238,817
Equipment maintenance and shop	944,301	944,301	729,397	214,904
Material and services for resale	108,000	108,000	123,463	(15,463)
Other - highways and streets	496,467	496,467	484,915	11,552
<b>Total highways and streets</b>	<b>\$ 8,423,990</b>	<b>\$ 8,423,990</b>	<b>\$ 7,709,146</b>	<b>\$ 714,844</b>
<b>Culture and recreation</b>				
Parks	\$ 171,395	\$ 171,395	\$ 145,650	\$ 25,745
<b>Intergovernmental</b>				
Highways and streets	\$ 382,500	\$ 382,500	\$ 393,479	\$ (10,979)
<b>Total Expenditures</b>	<b>\$ 8,977,885</b>	<b>\$ 8,977,885</b>	<b>\$ 8,248,275</b>	<b>\$ 729,610</b>
<b>Change in Fund Balance</b>	<b>\$ 72,062</b>	<b>\$ 72,062</b>	<b>\$ (656,426)</b>	<b>\$ (728,488)</b>
<b>Fund Balance - January 1</b>	<b>1,433,829</b>	<b>1,433,829</b>	<b>1,433,829</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(117,307)</b>	<b>(117,307)</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,505,891</b>	<b>\$ 1,505,891</b>	<b>\$ 660,096</b>	<b>\$ (845,795)</b>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,818,772	\$ 1,818,772	\$ 1,822,688	\$ 3,916
Intergovernmental	113,894	113,894	113,894	-
<b>Total Revenues</b>	<b>\$ 1,932,666</b>	<b>\$ 1,932,666</b>	<b>\$ 1,936,582</b>	<b>\$ 3,916</b>
<b>Expenditures</b>				
<b>Current</b>				
Human services	1,932,666	1,932,666	1,968,696	(36,030)
<b>Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (32,114)</b>	<b>\$ (32,114)</b>
<b>Fund Balance - January 1</b>	<b>1,954,870</b>	<b>1,954,870</b>	<b>1,954,870</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,954,870</b>	<b>\$ 1,954,870</b>	<b>\$ 1,922,756</b>	<b>\$ (32,114)</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Special assessments	\$ 670,000	\$ 670,000	\$ 1,470,302	\$ 800,302
Intergovernmental	-	-	23,986	23,986
<b>Total Revenues</b>	<b>\$ 670,000</b>	<b>\$ 670,000</b>	<b>\$ 1,494,288</b>	<b>\$ 824,288</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Ditch maintenance	\$ 600,000	\$ 600,000	\$ 1,781,966	\$ (1,181,966)
<b>Debt service</b>				
Principal	50,000	50,000	510,000	(460,000)
Interest	20,000	20,000	15,394	4,606
Bond issuance costs	-	-	16,100	(16,100)
Administrative (fiscal) charges	-	-	1,181	(1,181)
<b>Total Expenditures</b>	<b>\$ 670,000</b>	<b>\$ 670,000</b>	<b>\$ 2,324,641</b>	<b>\$ (1,654,641)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (830,353)</b>	<b>\$ (830,353)</b>
<b>Other Financing Sources (Uses)</b>				
Refunding bonds issued	-	-	485,000	485,000
<b>Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (345,353)</b>	<b>\$ (345,353)</b>
<b>Fund Balance - January 1</b>	<b>(1,304,037)</b>	<b>(1,304,037)</b>	<b>(1,304,037)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (1,304,037)</b>	<b>\$ (1,304,037)</b>	<b>\$ (1,649,390)</b>	<b>\$ (345,353)</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-5*

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2013**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
January 1, 2008	\$ -	\$ 5,646,666	\$ 5,646,666	0.0%	\$ 3,196,823	176.6%
January 1, 2011	-	4,382,116	4,382,116	0.0	3,238,049	135.3

This page was left blank intentionally.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

---

---

1. Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. The budgets may be amended or modified at any time by the County Board. The County's department heads may make transfers of appropriations within a department. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level.

2. Budget Amendments

During the year, the Board did not amend the revenue and expenditure budgets for the General Fund or special revenue funds.

3. Excess of Expenditures Over Appropriations

For the year ended December 31, 2013, the Human Services Special Revenue Fund's expenditures exceeded appropriations by \$36,030. The expenditures in excess of budget were funded by fund balance.

