

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BROWN COUNTY
NEW ULM, MINNESOTA

YEAR ENDED DECEMBER 31, 2014

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

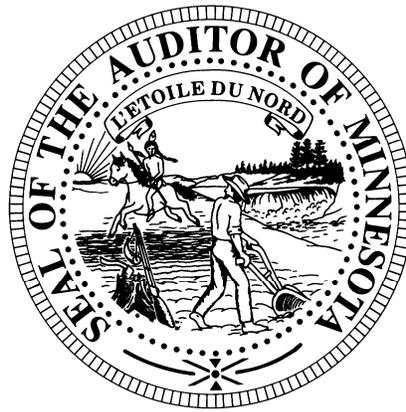
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Year Ended December 31, 2014



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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		6
Basic Financial Statements		
County-Wide Financial Statements		
Statement of Net Position	1	14
Statement of Activities	2	16
Fund Financial Statements		
Balance Sheet - Governmental Funds	3	18
Reconciliation of the Fund Balances of Governmental Funds to the Statement of Net Position--Governmental Activities	4	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5	21
Reconciliation of the Changes in Fund Balance of Governmental Funds to the Statement of Activities--Governmental Activities	6	23
Budgetary Comparison Statements		
General Fund	7	24
Road and Bridge Special Revenue Fund	8	27
Family Services Special Revenue Fund	9	28
Landfill Special Revenue Fund	10	29
County Ditch Special Revenue Fund	11	30
Statement of Fiduciary Net Position - Agency Funds	12	31
Notes to the Financial Statements		32
Required Supplementary Information		
Schedule of Funding Progress - Other Postemployment Benefits	A-1	76

**BROWN COUNTY
NEW ULM, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Financial Section (Continued)		
Supplementary Information		
Combining and Individual Fund Financial Statements and Schedules		
Nonmajor Governmental Fund		77
Budgetary Comparison Schedule - Building and Capital		
Improvements Capital Projects Fund	B-1	78
Agency Funds		79
Combining Statement of Changes in Assets and Liabilities - All		
Agency Funds	C-1	80
Schedules		
Schedule of Deposits and Investments	D-1	84
Schedule of Intergovernmental Revenue - Governmental Funds	D-2	85
Schedule of Expenditures of Federal Awards	D-3	87
Notes to the Schedule of Expenditures of Federal Awards		89
Management and Compliance Section		
Schedule of Findings and Questioned Costs		90
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</i>		
<i>Standards</i>		
		95
Report on Compliance for Each Major Federal Program and Report on		
Internal Control Over Compliance		
		98

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**BROWN COUNTY
NEW ULM, MINNESOTA**

ORGANIZATION
2014

Office	Name	Term Expires
Commissioners		
1st District	Richard Seeboth	January 2017
2nd District	James Berg	January 2017
3rd District	Scott Windschitl	January 2017
4th District	Andrew Lochner	January 2015
5th District	Dennis Potter*	January 2015
Officers		
Elected		
Attorney	Robert Hinnenthal	January 2015
Auditor/Treasurer	Marlin C. Helget	January 2015
County Recorder	Betti Kamolz	January 2015
Sheriff	Rich Hoffmann	January 2015
Appointed		
Administrator	Charles Enter	Indefinite
Assessor	Rita Treml	December 31, 2016
Family Services Director	Tom Henderson	Indefinite
Coroner	Terry Knowles, M.D.	December 31, 2014
Probation Director	Les Schultz	Indefinite
Highway Engineer	Wayne Stevens	May 31, 2018
Human Resources Director	Mike Furth	Indefinite
Planning and Zoning Administrator	Laine Sletta	Indefinite
Public Health Director	Karen Moritz	Indefinite
Veterans Service Officer	Greg Peterson	April 11, 2017
Lay Board Member	Elizabeth Mohr	December 31, 2015
Lay Board Member	Judy Kuster	December 31, 2015

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Brown County
New Ulm, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County, Minnesota, as of and for the year ended December 31, 2014, 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 Brown County Economic Development Partners, Inc., the discretely presented component unit. 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 component unit, is based solely upon the report of the other auditors. We also did not audit the financial statements of the South Country Health Alliance (SCHA) for the year ended December 31, 2014, in which Brown County has an equity interest. The SCHA is a joint venture discussed in Note. 6.C. to the financial statements. The County's investment in the SCHA, \$2,776,353, represents 2.5 percent and 2.7 percent, respectively, of the assets and net position of the governmental activities. The financial statements of the SCHA, which were prepared in accordance with financial reporting provisions permitted by the Minnesota Department of Health, were audited by other auditors, whose report thereon has been furnished to us. We have applied

procedures on the conversion adjustments to the financial statement of the SCHA, which conform the financial reporting of the investment in joint venture to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amount included as an investment in joint venture, prior to these conversion adjustments, 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. The financial statements of Brown County Economic Development Partners, Inc., and the South Country Health Alliance were not audited in accordance with *Government Auditing Standards*.

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 audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of December 31, 2014, and the respective changes in financial position thereof and the respective budgetary comparisons of the General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, Landfill Special Revenue Fund, and the County Ditch Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Governmental Accounting Standards Board, 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 Brown 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 August 26, 2015, on our consideration of Brown 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 Brown County's internal control over financial reporting and compliance. It does not include Brown County Economic Development Partners, Inc., or the South Country Health Alliance, which were audited by other auditors.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 26, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BROWN COUNTY
NEW ULM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(Unaudited)**

As management of Brown County, we offer readers of the Brown County financial statements this narrative overview and analysis of the financial activities of Brown County for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Brown County exceeded its liabilities at the close of 2014 by \$103,950,239. Of this amount, \$14,998,682 (unrestricted net position) may be used to meet Brown County's ongoing obligations to citizens and creditors.
- Brown County's total net position increased by \$6,567,957 in 2014, or 6.7 percent.
- At the close of 2014, Brown County's governmental funds reported combined ending fund balances of \$21,294,947. The amount of \$3,490,017 is unassigned and is available for spending at the County's discretion.
- At the close of 2014, unassigned fund balance for the General Fund was \$3,810,091, or 31.8 percent, of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to Brown County's basic financial statements. Brown County's basic financial statements are comprised of three components: (1) county-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

County-Wide Financial Statements

The county-wide financial statements are designed to provide readers with a broad overview of Brown County's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of Brown County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Brown County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The county-wide financial statements list the functions of Brown County principally supported by taxes and intergovernmental revenues. The governmental activities of Brown County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, economic development, and conservation of natural resources. There are no business-type activities within Brown County's financial structure that are intended to recover all or a significant portion of their costs through user fees and charges.

The county-wide financial statements include not only Brown County itself (the primary government), but also the legally separate Economic Development Partners, Inc. (EDP). The EDP, although legally separate, functions for all practical purposes as an integral part of Brown County and, therefore, has been included in the county-wide financial statements.

The county-wide financial statements can be found on Exhibits 1 and 2.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Brown County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Brown County can be divided into two categories: governmental funds and fiduciary funds.

Because the focus of governmental funds is narrower than that of the county-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the county-wide financial statements. By doing so, readers may better understand the long-term impact of the County's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Governmental funds--Governmental funds are used to account for essentially the same functions reported as governmental activities in the county-wide financial statements. However, unlike the county-wide financial statements, County fund-level financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's short-term financing requirements.

Brown County reports five major funds and one nonmajor governmental fund. The major funds are: the General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, Landfill Special Revenue Fund, and the County Ditch Special Revenue Fund. The nonmajor governmental fund is the Building and Capital Improvements Capital Projects Fund. Information is presented separately for the major funds and in the aggregate for the nonmajor funds in Exhibits 3 and 5.

Fiduciary funds--Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Brown County's fiduciary funds consist of 11 agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the agency funds are not reflected in the county-wide financial statements because those resources are not available to support the County's programs.

Brown County's governmental fund financial statements are on Exhibits 3 through 11, and Brown County's fiduciary funds are on Exhibit 12.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided.

Other Information

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Brown County's progress in funding its obligation to provide other postemployment benefits to its employees. Required supplementary information can be found on Exhibit A-1. In addition, the County also provides supplementary information on Brown County's deposits and investments, intergovernmental revenues, and expenditures of federal awards (Exhibits D-1, D-2, and D-3).

Brown County adopts an annual appropriated budget for its General Fund, the special revenue funds, and the capital projects fund. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.

COUNTY-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. Brown County's assets exceeded liabilities by \$103,950,239 at the close of 2014. The largest portion of Brown County's net position (78.2 percent) reflects its investment in capital assets (such as land, buildings, and equipment); however, it should be noted that these assets are not available for future spending. Comparative data with 2013 is presented.

Table 1
Governmental Net Position

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 28,613,641	\$ 27,111,471
Capital assets	<u>81,333,564</u>	<u>76,328,848</u>
Total Assets	<u>\$ 109,947,205</u>	<u>\$ 103,440,319</u>
Long-term liabilities outstanding	\$ 3,914,581	\$ 4,133,917
Other liabilities	<u>2,082,385</u>	<u>1,924,120</u>
Total Liabilities	<u>\$ 5,996,966</u>	<u>\$ 6,058,037</u>
Net Position		
Net investment in capital assets	\$ 81,333,564	\$ 76,157,162
Restricted	7,617,993	6,574,918
Unrestricted	<u>14,998,682</u>	<u>14,650,202</u>
Total Net Position	<u>\$ 103,950,239</u>	<u>\$ 97,382,282</u>

The unrestricted net position amount of \$14,998,682 as of December 31, 2014, may be used to meet the County's ongoing obligations to citizens and creditors.