The Ditch Special Revenue Fund's expenditures exceeded appropriations by \$1,654,641. The expenditures in excess of budget were funded by revenues in excess of budget, advances from the General Fund, and refunding bonds issued. Future special assessments will be made to pay for ditch repairs and improvements.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

---

4. Other Postemployment Benefits Funded Status

Complete multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as it becomes available. See Note 3.C.1., Other Postemployment Benefits, for more information.



**SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 732,744	\$ 732,744	\$ 728,396	\$ (4,348)
Intergovernmental	39,541	39,541	45,510	5,969
<b>Total Revenues</b>	<b>\$ 772,285</b>	<b>\$ 772,285</b>	<b>\$ 773,906</b>	<b>\$ 1,621</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 630,000	\$ 630,000	\$ 625,000	\$ 5,000
Interest	423,535	423,535	423,483	52
Administrative (fiscal) charges	1,400	1,400	1,730	(330)
<b>Total Expenditures</b>	<b>\$ 1,054,935</b>	<b>\$ 1,054,935</b>	<b>\$ 1,050,213</b>	<b>\$ 4,722</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (282,650)</b>	<b>\$ (282,650)</b>	<b>\$ (276,307)</b>	<b>\$ 6,343</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 291,620	\$ 291,620	\$ 321,450	\$ 29,830
Transfers out	(125,000)	(125,000)	(227,036)	(102,036)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 166,620</b>	<b>\$ 166,620</b>	<b>\$ 94,414</b>	<b>\$ (72,206)</b>
<b>Change in Fund Balance</b>	<b>\$ (116,030)</b>	<b>\$ (116,030)</b>	<b>\$ (181,893)</b>	<b>\$ (65,863)</b>
<b>Fund Balance - January 1</b>	<b>1,054,821</b>	<b>1,054,821</b>	<b>1,054,821</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 938,791</b>	<b>\$ 938,791</b>	<b>\$ 872,928</b>	<b>\$ (65,863)</b>

This page was left blank intentionally.

**FIDUCIARY FUNDS**

This page was left blank intentionally.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**AGENCY FUNDS**

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

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

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

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

This page was left blank intentionally.



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>MORTGAGE REGISTRATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (58,927)	\$ 207,705	\$ 143,553	\$ 5,225
<b><u>Liabilities</u></b>				
Due to other governments	\$ (58,927)	\$ 207,705	\$ 143,553	\$ 5,225
 <b><u>DEED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 151,882	\$ 183,755	\$ 324,028	\$ 11,609
<b><u>Liabilities</u></b>				
Due to other governments	\$ 151,882	\$ 183,755	\$ 324,028	\$ 11,609
 <b><u>TAX AND PENALTY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 255,094	\$ 22,311,377	\$ 22,364,497	\$ 201,974
<b><u>Liabilities</u></b>				
Due to other governments	\$ 255,094	\$ 22,311,377	\$ 22,364,497	\$ 201,974
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 348,049	\$ 22,702,837	\$ 22,832,078	\$ 218,808
<b><u>Liabilities</u></b>				
Due to other governments	\$ 348,049	\$ 22,702,837	\$ 22,832,078	\$ 218,808

This page was left blank intentionally.

## **COMPONENT UNIT**

This page was left blank intentionally.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT D-1*

**GOVERNMENTAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY  
DECEMBER 31, 2013**

	<b>General Fund</b>	<b>Adjustments*</b>	<b>Statement of Net Position</b>
<b><u>Assets</u></b>			
Current assets			
Cash and pooled investments	\$ 339,431	\$ -	\$ 339,431
Loans receivable	160,978	-	160,978
Restricted assets			
Investments - temporary	10,844	-	10,844
<b>Total Assets</b>	<b>\$ 511,253</b>	<b>\$ -</b>	<b>\$ 511,253</b>
 <b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 5	\$ -	\$ 5
 <b><u>Deferred Inflows of Resources</u></b>			
Unavailable revenue	\$ 160,978	\$ (160,978)	\$ -
 <b><u>Fund Balance/Net Position</u></b>			
<b>Fund Balance</b>			
Nonspendable - loan guarantee	\$ 122,344	\$ (122,344)	
Unassigned	227,926	(227,926)	
<b>Total Fund Balance</b>	<b>\$ 350,270</b>	<b>\$ (350,270)</b>	
<b>Net Position</b>			
Unrestricted		\$ 511,248	\$ 511,248
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$ 511,253</b>		

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT D-2*

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Charges for services	\$ 15,622	\$ (13,117)	\$ 2,505
Investment earnings	100	-	100
<b>Total Revenues</b>	<b>\$ 15,722</b>	<b>\$ (13,117)</b>	<b>\$ 2,605</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Economic development	74	-	74
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ 15,648</b>	<b>\$ (13,117)</b>	<b>\$ 2,531</b>
<b>Fund Balance/Net Position - January 1</b>	<b>334,622</b>	<b>174,095</b>	<b>508,717</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 350,270</b>	<b>\$ 160,978</b>	<b>\$ 511,248</b>

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

## **SCHEDULES**

This page was left blank intentionally.



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

***EXHIBIT E-1***

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u><b>Total Primary Government</b></u>
<b>Shared Revenue</b>	
<b>State</b>	
Highway users tax	\$ 5,845,458
PERA rate reimbursement	13,448
Disparity reduction aid	96,699
Police aid	65,146
County program aid	344,793
Market value credit	123,137
Enhanced 911	<u>87,066</u>
<b>Total shared revenue</b>	<u><b>\$ 6,575,747</b></u>
<b>Reimbursement for Services</b>	
<b>State</b>	
Minnesota Department of Human Services	<u><b>\$ 33,261</b></u>
<b>Payments</b>	
<b>Local</b>	
Payments in lieu of taxes	<u><b>\$ 28,784</b></u>
<b>Grants</b>	
<b>State</b>	
Minnesota Department/Board of	
Public Safety	\$ 11,461
Natural Resources	35,300
Veterans Affairs	12,298
Corrections	35,527
Transportation	158,708
Water and Soil Resources	<u>90,224</u>
<b>Total state</b>	<u><b>\$ 343,518</b></u>
<b>Federal</b>	
Department of	
Transportation	\$ 317,211
Homeland Security	<u>41,305</u>
<b>Total federal</b>	<u><b>\$ 358,516</b></u>
<b>Total state and federal grants</b>	<u><b>\$ 702,034</b></u>
<b>Total Intergovernmental Revenue</b>	<u><u><b>\$ 7,339,826</b></u></u>

This page was left blank intentionally.



This page was left blank intentionally.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-005

Capital Assets Records

**Criteria:** The County is required by generally accepted accounting principles to account for and depreciate its capital assets over their estimated useful lives. The costs of capital assets are expensed annually as depreciation expense while the asset is in service. Written policies and procedures outline the specific authority and responsibility of County personnel, providing for accountability. Written policies serve as a reference and training tool for new personnel and ensure that procedures remain in place despite personnel turnover. To be effective, an accounting policies and procedures manual must be complete, up to date, and readily available to all personnel who need it.

**Condition:** The County Board has a capital assets policy that discusses capitalization thresholds and use of straight-line depreciation. The policy does not discuss estimated useful lives or use of salvage values.

**Context:** Estimated useful lives are not consistently used in calculating depreciation of the County's capital assets. General government buildings are depreciated over 30 years, while highway buildings are depreciated over 39 and 40 years. Salvage value amounts are not consistently considered in the calculation of depreciation amounts.

**Effect:** There is no clear guidance or consistency in the accounting for depreciation of capital assets.

**Cause:** The County stated that it has not been able to amend its capital assets policy due to time constraints and limited personnel.

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

Client's Response:

*The County will revise the Capital Asset Policy when the Accounting Policy is adopted in the near future to address these issues.*

Finding 2006-002

Budgeting

**Criteria:** The budget is a key internal control for the County. Budget modifications should be made throughout the year to maintain the value of the budget as an internal control tool. The ability to modify the budget during the year for new circumstances makes the budget more valuable because budgetary differences are not distorted by the new circumstances. In general, local governments should have an adopted budget policy that includes elements such as:

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

**Condition:** The County does not have a formal written budget policy.

**Context:** In Faribault County, budget modifications are not always made for significant changes in expected activity.

**Effect:** As a result, expenditures in excess of budgeted amounts may occur.

**Cause:** The County stated that it has had time constraints and limited personnel which have delayed the completion of a formal written budget policy.

**Recommendation:** We recommend that the County Board amend and formalize its budget policy to include the elements recommended above and modify the budget as necessary for significant changes in expected activity.

Client's Response:

*The County will adopt a formal budget policy when the Accounting Policy is adopted in the near future.*

#### ITEM ARISING THIS YEAR

Finding 2013-001

#### 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. Auditing standards define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we 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 material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

**Effect:** The following audit adjustments were necessary to be recorded for December 31, 2013:

- Adjustments of \$1,145,927 and \$298,694 were required in the Public Works Special Revenue Fund to record, respectively, an advance from state highway allotments and to reclassify charges for services revenue as a reduction of expenditures.
- An adjustment of \$280,029 was required in the Ditch Special Revenue Fund to reclassify cross-county collections as a reduction of expenditures rather than as revenue.