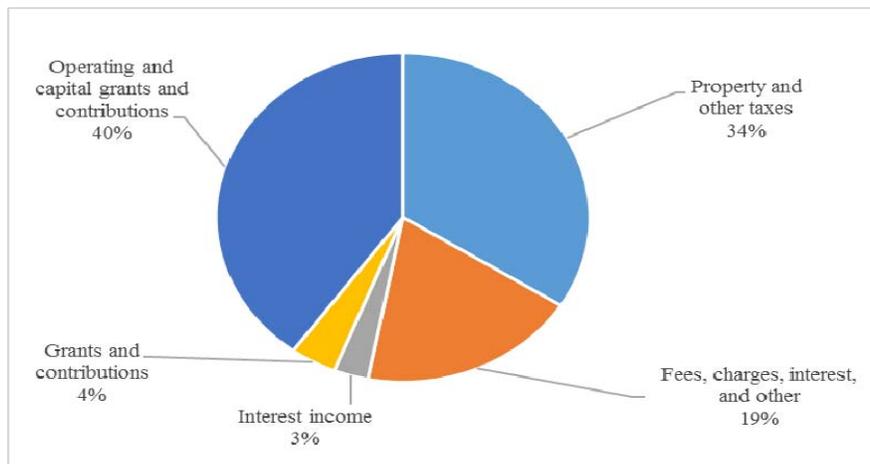
Governmental Activities

The County's activities from operations increased net position by \$6,567,957, or 6.7 percent (\$97,382,282 in 2013 to \$103,950,239 in 2014). Table 2 summarizes the changes in net position for 2014.

**Table 2
Changes in Governmental Net Position**

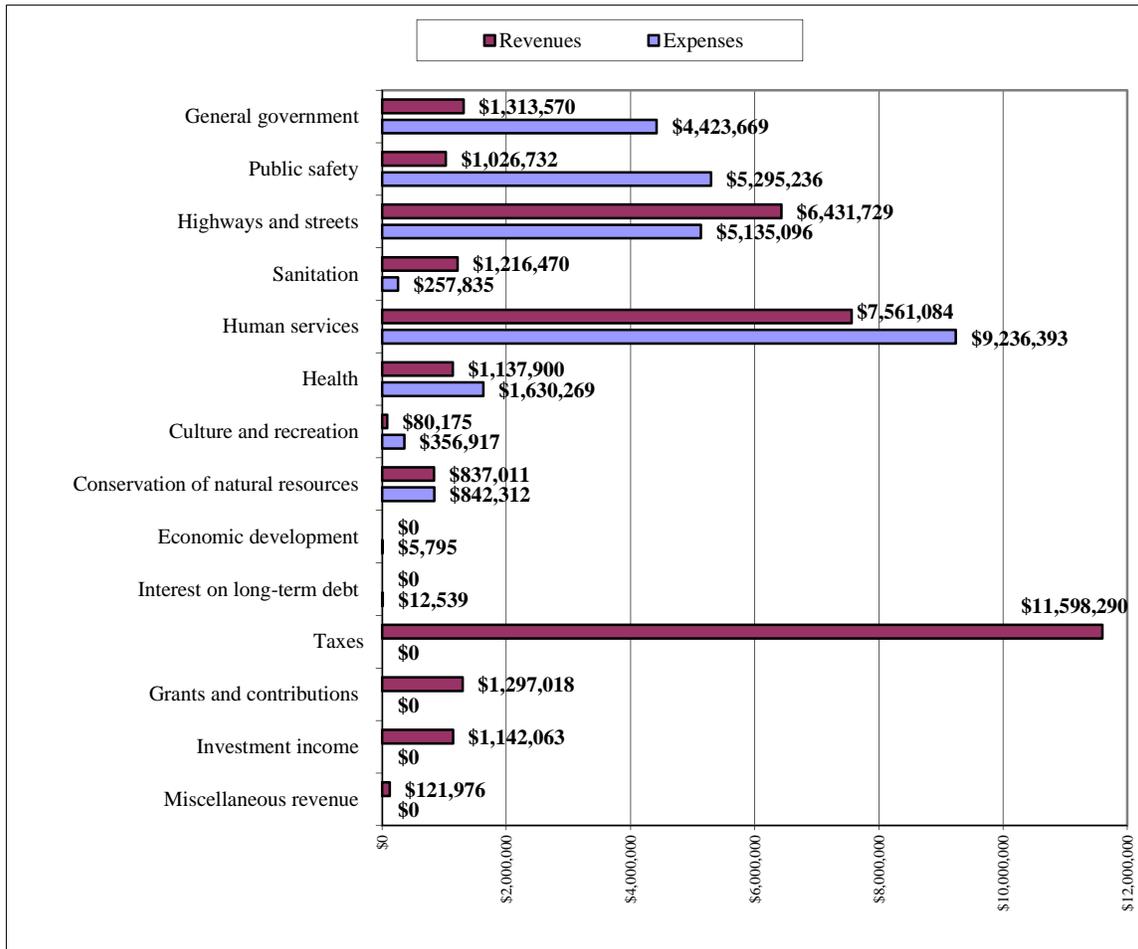
	2014	2013
Revenues		
Program revenues		
Charges for services	\$ 6,076,750	\$ 6,071,225
Operating grants and contributions	11,948,348	15,802,785
Capital grants and contributions	1,579,573	55,104
General revenues		
Property taxes	11,305,279	11,261,108
Other	2,854,068	775,301
Total Revenues	\$ 33,764,018	\$ 33,965,523
Expenses		
General government	\$ 4,423,669	\$ 4,282,628
Public safety	5,295,236	5,212,397
Highways and streets	5,135,096	4,837,003
Sanitation	257,835	1,068,509
Human services	9,236,393	8,743,305
Health	1,630,269	1,615,202
Culture and recreation	356,917	368,982
Conservation of natural resources	842,312	1,025,214
Economic development	5,795	5,495
Interest	12,539	16,131
Total Expenses	\$ 27,196,061	\$ 27,174,866
Increase in Net Position	\$ 6,567,957	\$ 6,790,657
Net Position - January 1	97,382,282	90,591,625
Net Position - December 31	\$ 103,950,239	\$ 97,382,282

Revenues by Source - 2014



(Unaudited)

Expenses and Revenues - 2014



Total revenues for the County were \$33,764,018, while total expenses were \$27,196,061. This reflects a \$6,567,957 increase in net position for the year ended December 31, 2014.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$21,294,947, an increase of \$643,142 in comparison with the prior year. Of this amount, \$3,490,017 constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of Brown County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$3,810,091, while total General Fund balance was \$5,354,270. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31.8 percent of total General Fund expenditures, while total fund balance represents 44.6 percent of that same amount.

General Fund Budgetary Highlights

There were no changes between the original budget and the final amended budget. Total General Fund revenues exceeded budgeted revenues by \$1,199,769, due in large part to the market value of investments at December 31, 2014. Government Accounting Standards require that the County's investments reflect their market value on the balance sheet date. As with any long-term investment, the County's long-term investments are subject to market fluctuations, and the County adjusted the value accordingly. When held to maturity, the County will realize the interest earnings that are associated with these investments, which consist primarily of U.S. Government Securities. Overall, the actual expenditures exceeded budgeted expenditures by \$8,098, primarily due to unbudgeted expenditures in the general government, culture and recreation, conservation of natural resources, and debt service functions. These budget overruns were covered by budget surpluses in the public safety, health, and economic development functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2014, amounts to \$81,333,564 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was \$5,004,716.

Table 3
Governmental Capital Assets
(Net of Depreciation)

	2014	2013
Land	\$ 1,038,712	\$ 1,038,712
Construction in progress	571,517	4,423,648
Land improvements	1,459,370	482,931
Buildings and improvements	11,957,111	12,149,973
Machinery, furniture, and equipment	2,965,567	2,714,651
Computer software - intangible	390,295	265,554
Infrastructure	62,950,992	55,253,379
Totals	\$ 81,333,564	\$ 76,328,848

Additional information on the County’s capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had no bond-related debt outstanding.

Additional information on the County’s long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

- Brown County’s average unemployment rate was 4.1 percent as of the end of 2014. This was slightly above the statewide rate of 3.6 percent.
- Mortgage interest rates have risen only slightly during 2014, resulting in a stable volume of mortgage refinancing.
- At the end of 2014, Brown County set its 2015 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the County’s finances for all those with an interest in the County’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Brown County Auditor/Treasurer, Brown County Courthouse, 14 South State Street, P. O. Box 115, New Ulm, Minnesota 56073.

BASIC FINANCIAL STATEMENTS

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COUNTY-WIDE FINANCIAL STATEMENTS

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	<u>Primary Government Governmental Activities</u>	<u>Economic Development Partners, Inc., Component Unit</u>
<u>Assets</u>		
Cash and pooled investments	\$ 21,457,820	\$ 10,716
Taxes receivable		
Delinquent	111,302	-
Special assessments receivable		
Delinquent	27,732	-
Current	472,894	-
Noncurrent	297,056	-
Accounts receivable	938,780	-
Accrued interest receivable	56,996	-
Loan receivable	-	324,829
Due from other governments	2,175,033	-
Inventories	299,675	-
Investment in joint venture	2,776,353	-
Capital assets		
Non-depreciable	1,610,229	-
Depreciable - net of accumulated depreciation	79,723,335	-
Total Assets	\$ 109,947,205	\$ 335,545
<u>Liabilities</u>		
Accounts payable	\$ 754,439	\$ 693
Salaries payable	689,963	-
Contracts payable	112,209	-
Due to other governments	371,915	-
Accrued interest payable	456	-
Unearned revenue	153,403	-
Long-term liabilities		
Due within one year	201,842	-
Due in more than one year	3,200,577	-
Other postemployment benefits obligations	512,162	-
Total Liabilities	\$ 5,996,966	\$ 693

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT 1
(Continued)*

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	<u>Primary Government Governmental Activities</u>	<u>Economic Development Partners, Inc., Component Unit</u>
<u>Net Position</u>		
Investment in capital assets	\$ 81,333,564	\$ -
Restricted for		
General government	145,417	-
Public safety	297,468	-
Highways and streets	1,524,052	-
Human services	2,791,738	-
Conservation of natural resources	1,364,684	-
Landfill closure/postclosure	1,494,634	-
Other purposes	-	4,200
Unrestricted	<u>14,998,682</u>	<u>330,652</u>
Total Net Position	<u>\$ 103,950,239</u>	<u>\$ 334,852</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 4,423,669	\$ 1,117,707
Public safety	5,295,236	255,979
Highways and streets	5,135,096	61,508
Sanitation	257,835	1,146,187
Human services	9,236,393	2,435,639
Health	1,630,269	482,768
Culture and recreation	356,917	18,369
Conservation of natural resources	842,312	558,593
Economic development	5,795	-
Interest	12,539	-
Total Primary Government	<u>\$ 27,196,061</u>	<u>\$ 6,076,750</u>
Component unit		
Economic Development Partners, Inc.	<u>\$ 26,114</u>	<u>\$ 11,863</u>

General Revenues

Property taxes
 Wheelage tax
 Grants and contributions not restricted
 to specific programs
 Payments in lieu of tax
 Investment income
 Miscellaneous

Total general revenues

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Change in Net Position	
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Economic Development Partners, Inc., Component Unit
\$ 195,863	\$ -	\$ (3,110,099)	
770,753	-	(4,268,504)	
4,843,057	1,527,164	1,296,633	
70,283	-	958,635	
5,073,036	52,409	(1,675,309)	
655,132	-	(492,369)	
61,806	-	(276,742)	
278,418	-	(5,301)	
-	-	(5,795)	
-	-	(12,539)	
\$ 11,948,348	\$ 1,579,573	\$ (7,591,390)	
\$ -	\$ -		\$ (14,251)
		\$ 11,305,279	\$ -
		285,378	-
		1,297,018	-
		7,633	-
		1,142,063	-
		121,976	-
		\$ 14,159,347	\$ -
		\$ 6,567,957	\$ (14,251)
		97,382,282	349,103
		\$ 103,950,239	\$ 334,852

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FUND FINANCIAL STATEMENTS

**BROWN COUNTY
NEW ULM, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 5,658,166	\$ 4,160,333
Taxes receivable		
Delinquent	71,177	16,532
Special assessments receivable		
Delinquent	8,877	-
Current	128,361	-
Noncurrent	270,200	-
Accounts receivable	172,361	-
Accrued interest receivable	56,996	-
Due from other funds	3,025	8,622
Due from other governments	169,463	1,020,986
Inventories	-	299,675
	\$ 6,538,626	\$ 5,506,148
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 161,906	\$ 235,632
Salaries payable	396,673	74,003
Contracts payable	-	11,401
Due to other funds	3,542	-
Due to other governments	4,951	706
Unearned revenue	131,329	9,023
	\$ 698,401	\$ 330,765
Deferred Inflows of Resources		
Unavailable revenue	\$ 485,955	\$ 643,280
Fund Balances		
Nonspendable	\$ -	\$ 299,675
Restricted	1,202,980	943,692
Assigned	341,199	3,288,736
Unassigned	3,810,091	-
	\$ 5,354,270	\$ 4,532,103
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,538,626	\$ 5,506,148

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

EXHIBIT 3

<u>Family Services</u>	<u>Landfill</u>	<u>County Ditch</u>	<u>Nonmajor Building and Capital Improvements</u>	<u>Total Governmental Funds</u>
\$ 5,252,912	\$ 5,376,253	\$ 529,530	\$ 480,626	\$ 21,457,820
23,091	-	-	502	111,302
-	16,519	2,336	-	27,732
-	-	344,533	-	472,894
-	-	26,856	-	297,056
711,986	54,433	-	-	938,780
-	-	-	-	56,996
-	-	-	-	11,647
676,122	432	270,564	37,466	2,175,033
-	-	-	-	299,675
<u>\$ 6,664,111</u>	<u>\$ 5,447,637</u>	<u>\$ 1,173,819</u>	<u>\$ 518,594</u>	<u>\$ 25,848,935</u>
\$ 284,535	\$ 36,639	\$ 35,727	\$ -	\$ 754,439
213,829	5,458	-	-	689,963
-	-	-	100,808	112,209
8,105	-	-	-	11,647
308,772	-	57,486	-	371,915
12,115	936	-	-	153,403
<u>\$ 827,356</u>	<u>\$ 43,033</u>	<u>\$ 93,213</u>	<u>\$ 100,808</u>	<u>\$ 2,093,576</u>
<u>\$ 674,079</u>	<u>\$ 13,293</u>	<u>\$ 643,428</u>	<u>\$ 377</u>	<u>\$ 2,460,412</u>
\$ -	\$ -	\$ -	\$ -	\$ 299,675
15,385	2,669,169	757,252	-	5,588,478
5,147,291	2,722,142	-	417,409	11,916,777
-	-	(320,074)	-	3,490,017
<u>\$ 5,162,676</u>	<u>\$ 5,391,311</u>	<u>\$ 437,178</u>	<u>\$ 417,409</u>	<u>\$ 21,294,947</u>
<u>\$ 6,664,111</u>	<u>\$ 5,447,637</u>	<u>\$ 1,173,819</u>	<u>\$ 518,594</u>	<u>\$ 25,848,935</u>

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2014**

Fund balances - total governmental funds (Exhibit 3)	\$	21,294,947
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.		81,333,564
Investments in joint ventures are recorded in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds.		2,776,353
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the governmental funds.		2,460,412
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$	(584,811)
Compensated absences		(1,643,073)
Accrued interest payable		(456)
Estimated liability for landfill closure/postclosure		(1,174,535)
Net OPEB liability		(512,162)
		(3,915,037)
Net Position of Governmental Activities (Exhibit 1)	\$	<u>103,950,239</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Road and Bridge
Revenues		
Taxes	\$ 7,308,012	\$ 1,975,870
Special assessments	159,076	-
Licenses and permits	36,249	-
Intergovernmental	2,511,170	6,677,477
Charges for services	1,560,241	26,781
Fines and forfeits	2,466	-
Gifts and contributions	-	-
Investment earnings	1,139,633	-
Miscellaneous	383,710	34,727
	\$ 13,100,557	\$ 8,714,855
Expenditures		
Current		
General government	\$ 4,432,730	\$ -
Public safety	5,072,281	-
Highways and streets	-	9,020,181
Sanitation	-	-
Human services	-	-
Health	1,595,715	-
Culture and recreation	341,104	-
Conservation of natural resources	401,414	-
Economic development	5,795	-
Intergovernmental	-	328,536
Debt service		
Principal	132,558	-
Interest	12,635	-
	\$ 11,994,232	\$ 9,348,717
Excess of Revenues Over (Under) Expenditures	\$ 1,106,325	\$ (633,862)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 71,364
Transfers out	(198,627)	-
	\$ (198,627)	\$ 71,364
Net Change in Fund Balance	\$ 907,698	\$ (562,498)
Fund Balance - January 1	4,446,572	5,108,939
Increase (decrease) in inventories	-	(14,338)
Fund Balance - December 31	\$ 5,354,270	\$ 4,532,103

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

EXHIBIT 5

<u>Family Services</u>	<u>Landfill</u>	<u>County Ditch</u>	<u>Nonmajor Building and Capital Improvements</u>	<u>Total Governmental Funds</u>
\$ 2,318,597	\$ -	\$ -	\$ 29,935	\$ 11,632,414
-	351,194	308,539	-	818,809
-	360	-	-	36,609
5,371,730	71,329	1,178	53,305	14,686,189
1,082,869	799,985	-	-	3,469,876
-	-	-	-	2,466
4,066	-	-	-	4,066
-	-	-	-	1,139,633
1,065,045	3,032	-	8,385	1,494,899
<u>\$ 9,842,307</u>	<u>\$ 1,225,900</u>	<u>\$ 309,717</u>	<u>\$ 91,625</u>	<u>\$ 33,284,961</u>
\$ -	\$ -	\$ -	\$ 10,700	\$ 4,443,430
-	-	-	254,448	5,326,729
-	-	-	-	9,020,181
-	1,390,791	-	-	1,390,791
9,178,371	-	-	-	9,178,371
-	-	-	-	1,595,715
-	-	-	-	341,104
-	-	450,222	-	851,636
-	-	-	-	5,795
-	-	-	-	328,536
-	-	-	-	132,558
-	-	-	-	12,635
<u>\$ 9,178,371</u>	<u>\$ 1,390,791</u>	<u>\$ 450,222</u>	<u>\$ 265,148</u>	<u>\$ 32,627,481</u>
<u>\$ 663,936</u>	<u>\$ (164,891)</u>	<u>\$ (140,505)</u>	<u>\$ (173,523)</u>	<u>\$ 657,480</u>
\$ 51,856	\$ 61,629	\$ 7,222	\$ 6,556	\$ 198,627
-	-	-	-	(198,627)
<u>\$ 51,856</u>	<u>\$ 61,629</u>	<u>\$ 7,222</u>	<u>\$ 6,556</u>	<u>\$ -</u>
\$ 715,792	\$ (103,262)	\$ (133,283)	\$ (166,967)	\$ 657,480
4,446,884	5,494,573	570,461	584,376	20,651,805
-	-	-	-	(14,338)
<u>\$ 5,162,676</u>	<u>\$ 5,391,311</u>	<u>\$ 437,178</u>	<u>\$ 417,409</u>	<u>\$ 21,294,947</u>

**BROWN COUNTY
NEW ULM, 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, 2014**

Change in fund balances - total governmental funds (Exhibit 5) \$ 657,480

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

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. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures	\$ 7,546,844	
Depreciation expense	<u>(2,526,594)</u>	5,020,250

The net effect of various miscellaneous transactions involving capital assets (such as sales, trade-ins, and retirements) is to decrease net position.

Net book value of assets disposed of		(15,534)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Increase in deferred inflows of resources for unavailable revenues		72,267
--	--	--------

The repayment of principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net position.

Principal payments on debt		132,558
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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.