- The Huntley Sewer District Enterprise Fund was adjusted by \$17,569, \$4,988, and \$4,439, to record, respectively, current year delinquent tax revenue, an additional amount due from other governments, and to reverse the prior year's amount due from other funds.

**Cause:** The County informed us that these adjustments were the result of an oversight during the preparation of the County's financial statements.

**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. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

*The County agrees with the adjustments listed above and will more carefully monitor the issues in the future.*

## II. OTHER FINDINGS AND RECOMMENDATIONS

### MINNESOTA LEGAL COMPLIANCE

#### PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-001

#### Individual Ditch System Deficits

**Criteria:** Drainage system costs are required by Minn. Stat. § 103E.655 to be paid from the ditch system account for which the costs are being incurred. If money is not available in the drainage system account on which the warrant is drawn, this statute allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. Such loans must be paid back with interest.

Additionally, individual ditch systems should be maintained with a positive fund balance to display solvency. As provided by Minn. Stat. § 103E.735, subd. 1, an account to be used only for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

**Condition:** The County had individual ditch systems with deficit cash balances and deficit fund balances at December 31, 2013.



**Context:** At December 31, 2013, 76 of 188 ditch systems had negative cash balances totaling \$787,504, and 67 ditches had deficit fund balances totaling \$1,428,285.

**Effect:** The County is not in compliance with Minnesota statutes by having ditch systems with negative cash balances. Individual ditch systems are in effect receiving an interest-free loan from the General Fund. Ditch systems with deficit fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet financial obligations.

**Cause:** The County stated that ditch expenditures were necessary, and that individual ditch system cash balances and levies were not sufficient to cover all costs.

**Recommendation:** We recommend that the County eliminate the cash deficits by borrowing from eligible funds with surplus cash balances under Minn. Stat. § 103E.655. Fund balance deficits should be eliminated by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus cash balance to provide for the repair and maintenance of the ditch systems.

Client's Response:

*The County will continue to assess drainage systems to bring the individual systems into compliance.*

ITEM ARISING THIS YEAR

Finding 2013-002

Delegation to Pay Claims

**Criteria:** Minn. Stat. § 375.18, subd. 1b, states:

“A county board, at its discretion, may delegate its authority to pay certain claims made against the county to a county administrative official. County boards opting to delegate their authority to review claims before payment pursuant to this subdivision shall have internal accounting and administrative control procedures to ensure the proper disbursement of public funds. The procedures shall include regular and frequent review of the county administrative officials’ actions by the board. A list of all claims paid under the procedures established by the county board shall be presented to the board for informational purposes only at the next regularly scheduled meeting after payment of the claim. A county board that delegates its authority to pay certain claims made against the county must adopt a resolution authorizing a specified county administrative official to pay the claims that meet the standards and procedures established by the board.”

**Condition:** The County Board has delegated its authority to pay certain claims to the County Auditor/Treasurer/Coordinator; however, the Board does not perform a regular and frequent review of the actions carried out with that authority. Additionally, the County Board does not receive an informational list of claims paid by the County Auditor/Treasurer/Coordinator.

**Context:** As promulgated by Minn. Stat. § 375.18, subd. 1b, the County Board has delegated the authority to pay certain claims to the County Auditor/Treasurer/Coordinator.

**Effect:** By not reviewing claims paid by delegated authority, the County is not in complete compliance with Minn. Stat. § 375.18, subd. 1b.

**Cause:** The County informed us that, due to time constraints, it has not changed procedures regarding the Board's review of claims paid by delegated authority.

**Recommendation:** We recommend the County Board perform regular and frequent reviews over the claims paid by delegated authority. Faribault County should consider developing procedures that ensure that compliance with Minn. Stat. § 375.18, subd. 1b, is documented.

Client's Response:

*The County will begin to provide the County Board with a list of all warrants paid on a monthly basis.*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

### Independent Auditor's Report

Board of County Commissioners  
Faribault County  
Blue Earth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 13, 2014. Other auditors audited the financial statements of Faribault County Housing and Redevelopment Authority, as described in our report on Faribault County's financial statements.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Faribault County's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and

Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other items that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2013-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 1996-005 and 2006-002 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Faribault County's financial statements are free from 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**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County had no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Faribault County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as items 1996-001 and 2013-002. However, our audit was not directed

primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

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

Faribault County's responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 13, 2014