Decrease in inventories	\$ (14,338)	
Decrease in accrued interest payable	96	
Increase in compensated absences payable	(201,339)	
Increase in net OPEB liability	(97,040)	
Decrease in landfill postclosure care costs	592,318	
Increase in investment in joint venture	<u>421,239</u>	<u>700,936</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 6,567,957

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 7,169,157	\$ 7,169,157	\$ 7,308,012	\$ 138,855
Special assessments	163,904	163,904	159,076	(4,828)
Licenses and permits	38,140	38,140	36,249	(1,891)
Intergovernmental	2,260,938	2,260,938	2,511,170	250,232
Charges for services	1,773,098	1,773,098	1,560,241	(212,857)
Fines and forfeits	10,700	10,700	2,466	(8,234)
Investment earnings	60,800	60,800	1,139,633	1,078,833
Miscellaneous	424,051	424,051	383,710	(40,341)
Total Revenues	\$ 11,900,788	\$ 11,900,788	\$ 13,100,557	\$ 1,199,769
Expenditures				
Current				
General government				
Commissioners	\$ 255,876	\$ 255,876	\$ 238,149	\$ 17,727
Courts	72,548	72,548	99,691	(27,143)
Law library	17,000	17,000	20,176	(3,176)
County auditor/treasurer	599,698	599,698	583,985	15,713
License bureau	172,986	172,986	172,129	857
County assessor	431,048	431,048	425,870	5,178
Elections	38,600	38,600	53,206	(14,606)
Accounting and auditing	45,000	45,000	60,264	(15,264)
Data processing	455,429	455,429	469,827	(14,398)
Central services	185,118	185,118	187,317	(2,199)
Personnel administration	166,798	166,798	166,972	(174)
Attorney	484,763	484,763	482,041	2,722
Recorder	456,180	456,180	543,279	(87,099)
Planning and zoning	163,233	163,233	163,894	(661)
Buildings and plant	575,361	575,361	561,370	13,991
Veterans service officer	125,832	125,832	125,217	615
Veterans shuttle	20,256	20,256	12,008	8,248
Other	80,123	80,123	67,335	12,788
Total general government	\$ 4,345,849	\$ 4,345,849	\$ 4,432,730	\$ (86,881)

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT 7
(Continued)**

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,000,762	\$ 2,000,762	\$ 2,053,978	\$ (53,216)
Regional radio board operations	1,035	1,035	-	1,035
Boat and water safety	9,152	9,152	23,118	(13,966)
Emergency services	44,133	44,133	46,970	(2,837)
Coroner	15,000	15,000	17,867	(2,867)
E-911 system	104,872	104,872	39,722	65,150
County jail	1,415,204	1,415,204	1,329,796	85,408
Probation and parole	1,566,215	1,566,215	1,552,608	13,607
Sheriff's contingency	8,000	8,000	5,000	3,000
Snowmobile safety	3,311	3,311	3,222	89
Total public safety	\$ 5,167,684	\$ 5,167,684	\$ 5,072,281	\$ 95,403
Health				
Nursing service	\$ 1,681,136	\$ 1,681,136	\$ 1,595,715	\$ 85,421
Culture and recreation				
Historical society	\$ 84,902	\$ 84,902	\$ 84,902	\$ -
Parks	134,881	134,881	137,432	(2,551)
County/regional library	70,412	70,412	70,412	-
Snowmobile trails	-	-	25,512	(25,512)
Other	22,619	22,619	22,846	(227)
Total culture and recreation	\$ 312,814	\$ 312,814	\$ 341,104	\$ (28,290)
Conservation of natural resources				
Cooperative extension	\$ 77,687	\$ 77,687	\$ 76,149	\$ 1,538
Soil and water conservation	107,421	107,421	106,421	1,000
Agricultural society/County fair	28,500	28,500	28,500	-
Water planning	26,786	26,786	57,743	(30,957)
Wetlands	26,558	26,558	25,656	902
Septic loan program	74,000	74,000	106,945	(32,945)
Total conservation of natural resources	\$ 340,952	\$ 340,952	\$ 401,414	\$ (60,462)

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT 7
(Continued)*

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 10,795	\$ 10,795	\$ 5,795	\$ 5,000
Debt service				
Principal	\$ 114,269	\$ 114,269	\$ 132,558	\$ (18,289)
Interest	12,635	12,635	12,635	-
Total debt service	<u>\$ 126,904</u>	<u>\$ 126,904</u>	<u>\$ 145,193</u>	<u>\$ (18,289)</u>
Total Expenditures	<u>\$ 11,986,134</u>	<u>\$ 11,986,134</u>	<u>\$ 11,994,232</u>	<u>\$ (8,098)</u>
Excess of Revenues Over (Under)				
Expenditures	\$ (85,346)	\$ (85,346)	\$ 1,106,325	\$ 1,191,671
Other Financing Sources (Uses)				
Transfers out	-	-	(198,627)	(198,627)
Net Change in Fund Balance	\$ (85,346)	\$ (85,346)	\$ 907,698	\$ 993,044
Fund Balance - January 1	<u>4,446,572</u>	<u>4,446,572</u>	<u>4,446,572</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 4,361,226</u>	<u>\$ 4,361,226</u>	<u>\$ 5,354,270</u>	<u>\$ 993,044</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 8

**BUDGETARY COMPARISON STATEMENT
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,960,241	\$ 1,960,241	\$ 1,975,870	\$ 15,629
Intergovernmental	6,471,657	6,471,657	6,677,477	205,820
Charges for services	25,000	25,000	26,781	1,781
Miscellaneous	33,000	33,000	34,727	1,727
Total Revenues	\$ 8,489,898	\$ 8,489,898	\$ 8,714,855	\$ 224,957
Expenditures				
Current				
Highways and streets				
Administration	\$ 333,962	\$ 333,962	\$ 368,026	\$ (34,064)
Maintenance	1,712,393	1,712,393	2,139,662	(427,269)
Construction	6,241,849	6,241,849	4,972,534	1,269,315
Equipment maintenance and shop	1,139,694	1,139,694	1,272,513	(132,819)
Materials and services for resale	305,000	305,000	267,446	37,554
Total highways and streets	\$ 9,732,898	\$ 9,732,898	\$ 9,020,181	\$ 712,717
Intergovernmental				
Highways and streets	317,000	317,000	328,536	(11,536)
Total Expenditures	\$ 10,049,898	\$ 10,049,898	\$ 9,348,717	\$ 701,181
Excess of Revenues Over (Under) Expenditures	\$ (1,560,000)	\$ (1,560,000)	\$ (633,862)	\$ 926,138
Other Financing Sources (Uses)				
Transfers in	40,000	40,000	71,364	31,364
Net Change in Fund Balance	\$ (1,520,000)	\$ (1,520,000)	\$ (562,498)	\$ 957,502
Fund Balance - January 1	5,108,939	5,108,939	5,108,939	-
Increase (decrease) in inventories	-	-	(14,338)	(14,338)
Fund Balance - December 31	\$ 3,588,939	\$ 3,588,939	\$ 4,532,103	\$ 943,164

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 9

**BUDGETARY COMPARISON STATEMENT
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,295,775	\$ 2,295,775	\$ 2,318,597	\$ 22,822
Intergovernmental	4,602,725	4,602,725	5,371,730	769,005
Charges for services	1,082,192	1,082,192	1,082,869	677
Gifts and contributions	8,575	8,575	4,066	(4,509)
Miscellaneous	439,270	439,270	1,065,045	625,775
Total Revenues	\$ 8,428,537	\$ 8,428,537	\$ 9,842,307	\$ 1,413,770
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,276,266	\$ 2,276,266	\$ 2,723,619	\$ (447,353)
Social services	5,492,214	5,492,214	5,677,443	(185,229)
Heartland express	699,500	699,500	777,309	(77,809)
Total Expenditures	\$ 8,467,980	\$ 8,467,980	\$ 9,178,371	\$ (710,391)
Excess of Revenues Over (Under)				
Expenditures	\$ (39,443)	\$ (39,443)	\$ 663,936	\$ 703,379
Other Financing Sources (Uses)				
Transfers in	39,443	39,443	51,856	12,413
Net Change in Fund Balance	\$ -	\$ -	\$ 715,792	\$ 715,792
Fund Balance - January 1	4,446,884	4,446,884	4,446,884	-
Fund Balance - December 31	\$ 4,446,884	\$ 4,446,884	\$ 5,162,676	\$ 715,792

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 10

**BUDGETARY COMPARISON STATEMENT
LANDFILL SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 345,000	\$ 345,000	\$ 351,194	\$ 6,194
Licenses and permits	350	350	360	10
Intergovernmental	64,157	64,157	71,329	7,172
Charges for services	536,500	536,500	799,985	263,485
Miscellaneous	2,000	2,000	3,032	1,032
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 948,007	\$ 948,007	\$ 1,225,900	\$ 277,893
Expenditures				
Current				
Sanitation				
Solid waste	1,213,214	1,213,214	1,390,791	(177,577)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Excess of Revenues Over (Under)				
Expenditures	\$ (265,207)	\$ (265,207)	\$ (164,891)	\$ 100,316
Other Financing Sources (Uses)				
Transfers in	93,000	93,000	61,629	(31,371)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Change in Fund Balance	\$ (172,207)	\$ (172,207)	\$ (103,262)	\$ 68,945
Fund Balance - January 1	5,494,573	5,494,573	5,494,573	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 5,322,366	\$ 5,322,366	\$ 5,391,311	\$ 68,945
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 11

**BUDGETARY COMPARISON STATEMENT
COUNTY DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 700,000	\$ 700,000	\$ 308,539	\$ (391,461)
Intergovernmental	-	-	1,178	1,178
Total Revenues	\$ 700,000	\$ 700,000	\$ 309,717	\$ (390,283)
Expenditures				
Current				
Conservation of natural resources				
Other	706,000	706,000	450,222	255,778
Excess of Revenues Over (Under) Expenditures	\$ (6,000)	\$ (6,000)	\$ (140,505)	\$ (134,505)
Other Financing Sources (Uses)				
Transfers in	6,000	6,000	7,222	1,222
Net Change in Fund Balance	\$ -	\$ -	\$ (133,283)	\$ (133,283)
Fund Balance - January 1	570,461	570,461	570,461	-
Fund Balance - December 31	\$ 570,461	\$ 570,461	\$ 437,178	\$ (133,283)

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 12

**STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
DECEMBER 31, 2014**

	<u>Agency Funds</u>
 <u>Assets</u>	
Cash and pooled investments	<u>\$ 857,675</u>
 <u>Liabilities</u>	
Due to other governments	<u>\$ 857,675</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014. 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.

A. Financial Reporting Entity

Brown County was established February 11, 1856, 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 Brown County (primary government) and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the county-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Brown County is discretely presented:

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Brown County Economic Development Partners, Inc.	The County appoints its governing board, and it is fiscally dependent on the County.	Brown County Economic Development Partners, Inc. c/o Brown County Administrator’s Office 14 South State P. O. Box 248 New Ulm, Minnesota 56073-0248

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. County-Wide Statements

The county-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component unit. 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.

In the county-wide statement of net position, the governmental activities column: (a) is presented on a consolidated basis; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: (1) 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 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

The Landfill Special Revenue Fund is used to account for restricted revenue sources from the federal and state government, as well as assigned special assessment and service revenues from the County to be used for the cost of County landfill and recycling operations.

The County 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following funds/fund types:

The Building and Capital Improvements Capital Projects Fund is used to account for assigned property tax revenues to be used to pay the cost of constructing and maintaining County buildings.

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 county-wide 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. Brown 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, Deferred Outflows or 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 investments are reported at their fair value at December 31, 2014, 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 are allocated interest as transfers from the General Fund based on the average cash balance of the fund. Pooled investment earnings for 2014 were \$1,139,633.

Brown 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. The investment in the pool is measured at the amortized cost per share by the pool which would approximate fair value.

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;

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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

Investments of the County are reported at fair value.

2. Receivables and Payables

Activities between funds are reported as "due to/from other funds."

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 prior taxes receivable.

Special assessments receivable consist of delinquent special assessments payable in the years 2009 through 2014 and current/noncurrent special assessments payable in 2015 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments.

No allowance for accounts receivable and uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories

The Road and Bridge Special Revenue Fund inventory is valued using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the county-wide level are reported as expenses when consumed.

Inventories, as reported in the fund financial statements, are offset by nonspendable fund balance to indicate that they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include property, plant, equipment, intangibles, and infrastructure assets (for example, roads, bridges, and similar items) are reported in the governmental activities column in the county-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 (\$100,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 - 150
Land improvements	3 - 150
Infrastructure	50 - 75
Intangibles	5 - 20
Machinery, furniture, and equipment	2 - 20

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the county-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. The current portion is the greater of the prior year actual severance payout or the average of the previous five year severance payouts.

6. Long-Term Obligations

In the county-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. 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 an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. 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 only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Unearned Revenue

Governmental funds and county-wide financial statements report unearned revenue in connection with resources that have been received, but not yet earned.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Classification of Net Position

Net position in the county-wide financial statements is classified in the following categories:

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation.

Restricted net position - the amount 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 net position - the amount of net position that does not meet the definition of restricted or investment in capital assets.

10. Classification of Fund Balances

The County's fund balance policy established a minimum unrestricted fund balance within the range of 35 to 50 percent of fund operating revenues. In the event the unrestricted fund balance drops below the established minimum level, the County Board will develop a plan to replenish the fund balance to the established level.

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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows or 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 either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

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

Assigned - amounts that the County intends to use for specific purposes that 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.

Unassigned - the residual classification for the General Fund 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows or 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.

E. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the County's calendar year 2015. The County has not yet determined the financial statement impact of adopting this new standard.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, special revenue funds, and the capital projects fund. All annual appropriations lapse at year-end.

On or before mid-August of each year, all departments 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information (Continued)

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. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the fund level.

B. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2014:

	Expenditures	Budget	Excess
General Fund	\$ 11,994,232	\$ 11,986,134	\$ 8,098
Special Revenue Funds			
Family Services	9,178,371	8,467,980	710,391
Landfill	1,390,791	1,213,214	177,577
Capital Projects Fund			
Building and Capital Improvement	265,148	43,750	221,398

The excess of expenditures over budget was funded by unanticipated revenues and available fund balance.

C. Deficit Fund Equity

On the full accrual basis of accounting, 5 of the 90 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, 2014, using the full accrual basis of accounting.

Account balances	\$ 1,125,406
Account balance deficit	(44,800)
Fund Equity - Full Accrual Basis	\$ 1,080,606

**BROWN COUNTY
NEW ULM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

C. Deficit Fund Equity (Continued)

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, 25 ditches had fund deficits.

Account balances	\$ 757,252
Account balance deficit	<u>(320,074)</u>
Fund Balance - Modified Accrual Basis	<u>\$ 437,178</u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 21,457,820
Fiduciary funds	
Agency funds	
Cash and pooled investments	<u>857,675</u>
Total Cash and Investments	<u>\$ 22,315,495</u>

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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County’s policy states all deposits should be fully collateralized. As of December 31, 2014, 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. It is the County’s policy to minimize its exposure to interest rate risk by investing operating funds primarily in shorter-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity required for operations.

**BROWN COUNTY
NEW ULM, 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 the safest types of securities; pre-qualify the financial institutions, brokers/dealers, and advisors with which an entity will do business; and diversify the investment portfolio so that potential losses on individual securities are minimized.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy states the County will minimize investment custodial credit risk by permitting brokers that obtained investments to hold them only to the extent there is SIPC (Securities Investor Protection Corporation) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2014, 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. It is the County's policy to diversify its investment portfolio to avoid overconcentration of investments from a specific issuer excluding U.S. Treasury securities which may be held without limit.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2014, and information relating to potential investment risks:

	Credit Risk Credit Rating (2)	Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk			Carrying (Fair) Value
			Less Than 1 Year	1-5 Years	More Than 5 Years	
U.S. government securities/bonds						
Federal Home Loan Bank (1)	AA+	82.3%	\$ -	\$ 1,499,805	\$ 10,773,181	\$ 12,272,986
Federal Home Loan Mortgage Corporation (1)	AA+	<5%	-	-	200,130	200,130
Total U.S. government securities/bonds			\$ -	\$ 1,499,805	\$ 10,973,311	\$ 12,473,116
Investment pools - MAGIC Fund	N/R	N/A	51,822	-	-	51,822
Negotiable certificates of deposit	N/R	<5%	-	2,201,308	190,428	2,391,736
Total investments			\$ 51,822	\$ 3,701,113	\$ 11,163,739	\$ 14,916,674
Deposits						7,397,781
Change funds						1,040
Total Cash and Investments						\$ 22,315,495

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

(2) As rated by Standard and Poor's

N/R - Not Rated

N/A - Not Applicable

<5% - Concentration by individual issuer is less than 5% of investments

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - delinquent	\$ 111,302	\$ -
Special assessments - delinquent	27,732	-
Special assessments	472,894	297,056
Accounts	938,780	-
Accrued interest	56,996	-
Due from other governments	2,175,033	-
Total Governmental Activities	\$ 3,782,737	\$ 297,056

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,038,712	\$ -	\$ -	\$ 1,038,712
Construction in progress	4,423,648	564,486	4,416,617	571,517
Total capital assets not depreciated	\$ 5,462,360	\$ 564,486	\$ 4,416,617	\$ 1,610,229
Capital assets depreciated				
Buildings and improvements	\$ 15,407,075	\$ 18,982	\$ -	\$ 15,426,057
Land improvements	2,288,019	1,079,630	-	3,367,649
Machinery, furniture, and equipment	7,465,457	786,654	381,769	7,870,342
Computer software - intangible	317,208	151,459	-	468,667
Infrastructure - highway	75,319,542	9,362,250	-	84,681,792
Infrastructure - dam	2,098,857	-	-	2,098,857
Total capital assets depreciated	\$ 102,896,158	\$ 11,398,975	\$ 381,769	\$ 113,913,364

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 3,257,102	\$ 211,844	\$ -	\$ 3,468,946
Land improvements	1,805,088	103,191	-	1,908,279
Machinery, furniture, and equipment	4,750,806	520,204	366,235	4,904,775
Computer software - intangible	51,654	26,718	-	78,372
Infrastructure - highway	21,867,132	1,650,471	-	23,517,603
Infrastructure - dam	<u>297,888</u>	<u>14,166</u>	<u>-</u>	<u>312,054</u>
Total accumulated depreciation	<u>\$ 32,029,670</u>	<u>\$ 2,526,594</u>	<u>\$ 366,235</u>	<u>\$ 34,190,029</u>
Total capital assets depreciated, net	<u>\$ 70,866,488</u>	<u>\$ 8,872,381</u>	<u>\$ 15,534</u>	<u>\$ 79,723,335</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 76,328,848</u>	<u>\$ 9,436,867</u>	<u>\$ 4,432,151</u>	<u>\$ 81,333,564</u>

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

Governmental Activities	
General government	\$ 184,090
Public safety	223,279
Highways and streets, including depreciation of infrastructure assets	1,937,372
Sanitation	88,268
Human services	59,407
Health	4,366
Culture and recreation, including depreciation of infrastructure assets	25,245
Conservation of natural resources	<u>4,567</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,526,594</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2014, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Family Services	\$ 3,025	Labor and internet
Road and Bridge	General	\$ 3,542	Fuel
	Family Services	5,080	Fuel and service work
Total due to Road and Bridge Fund		<u>\$ 8,622</u>	
Total Due To/From Other Funds		<u><u>\$ 11,647</u></u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2014.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2014, consisted of transfers from the General Fund to allocate investment earnings:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose</u>
General	Road and Bridge	\$ 71,364	Allocated interest
	Family Services	51,856	Allocated interest
	Landfill	61,629	Allocated interest
	County Ditch	7,222	Allocated interest
	Nonmajor Building and Capital Improvements	<u>6,556</u>	Allocated interest
Total Transfers In/Out		<u><u>\$ 198,627</u></u>	

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Construction and Other Contract Commitments

The County has active construction projects and other contract commitments as of December 31, 2014. The projects and commitments include the following:

	Spent-to-Date	Remaining Commitment
Road and Bridge Special Revenue Fund		
Surface rehabilitation	\$ 126,903	\$ 122,758
County Ditch Special Revenue Fund		
FEMA ditch flooding restoration	230,067	48,628
Nonmajor Building and Capital Improvements Capital Projects Fund		
Sleepy Eye radio tower	254,448	57,552

2. Long-Term Debt

Loans Payable

The County entered into loan agreements with the Minnesota Pollution Control Agency for funding Clean Water Partnership (CWP) Projects and a loan agreement with the Minnesota Department of Agriculture for financing the repair of failing septic systems. The loans are secured by special assessments placed on the individual parcels. Loan payments are reported in the General Fund.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
2001 Septic System Replacement Project	2021	\$ 2,665	-	\$ 53,300	\$ 37,310
2003 Cottonwood River Restoration CWP Project	2017	16,973	2.00	306,293	82,379
2004 Watonwan Watershed Continuation CWP Project	2016	1,448	2.00	26,145	5,653
2004 Little Cottonwood River Restoration Continuation CWP Project	2018	7,238	2.00	130,622	48,702
2007 Middle Minnesota Watershed CWP Project	2020	18,121	2.00	327,008	203,956

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources

2. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
2007 Cottonwood River Watershed Pollution Reduction Project	2020	6,413	2.00	115,735	72,184
2009 Cottonwood River Watershed Phosphorus TMDL Continuation CWP Project	2022	9,147	2.00	165,066	134,627
Total Loans Payable					<u>\$ 584,811</u>

Debt Service Requirements

Year Ending December 31	Loans Payable	
	Principal	Interest
2015	\$ 113,604	\$ 10,411
2016	115,780	8,235
2017	98,114	6,030
2018	75,598	4,334
2019	69,700	2,994
2020 - 2022	112,015	2,598
Total	<u>\$ 584,811</u>	<u>\$ 34,602</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Landfill closure/postclosure liability	\$ 1,766,853	\$ -	\$ 592,318	\$ 1,174,535	\$ -
Loans payable	717,369	-	132,558	584,811	113,604
Compensated absences	1,441,734	201,339	-	1,643,073	88,238
Long-Term Liabilities	<u>\$ 3,925,956</u>	<u>\$ 201,339</u>	<u>\$ 724,876</u>	<u>\$ 3,402,419</u>	<u>\$ 201,842</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,174,535 landfill closure and postclosure care liability at December 31, 2014, represents the cumulative amount reported to date based on the use of 53 percent of the ultimate capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$1,059,479 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2014. The County expects the landfill to continue operation beyond 2027 through approved permitting processes. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2014, investments of \$2,669,169 are restricted for these purposes. Accumulated annual contributions and any payments of landfill postclosure care costs are reported in the Landfill Special Revenue Fund. Brown County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

5. Deferred Inflows of Resources

Deferred inflows of resources as of December 31, 2014, for the County's governmental funds and activities were as follows:

	Taxes and Special Assessments	Grants and Allotments	Other	Total
Major governmental funds				
General	\$ 451,777	\$ 93,485	\$ 72,022	\$ 617,284
Road and Bridge	10,276	633,004	9,023	652,303
Family Services	14,471	69,091	602,632	686,194
Landfill	14,229	-	-	14,229
County Ditch	373,190	230,067	40,171	643,428
Nonmajor governmental fund				
Building and Capital Improvements	377	-	-	377
Total	\$ 864,320	\$ 1,025,647	\$ 723,848	\$ 2,613,815
Liability				
Unearned revenue	\$ 936	\$ 93,485	\$ 58,982	\$ 153,403
Deferred inflow of resources				
Unavailable revenue	863,384	932,162	664,866	2,460,412
Total	\$ 864,320	\$ 1,025,647	\$ 723,848	\$ 2,613,815

D. Fund Balances

Fund balances at year-end December 31, 2014, were as follows:

	General	Road and Bridge	Family Services	Landfill	County Ditch	Nonmajor Building and Capital Improvements	Total Governmental Funds
Fund Balances Nonspendable Inventories	\$ -	\$ 299,675	\$ -	\$ -	\$ -	\$ -	\$ 299,675

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

D. Fund Balances (Continued)

	General	Road and Bridge	Family Services	Landfill	County Ditch	Nonmajor Building and Capital Improvements	Total Governmental Funds
Restricted							
Law library	\$ 12,827	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,827
Recorder's equipment purchases	132,590	-	-	-	-	-	132,590
Enhanced 911	295,434	-	-	-	-	-	295,434
Landfill closure/postclosure	-	-	-	2,669,169	-	-	2,669,169
Sheriff's contingency	2,034	-	-	-	-	-	2,034
Septic/sewer loans	760,095	-	-	-	-	-	760,095
Conservation of natural resources	-	-	-	-	757,252	-	757,252
Donations	-	-	15,385	-	-	-	15,385
Highway construction	-	943,692	-	-	-	-	943,692
Total restricted	\$ 1,202,980	\$ 943,692	\$ 15,385	\$ 2,669,169	\$ 757,252	\$ -	\$ 5,588,478
Assigned							
Recycling	\$ -	\$ -	\$ -	\$ 112,935	\$ -	\$ -	\$ 112,935
Road and bridge	-	3,288,736	-	-	-	-	3,288,736
Human services	-	-	5,147,291	-	-	-	5,147,291
Capital improvements	-	-	-	-	-	417,409	417,409
Landfill	-	-	-	2,609,207	-	-	2,609,207
County funded loan	152,875	-	-	-	-	-	152,875
Parks	157,002	-	-	-	-	-	157,002
Boat and water safety	31,322	-	-	-	-	-	31,322
Total assigned	\$ 341,199	\$ 3,288,736	\$ 5,147,291	\$ 2,722,142	\$ -	\$ 417,409	\$ 11,916,777
Unassigned	\$ 3,810,091	\$ -	\$ -	\$ -	\$ (320,074)	\$ -	\$ 3,490,017
Total Fund Balances	\$ 5,354,270	\$ 4,532,103	\$ 5,162,676	\$ 5,391,311	\$ 437,178	\$ 417,409	\$ 21,294,947

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Brown 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Plans

Plan Description (Continued)

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 five years of credited service.

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.

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.

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 remaining year. 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 remaining 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014. Public Employees Police and Fire Fund members were required to contribute 10.20 percent of their annual covered salary in 2014. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Funding Policy (Continued)

In 2014, the County was required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25
Public Employees Police and Fire Fund	15.30
Public Employees Correctional Fund	8.75

The County's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Employees Retirement Fund	\$ 693,282	\$ 672,314	\$ 654,771
Public Employees Police and Fire Fund	99,209	92,548	91,172
Public Employees Correctional Fund	69,497	66,402	68,957

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers) and the Public Employees Police and Fire Fund (10.80 percent for members and 16.20 percent for employers).

B. Defined Contribution Plan

Two employees of Brown 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

B. Defined Contribution Plan (Continued)

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2014, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 193	\$ 193
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Brown County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Brown County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retired population, the retirees are receiving an implicit rate subsidy. As of January 1, 2014, there was one retiree receiving health benefits from the County's health care plan. The implicit rate subsidy amount was determined by an actuarial study to be \$24,464 for 2014. A separate, audited GAAP-basis postemployment plan report is not issued.

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.

ARC	\$ 130,250
Interest on net OPEB obligation	14,529
Adjustment to ARC	<u>(23,275)</u>
Annual OPEB cost (expense)	\$ 121,504
Contributions made during the year	<u>(24,464)</u>
Increase in net OPEB obligation	\$ 97,040
Net OPEB Obligation - Beginning of Year	<u>415,122</u>
Net OPEB Obligation - End of Year	<u>\$ 512,162</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2012, 2013, and 2014, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 122,874	\$ 30,249	24.6%	\$ 340,010
December 31, 2013	120,887	45,775	37.9	415,122
December 31, 2014	121,504	24,464	20.1	512,162

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$889,615, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$889,615. The covered payroll (annual payroll of active employees covered by the plan) was \$10,039,487, and the ratio of the UAAL to the covered payroll was 8.9 percent.

Actuarial Methods and Assumptions

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

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, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Brown County's implicit rate of return on the General Fund. The annual health care cost trend is 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. These rates include an inflation assumption of 2.5 percent. The UAAL is being amortized over 30 years as a level dollar on a closed basis. The remaining amortization period at December 31, 2014, was 23 years.

5. Conduit Debt

Martin Luther College Construction Project

In 2004, the County issued variable rate demand purchase revenue bonds in the amount of \$7,500,000 to finance the acquisition and construction of higher education facilities at Martin Luther College in New Ulm, Minnesota, as authorized by the Municipal Industrial Development Act, Minn. Stat. §§ 469.152 - 469.165. The bonds are secured by an irrevocable direct-pay letter of credit provided by Wells Fargo Bank, NA.

The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2014, is \$4,635,000.

**BROWN COUNTY
NEW ULM, MINNESOTA**

5. Conduit Debt (Continued)

Oak Hills Living Center Project

On December 31, 2008, the County issued a variable rate Health Care Facilities Revenue Note, Series 2008, in the amount of \$6,000,000 to finance the cost of improvements to the Oak Hills Living Center in New Ulm, Minnesota. This note is secured by the fixtures, the equipment, and the revenues and income of Oak Hills Living Center.

The County is not obligated in any manner for repayment of the note. Accordingly, the note will not be reported as a liability in the financial statements. The outstanding balance at December 31, 2014, is \$5,531,234.

6. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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 \$480,000 per claim in 2014 and \$490,000 per claim in 2015. 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

B. Contingent Liabilities

Amounts received or receivable from grantor 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.

C. Joint Ventures

Brown-Nicollet Community Health Services Board

The Brown-Nicollet Community Health Services Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement, effective July 1, 1975. The Health Services Board consists of ten members, five each from Brown and Nicollet Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services. The joint venture is financed primarily from state and federal grants. For the year ended December 31, 2013 (the most current information available), the Health Services Board had net position of \$732,757. Complete financial information can be obtained from the Brown-Nicollet Community Health Services Board, 322 South Minnesota, St. Peter, Minnesota 56082.

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Redwood, and Watonwan Counties have agreed to guarantee their shares of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district. The cost of providing these services is recovered through user charges.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

Complete financial information can be obtained from the Red Rock Rural Water System, 305 West Whited Street, Jeffers, Minnesota 56145.

Families First Collaborative

The Families First Collaborative was established in 1997 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown County Family Services, Public Health, and Probation agencies; New Ulm, Sleepy Eye, and Springfield School Districts; River Bend Education District; and Minnesota Valley Action Council. The mission of the Families First Collaborative is to provide leadership for the improvement of outcomes for children in Brown County through early intervention and prevention services. The Collaborative provides improved coordination for children and families through information sharing, elimination of duplicate services, and cooperative efforts. The Collaborative funds selected projects and services that support intervention and the prevention of out-of-home placement of children at risk.

The Collaborative is funded by Local Collaborative Time Study (LCTS) funds, fees, contributions, and Department of Human Services grant funds. Control of the Collaborative is vested in a Board of Directors consisting of ten members. Brown County Family Services acts as a fiscal agent for the Collaborative. During 2014, Brown County provided \$300 in funding to the Collaborative Integrated Fund (\$100 - Family Services, \$100 - Public Health, and \$100 - Probation).

Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, the Families First Collaborative Board of Directors shall distribute all property, real and personal, at the time of termination.

As the administrative county, Brown County Family Services may be liable to the state or federal government for the disallowance, sanction, or audit exception attributable to the Families First Collaborative, including but not limited to, federal fiscal disallowances or sanctions based upon the Collaborative's implementation of the LCTS or any of the other state and federal funding sources and their related requirements.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Families First Collaborative (Continued)

In the event of any such audit disallowance or sanction, the following participating partners, Brown County Family Services, Public Health, and Probation agencies; New Ulm, Sleepy Eye, and Springfield School Districts; and the River Bend Education District, share the liability. Financial information can be obtained by contacting the Brown County Family Services Department.

Three Counties for Kids Collaborative

The Three Counties for Kids Collaborative was established in 1996 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown, Sibley, and Watonwan Counties; River Bend Education District; and Sioux Trails Mental Health Center. The purpose of the Collaborative is to join local units of government together to ensure a unified, unduplicated, and family-friendly system of intervention and care of families and children. The Collaborative provides improved coordination for children and families through information sharing, elimination of duplicate services, and cooperative efforts. The Collaborative funds selected projects and services that support intervention and the prevention of out-of-home placement of children at risk.

The Collaborative is financed by LCTS funds and program reimbursements. Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Family Services acts as a fiscal agent for the Collaborative. During 2014, Brown County did not provide funding to the Collaborative.

Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, the Three Counties for Kids Collaborative Board of Directors shall distribute all property, real and personal, at the time of the termination.

As the administrative county, Brown County Family Services may be liable to the state or federal government for any disallowance, sanction, or audit exception attributable to the Three Counties for Kids Collaborative, including but not limited to, federal fiscal disallowances or sanctions based upon the Collaborative's implementation of the LCTS or any of the other state and federal funding sources and their related requirements.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Three Counties for Kids Collaborative (Continued)

In the event of any such audit disallowance or sanction, the following participating partners, Brown, Sibley, and Watonwan Counties and the River Bend Education District, share the liability. Financial information can be obtained by contacting the Brown County Family Services Department.

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties became members. As of December 31, 2010, Cass, Freeborn, and Crow Wing Counties withdrew from the Joint Powers. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the participating member counties' health care functions, referred to as county-based purchasing.

The purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2014, was \$2,776,353. The County's share of the SCHA's net income was \$421,239. The equity interest is reported as an investment in joint venture on the county-wide statement of net position. Changes in equity are included in the county-wide statement of activities as Human Services program expenses or revenues.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

South Country Health Alliance (Continued)

Complete financial statements for SCHA can be obtained from Brian V. Hicks, SCHA Chief Fiscal Officer, 2300 Park Drive, Suite 100, Owatonna, Minnesota 55060.

South Central Minnesota Regional Emergency Communications Board

The South Central Minnesota Regional Emergency Communications Board (formally known as 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 comprises 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 of 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 2014, the County did not make payments 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.

Brown-Lyon-Redwood Drug Task Force

The Brown-Lyon-Redwood Drug Task Force was established between Brown, Lyon, and Redwood Counties and the Cities of New Ulm, Redwood Falls, and Marshall, pursuant to Minn. Stat. § 471.59. The Task Force was established to create a cooperative law enforcement effort that provides drug enforcement services for member organizations.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Brown-Lyon-Redwood Drug Task Force (Continued)

The Task Force is governed by an Advisory Board consisting of one appointed member from each party. Fiscal agent responsibilities for the Task Force are with the City of New Ulm. During the year, the County paid \$64,823 to the Task Force.

South Central Workforce Services Area Joint Powers Board

In June 2012, the County entered into a joint powers agreement with Blue Earth, Faribault, 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.

Brown County did not make any payments to this organization in 2014.

Separate financial information can be obtained from South Central Workforce Council, 706 North Victory Drive, Mankato, Minnesota 56001.

Rural Minnesota Energy Board

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

The governing body is comprised of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated, after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During the year, Brown County contributed \$1,000 to the Board.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rural Minnesota Energy Board (Continued)

Complete financial information can be obtained from the Rural Minnesota Energy Board, Slayton, Minnesota 56172.

D. Jointly-Governed Organizations

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

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$12,971 to the Project.

The Redwood-Cottonwood Rivers Control Area (RCRCA) works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for the participating counties. RCRCA consists of Brown, Cottonwood, Lincoln, Lyon, Murray, Pipestone, Redwood, and Yellow Medicine Counties. During the year, the County made payments of \$10,050 to the RCRCA.

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. The County did not contribute to SCEMS in 2014.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

The South Central Regional ImmTrack (Immunization Registry) 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 paid \$5,452 to ImmTrack.

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 did not contribute to the Joint Powers Board in 2014.

The Intelligent Transit System (ITS) Transit Consortium was established to implement and maintain the ITS among its members, which include Brown, Martin, Meeker, Pipestone, Sherburne, and Wright Counties. Initial transit software and services were funded by an American Recovery and Reinvestment Act grant. Each individual consortium member is responsible for future mapping support and upgrade costs. It is expected that there will be upgrades every three years. During the year, the County did not contribute to the Transit Consortium.

The Fifth District Court and Brown County Probation Department agreement established a Juvenile Drug Court program that is designed to intervene in the chemically dependent lifestyles of juvenile drug offenders and to improve public safety.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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 State of Minnesota Parks and Trails and Brown County Sentence-to-Serve (STS) joint powers agreement states that Brown County STS will provide all labor necessary to split wood at Fort Ridgely State Park.

The Trail Systems Coordination joint powers consists of Brown County and the Cities of New Ulm, Sleepy Eye, Springfield, Comfrey, and Hanska. These parties have joined together to coordinate, consider, review, study, and analyze trails and their use in and around Brown County. The County did not contribute to the Joint Powers during 2014.

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 did not make any payments to the Alliance.

The Region Five - Southwest Minnesota Security Emergency Management Organization 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 region. Control is vested in the Board, which comprises representatives appointed by each Board of County Commissioners. Brown County's responsibility does not extend beyond making this appointment.

The Minnesota Counties Computer Cooperative (MCCC) was established under the Minnesota Joint Powers Law, Minn. Stat. § 471.59. Minnesota counties have created the MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Brown County expended \$143,556 to the MCCC.

**BROWN COUNTY
NEW ULM, 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 nonpoint source water pollution. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities.

7. Brown County Economic Development Partners, Inc., Component Unit Disclosures

A. Summary of Significant Accounting Policies

The Brown County Economic Development Partners, Inc., (EDP) was organized on October 3, 1990, under Minn. Stat. ch. 317A, as a nonprofit corporation. The purpose is to promote the development and expansion of existing businesses within Brown County and to assist in the development of new businesses in Brown County, which will increase opportunities for employment. The Board of Directors consists of nine directors: one appointed from each of the County Commissioner Districts, two appointed at-large, and two appointed from the Brown County Board of Commissioners. Brown County Economic Development Partners, Inc., is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

The EDP's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Codification Section 958, *Not-for-Profit Entities*. Under Section 958, the EDP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**BROWN COUNTY
NEW ULM, MINNESOTA**

7. Brown County Economic Development Partners, Inc., Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Revenue

The EDP receives substantially all of its revenue from interest on loan payments, grants, and appropriations from Brown County.

Cash and Cash Equivalents

The EDP considers all highly liquid investments with a maturity of nine months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Loans Receivable

Loans receivable, totaling \$324,829 as of December 31, 2014, consist of 14 loans made for economic development.

8. Subsequent Event

In July of 2015, the South Country Health Alliance lost its bid to continue providing comprehensive health maintenance services to 11 of its 12 participating counties, including Brown County. The decision by the Minnesota Department of Human Services is being appealed by the 11 counties. The ultimate impact on the South Country Health Alliance and, therefore Brown County's investment in the joint venture, is unknown.

REQUIRED SUPPLEMENTARY INFORMATION

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2014**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2010	\$ -	\$ 746,411	\$ 746,411	0.0%	\$ 9,357,001	8.0%
January 1, 2012	-	935,491	935,491	0.0	9,546,132	9.8
January 1, 2014	-	889,615	889,615	0.0	10,039,487	8.9

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

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SUPPLEMENTARY INFORMATION

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**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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**BROWN COUNTY
NEW ULM, MINNESOTA**

NONMAJOR GOVERNMENTAL FUND

CAPITAL PROJECTS FUND

Building and Capital Improvements - to account for funds used for capital outlay and maintenance. Financing is provided by a tax levy.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
BUILDING AND CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 29,720	\$ 29,720	\$ 29,935	\$ 215
Intergovernmental	11,730	11,730	53,305	41,575
Miscellaneous	8,362	8,362	8,385	23
Total Revenues	\$ 49,812	\$ 49,812	\$ 91,625	\$ 41,813
Expenditures				
Current				
General government				
Veterans service officer	\$ 8,750	\$ 8,750	\$ 10,700	\$ (1,950)
Public safety				
Sheriff	35,000	35,000	254,448	(219,448)
Total Expenditures	\$ 43,750	\$ 43,750	\$ 265,148	\$ (221,398)
Excess of Revenues Over (Under) Expenditures	\$ 6,062	\$ 6,062	\$ (173,523)	\$ (179,585)
Other Financing Sources (Uses)				
Transfers in	4,300	4,300	6,556	2,256
Net Change in Fund Balance	\$ 10,362	\$ 10,362	\$ (166,967)	\$ (177,329)
Fund Balance - January 1	584,376	584,376	584,376	-
Fund Balance - December 31	\$ 594,738	\$ 594,738	\$ 417,409	\$ (177,329)

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**BROWN COUNTY
NEW ULM, MINNESOTA**

AGENCY FUNDS

Assurance - to account for the collection and payment of assurance funds to the state.

Mortgage Registry Tax - to account for the collection and distribution of mortgage registry tax to the County and other governments.

Prepaid Tax - to account for taxes paid in advance.

Region Nine - to account for the collection and distribution of funds to the Region Nine Regional Development Commission.

School Districts - to account for the school districts' share of taxes collected by the County.

Social Welfare - to account for the collection and distribution of social welfare accounts.

State Deed Tax - to account for the collection and distribution of deed tax to the County and other governments.

Three Counties for Kids Collaborative - to account for the funds of a multi-county/school district children's mental health collaborative.

Families First Family Services Collaborative - to account for the funds of the County/multi-school district family services collaborative.

Taxes and Penalties - to account for the collection and payment of taxes and penalties collected to the various taxing districts.

Towns and Cities - to account for the collection and payment of taxes due to towns and cities.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>ASSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 12,559	\$ 5,821	\$ 5,863	\$ 12,517
<u>Liabilities</u>				
Due to other governments	\$ 12,559	\$ 5,821	\$ 5,863	\$ 12,517
 <u>MORTGAGE REGISTRY TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 53,488	\$ 319,131	\$ 371,916	\$ 703
<u>Liabilities</u>				
Due to other governments	\$ 53,488	\$ 319,131	\$ 371,916	\$ 703
 <u>PREPAID TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 34,984	\$ 125,342	\$ 137,313	\$ 23,013
<u>Liabilities</u>				
Due to other governments	\$ 34,984	\$ 125,342	\$ 137,313	\$ 23,013

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>REGION NINE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 230	\$ 52,165	\$ 51,741	\$ 654
<u>Liabilities</u>				
Due to other governments	\$ 230	\$ 52,165	\$ 51,741	\$ 654
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 28,749	\$ 6,438,008	\$ 6,408,304	\$ 58,453
<u>Liabilities</u>				
Due to other governments	\$ 28,749	\$ 6,438,008	\$ 6,408,304	\$ 58,453
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 116,007	\$ 916,688	\$ 912,895	\$ 119,800
<u>Liabilities</u>				
Due to other governments	\$ 116,007	\$ 916,688	\$ 912,895	\$ 119,800

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 36,595	\$ 330,917	\$ 366,172	\$ 1,340
<u>Liabilities</u>				
Due to other governments	\$ 36,595	\$ 330,917	\$ 366,172	\$ 1,340
<u>THREE COUNTIES FOR KIDS COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 284,162	\$ 53,473	\$ 79,218	\$ 258,417
<u>Liabilities</u>				
Due to other governments	\$ 284,162	\$ 53,473	\$ 79,218	\$ 258,417
<u>FAMILIES FIRST FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 59,620	\$ 63,091	\$ 88,784	\$ 33,927
<u>Liabilities</u>				
Due to other governments	\$ 59,620	\$ 63,091	\$ 88,784	\$ 33,927

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 265,664	\$ 32,752,069	\$ 32,922,542	\$ 95,191
<u>Liabilities</u>				
Due to other governments	\$ 265,664	\$ 32,752,069	\$ 32,922,542	\$ 95,191
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 43,756	\$ 13,881,686	\$ 13,671,782	\$ 253,660
<u>Liabilities</u>				
Due to other governments	\$ 43,756	\$ 13,881,686	\$ 13,671,782	\$ 253,660
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 935,814	\$ 54,938,391	\$ 55,016,530	\$ 857,675
<u>Liabilities</u>				
Due to other governments	\$ 935,814	\$ 54,938,391	\$ 55,016,530	\$ 857,675

SCHEDULES

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2014**

	Interest Rate	Amount
Deposits and Investments		
Checking accounts	0.50%	\$ 5,910,215
Savings accounts	0.50%	241,084
Certificates of deposit	Varies	1,246,482
Petty cash	None	1,040
MAGIC Fund	Varies	51,822
Government securities	Varies	12,473,116
Negotiable certificates of deposit	Varies	<u>2,391,736</u>
Total Deposits and Investments		<u>\$ 22,315,495</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Shared revenue

State

Highway users tax	\$	4,714,453
County program aid		989,564
PERA rate reimbursement		39,317
Disparity reduction aid		27,011
Police aid		74,256
Aquatic invasive species aid		24,762
Enhanced 911		105,787
Market value credit		198,609

Total shared revenue **\$ 6,173,759**

Reimbursement for services

State

Minnesota Department of Human Services	\$	1,036,404
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Payments

Local

Local contributions	\$	191,973
Payments in lieu of taxes		7,633

Total payments **\$ 199,606**

Grants

State

Minnesota Department/Board of		
Corrections	\$	318,848
Agriculture		1,046
Public Safety		95,250
Transportation		417,920
Health		190,388
Natural Resources		77,485
Trial Courts		93,499
Human Services		1,760,599
Veterans Affairs		10,000
Revenue		3,529
Water and Soil Resources		94,030
Peace Officer Standards and Training Board		5,793
Pollution Control Agency		70,283

Total state **\$ 3,138,670**

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Grants (Continued)

Federal

Department of Agriculture	\$ 317,942
Transportation	1,728,029
Veterans Affairs	15,094
Health and Human Services	1,855,971
Homeland Security	220,714

Total federal \$ 4,137,750

Total state and federal grants \$ 7,276,420

Total Intergovernmental Revenue \$ 14,686,189

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Brown-Nicollet Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 98,455
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>219,487</u>
Total U.S. Department of Agriculture		<u>\$ 317,942</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,527,164
Formula Grants for Rural Areas	20.509	<u>269,956</u>
Total U.S. Department of Transportation		<u>\$ 1,797,120</u>
U.S. Department of Veterans Affairs		
Direct Burial Expenses Allowance for Veterans	64.101	<u>\$ 15,094</u>
U.S. Department of Health and Human Services		
Passed Through Brown-Nicollet Community Health Services Public Health Emergency Preparedness Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.069	\$ 13,877
Temporary Assistance for Needy Families	93.283	550
(Total Temporary Assistance for Needy Families 93.558 - \$229,013)	93.558	27,362
Medical Assistance Program	93.778	27,450
(Total Medical Assistance Program 93.778 - \$775,443)		
Maternal and Child Health Services Block Grant to the States	93.994	42,432

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	63,131
Temporary Assistance for Needy Families	93.558	201,651
(Total Temporary Assistance for Needy Families 93.558 - \$229,013)		
Child Support Enforcement	93.563	468,538
Refugee and Entrant Assistance - State-Administered Programs	93.566	964
Child Care and Development Block Grant	93.575	13,583
Stephanie Tubbs Jones Child Welfare Services Program	93.645	5,840
Foster Care - Title IV-E	93.658	33,493
Social Services Block Grant	93.667	162,555
Chafee Foster Care Independence Program	93.674	836
Children's Health Insurance Program	93.767	104
Medical Assistance Program	93.778	747,993
(Total Medical Assistance Program 93.778 - \$775,443)		
Total U.S. Department of Health and Human Services		\$ 1,810,359
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 20,485
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	382,589
Hazard Mitigation Grant	97.039	2,269
Emergency Management Performance Grants	97.042	825
Passed Through Blue Earth County		
Homeland Security Grant Program	97.067	35,231
Total U.S. Department of Homeland Security		\$ 441,399
Total Federal Awards		\$ 4,381,914

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**BROWN COUNTY
NEW ULM, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Brown County under programs of the federal government for the year ended December 31, 2014. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Brown County, it is not intended to and does not present the financial position or changes in net position of Brown County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 4,137,750
Grants received more than 60 days after year-end, unavailable in 2014	
Formula Grants for Rural Areas	69,091
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	220,685
Grants unavailable in 2013, recognized as revenue in 2014	
Medical Assistance Program	<u>(45,612)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 4,381,914</u>

5. Subrecipients

The County did not pass any federal awards through to subrecipients during the year ended December 31, 2014.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program is:

Highway Planning and Construction	CFDA #20.205
Medical Assistance Program	CFDA #93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

Brown County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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 over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we proposed material adjustments which resulted in significant changes to the County's financial statements. The adjustments 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 controls.

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, 2014:

- An adjustment of \$230,067 was made in the County Ditch Special Revenue Fund to record additional amounts due from other governments for work that had been completed during 2014.
- An adjustment of \$100,808 was made in the Building and Capital Improvements Capital Projects Fund to record an additional contract payable amount.

Cause: Receivables and payables analyzed by Brown County for December 31, 2014, were limited primarily to those recorded during the 60 days following the date of the financial statements and were certain in amount as of that date in accordance with Brown County's policy.

A conservative valuation of due from other governments and related unavailable revenue was used due to the uncertainty of the amount and timing of the receipt of Federal Emergency Management Agency (FEMA) proceeds. Expenditures totaling \$230,067 in the County Ditch Special Revenue Fund were eligible for disaster recovery reimbursement as of December 31, 2014, but the amount and the timing of any recovery as of that date were uncertain. Brown County was notified on February 24, 2015, and again on April 16, 2015, by the Minnesota Department of Public Safety, Homeland Security, and Emergency Management (HSEM) that FEMA funds had been awarded to Brown County. FEMA proceeds were distributed to Brown County on March 10, 2015, and April 24, 2015, totaling \$141,651. These dates fall subsequent to the County's revenue recognition period, making this unavailable revenue. The remaining \$88,416 has not yet been received.

Project costs were incurred prior to December 31, 2014, but the amount was uncertain as of 60 days following the financial statement date. The County received the related invoice dated March 19, 2015, totaling \$100,808.

Recommendation: We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting to ensure the County's annual financial statements are reported in accordance with generally accepted accounting principles.

Client's Response:

Brown County will review its internal controls and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-006

County Ditch Special Revenue Fund - Fund Deficits

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

Condition: As of December 31, 2014, the County had individual ditch systems where liabilities exceeded assets, resulting in individual fund deficit balances.

Context: Five of the 90 individual ditch systems had fund deficit balances as of December 31, 2014, totaling \$44,800, which is an increase from the \$27,033 deficit reported in the prior year.

Effect: Allowing a ditch system to maintain a fund deficit, in effect, constitutes an interest-free loan from other individual ditch systems and, as such, may be inconsistent with Minn. Stat. § 103E.655, subd. 2.

Cause: Expenditures were made for certain ditch systems which did not have sufficient special assessments levied to meet all obligations of the systems.

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

Client's Response:

Brown County will continue to levy assessments pursuant to Minnesota statutes, which permit the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.

B. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the County's government-wide statement of financial position. The County's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Brown County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by the employers to report the net pension liability and deferred outflows/inflows of resources.

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

Independent Auditor's Report

Board of County Commissioners
Brown County
New Ulm, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 26, 2015. Our report includes references to other auditors who audited the financial statements of Brown County Economic Development Partners, Inc., the discretely presented component unit, and the South Country Health Alliance joint venture, as described in our report on Brown County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters. The financial statements of Brown County Economic Development Partners, Inc., and South Country Health Alliance were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Brown 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 Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brown 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 has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that Brown County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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.

Other Matters

Also included in the Schedule of Findings and Questioned Costs are a management practices comment and an other item for consideration. We believe the recommendation and information to be of benefit to the County, and they are reported for that purpose.

Brown County's Response to Findings

Brown County's responses to the internal control and management practices findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. 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

August 26, 2015

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Board of County Commissioners
Brown County
New Ulm, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Brown County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2014. Brown County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Brown County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brown County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, Brown County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 26, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR