

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2008**

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

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

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

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

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

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

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

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

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

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

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**Year Ended December 31, 2008**



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

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2008

Office	Name	Term Expires
<b>Board of County Commissioners</b>		
District 1	Glen Mathiason*	January 2009
District 2	Daniel Belshan	January 2011
District 3	James Nelson	January 2009
District 4	Christopher Shoff	January 2011
District 5	Mark Behrends	January 2009
<b>County Officers</b>		
<b>Elected</b>		
Attorney	Craig Nelson	January 2011
Auditor/Treasurer	Dennis A. Distad	January 2011
District Judge	John Chesterman	January 2011
District Judge	Steven Schwab	January 2011
Recorder	Kelly Callahan	January 2011
Registrar of Titles	Kelly Callahan	January 2011
Sheriff	Mark Harig	January 2011
<b>Appointed</b>		
Administrator	John Kluever	Indefinite
Assessor	Ryan Rasmussen	Indefinite
County Engineer	Susan Miller	Indefinite
Court Services	Tom Jensen	Indefinite
Court Administrator	Kristi Maiers	Indefinite
Finance Manager	William Helfritz	Indefinite
Veterans Service Officer	Jon Rhiger	Indefinite
<b>Human Services</b>		
<b>Board</b>		
Chair	Glen Mathiason	January 2009
Vice Chair	Christopher Shoff	January 2011
Member	James Nelson	January 2009
Member	Mark Behrends	January 2009
Member	Daniel Belshan	January 2011
<b>Appointed</b>		
Director	Brian Buhmann	Indefinite
Accountant	Alan Olson	Indefinite

\*Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Freeborn County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Freeborn County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2008, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4.C., Freeborn County has implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The required supplementary information as listed in the table of contents and the Management's Discussion and Analysis are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2009, on our consideration of Freeborn County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

November 30, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

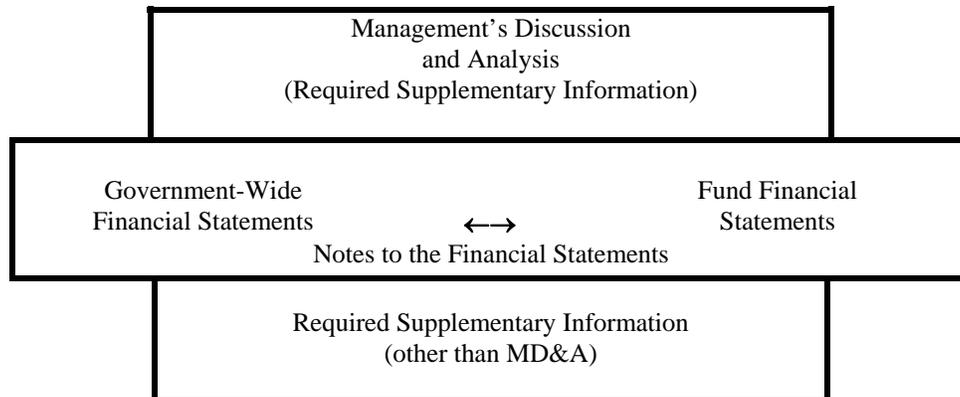
Freeborn County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2008. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$70,782,747, of which \$55,619,564 is invested in capital assets, net of related debt, and \$4,377,445 is restricted to specific purposes.
- Freeborn County's net assets decreased by \$15,808 for the year ended December 31, 2008.
- The net cost of governmental activities was \$18,583,208 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$18,567,400.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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



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

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

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

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

In the Statement of Net Assets and the Statement of Activities, the County reports its governmental activities. The County has no business-type activities or discretely presented component units.

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

## **Fund Financial Statements**

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

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

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

The County is the trustee, or fiduciary, over assets which can only be used for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 10 and 11. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## THE COUNTY AS A WHOLE

The County's combined net assets decreased from \$70,798,555 to \$70,782,747. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

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

	Governmental Activities	
	2008	2007
Assets		
Current and other assets	\$ 24.0	\$ 25.0
Capital assets	76.1	77.2
Total Assets	<u>\$ 100.1</u>	<u>\$ 102.2</u>
Liabilities		
Long-term debt outstanding	\$ 26.7	\$ 28.6
Other liabilities	2.6	2.8
Total Liabilities	<u>\$ 29.3</u>	<u>\$ 31.4</u>
Net Assets		
Invested in capital assets, net of debt	\$ 55.6	\$ 54.3
Restricted	4.4	6.1
Unrestricted	10.8	10.4
Total Net Assets	<u><u>\$ 70.8</u></u>	<u><u>\$ 70.8</u></u>

Net assets of the County's governmental activities remained unchanged (\$70.8 million compared to \$70.8 million). Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from a \$10.4 million surplus at December 31, 2007, to \$10.8 million at the end of this year.

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

	Governmental Activities	
	2008	2007
<b>Revenues</b>		
Program revenues		
Fees, fines, charges, and other	\$ 5.2	\$ 3.5
Operating grants and contributions	13.1	9.1
Capital grants and contributions	-	2.8
General revenues		
Property taxes	14.7	13.7
Grants and contributions	3.0	3.3
Other general revenues	0.9	0.8
<b>Total Revenues</b>	<b>\$ 36.9</b>	<b>\$ 33.2</b>
<b>Program Expenses</b>		
General government	\$ 5.7	\$ 5.7
Public safety	5.6	5.2
Highways and streets	8.1	6.9
Human services	9.9	9.8
Health	3.5	2.6
Sanitation	0.4	0.4
Culture and recreation	0.3	0.3
Conservation of natural resources	2.1	2.0
Economic development	0.1	0.1
Interest	1.2	1.3
<b>Total Program Expenses</b>	<b>\$ 36.9</b>	<b>\$ 34.3</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ -</b>	<b>\$ (1.1)</b>

### **Governmental Activities**

Revenues and expenses for the County’s governmental activities were each \$36.9 million. This resulted in no change to net assets in the year ended December 31, 2008.

The amount that taxpayers ultimately financed for these activities through County taxes and other general sources was only \$18.6 million because some of the cost was paid by those who directly benefited from the programs (\$5.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$13.1 million). The County paid for the remaining “public benefit” portion of governmental activities with \$18.6 million in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as interest and general entitlements.

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

**Table 3  
Governmental Activities  
(in millions)**

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Human services	\$ 9.9	\$ 5.4	\$ 9.8	\$ 5.1
Highways and streets	8.1	3.2	6.9	2.4
General government	5.7	4.0	5.7	4.6
Public safety	5.6	2.7	5.2	4.0
Health	3.5	0.9	2.6	0.8
Conservation of natural resources	2.1	0.5	2.0	0.7
All others	2.0	1.9	2.1	1.3
<b>Total</b>	<b>\$ 36.9</b>	<b>\$ 18.6</b>	<b>\$ 34.3</b>	<b>\$ 18.9</b>

## THE COUNTY’S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet on Exhibit 3) reported a combined fund balance of \$13.8 million, which is \$1.9 million less than 2007. Included in this year’s total fund balance is a fund balance of \$5.6 million in the County’s General Fund, approximately \$1.0 million more than last year. The Ditch Special Revenue Fund’s change in fund balance (a decrease of \$0.7 million from 2007) was caused by expending the proceeds of the prior year’s bond issuance. The Social Services Special Revenue Fund has a decrease (\$2.1 million) from a capital call on investment in a joint venture of \$1.0 million; operations used reserves of \$1.1 million. The Road and Bridge Special Revenue Fund shows a decrease (\$0.1 million).

### General Fund Budgetary Highlights

During the year, the County made no budget amendments. The largest variance occurred in the Road and Bridge Special Revenue Fund. This was \$2.1 million in both revenues and expenses. It consisted mainly of projected construction which was postponed until 2009 due to funding cutbacks. The General Fund had an accounting change moving Housing and Redevelopment Authority (HRA) debt service tax to tax revenue and payments to HRA rents. Social Services had a capital call of \$1.0 million that was not budgeted. The other large variance was the Ditch Special Revenue Fund (\$0.65 million). Ongoing reassessment of benefits on many of the ditch systems is incurring costs, which cannot be recovered until the new benefits can be finalized. These costs will be assessed directly to the landowners receiving the benefit and will have no monetary impact on the citizens of Freeborn County.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2008, the County had \$76.1 million invested in a broad range of capital assets including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net decrease (including additions and deductions) of \$1.1 million, or 1.4 percent, from last year. This came mainly from current year depreciation.

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

	Governmental Activities	
	2008	2007
Land	\$ 4.1	\$ 4.1
Land improvements	0.7	0.8
Construction in progress	0.4	-
Buildings and improvements	28.1	28.9
Machinery, vehicles, furniture, and equipment	2.2	2.3
Infrastructure	40.6	41.1
Total	<u>\$ 76.1</u>	<u>\$ 77.2</u>

### Debt

At year-end, the County had \$25.4 million in bonds and notes outstanding versus \$27.3 million last year, a decrease of 5.3 percent, as shown in Table 5.

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

	Governmental Activities	
	2008	2007
General obligation bonds and notes (backed by the County)	\$ 8.3	\$ 9.1
Special assessment bonds	2.9	3.3
General obligation lease revenue	6.2	6.5
Lease revenue bonds	8.0	8.4
Total	<u>\$ 25.4</u>	<u>\$ 27.3</u>

The County's general obligation bond rating was "Aaa" at its last bond issuance in December 2006, and there has been no change since then. Other obligations include accrued vacation pay and sick leave payable. More detailed information about the County's long-term liabilities is presented in Note 3.C. to the financial statements.

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

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

- County General Fund expenditures for 2009 are budgeted to increase 8.4 percent over 2008.
- The combined budget for 2009 increased \$1,034,018, or 2.8 percent, over the 2008 budget.
- The state increased County aids for 2009 by \$201,000 and, in December 2008, unallotted \$299,000.
- Property tax levies have increased 5.9 percent for 2009.

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

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the County Finance Manager, William M. Helfritz, at 411 South Broadway, Albert Lea, Minnesota 56007.

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

***EXHIBIT 1***

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

**Assets**

Cash and pooled investments	\$	13,583,597
Petty cash and change funds		1,775
Investment in joint venture		1,177,068
Taxes receivable		
Prior - net		501,021
Special assessments receivable		
Prior - net		52,923
Noncurrent - net		2,666,267
Accounts receivable - net		1,268,974
Accrued interest receivable		239,636
Loan receivable		405,950
Due from other governments		1,730,796
Inventories		172,903
Restricted assets		
Restricted cash and investments on deposit for debt service		1,030,961
Deferred charges		78,735
Other assets		1,080,000
Net OPEB asset		15,610
Capital assets		
Non-depreciable		5,289,559
Depreciable - net of accumulated depreciation		70,848,426
		\$ 100,144,201

**Liabilities**

Accounts payable	\$	953,344
Salaries payable		740,791
Contracts payable		51,194
Due to other governments		330,718
Accrued interest payable		491,246
Unearned revenue		81,279
Long-term liabilities		
Due within one year		2,073,570
Due in more than one year		24,639,312
		\$ 29,361,454

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

***EXHIBIT 1  
(Continued)***

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

**Net Assets**

Invested in capital assets - net of related debt	\$ 54,877,456
Restricted for	
General government	443,155
Public safety	768,473
Highways and streets	1,020,945
Human services	690,600
Conservation of natural resources	1,092,812
Debt service	742,108
Economic development	248,621
Endowment - nonexpendable	112,839
Unrestricted	<u>10,785,738</u>
<b>Total Net Assets</b>	<b><u><u>\$ 70,782,747</u></u></b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 2*

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

<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets</b>
	<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b><u>Functions/Programs</u></b>				
<b>Primary government</b>				
<b>Governmental activities</b>				
General government	\$ 5,682,175	\$ 733,713	\$ 276,366	\$ -
Public safety	5,595,363	2,175,384	728,328	-
Highways and streets	8,137,598	179,430	4,745,527	-
Sanitation	428,622	1,140	353,842	-
Human services	9,855,640	544,885	3,951,455	-
Health	3,472,671	1,040,025	1,501,386	-
Culture and recreation	346,859	9,872	66,312	-
Conservation of natural resources	2,111,470	93,398	1,496,839	17,958
Economic development	118,207	467,294	-	-
Interest	1,217,757	-	-	-
<b>Total Governmental Activities</b>	<b>\$ 36,966,362</b>	<b>\$ 5,245,141</b>	<b>\$ 13,120,055</b>	<b>\$ 17,958</b>
 <b>General Revenues</b>				
Property taxes				\$ 14,715,066
Gravel taxes				41,808
Mortgage registry and deed tax				18,832
Payments in lieu of tax				35,324
Grants and contributions not restricted to specific programs				3,024,053
Unrestricted investment earnings				534,835
Miscellaneous				53,931
Gain on sale of capital assets				143,551
<b>Total general revenues</b>				<b>\$ 18,567,400</b>
<b>Change in net assets</b>				<b>\$ (15,808)</b>
<b>Net Assets - Beginning</b>				<b>70,798,555</b>
<b>Net Assets - Ending</b>				<b>\$ 70,782,747</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 3*

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Ditch</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 3,879,898	\$ 2,324,494	\$ 4,503,543	\$ 1,650,947	\$ 1,224,715	\$ 13,583,597
Petty cash and change funds	1,775	-	-	-	-	1,775
Taxes receivable						
Prior	247,855	81,801	142,017	-	29,348	501,021
Special assessments						
Prior	33,332	-	-	17,726	1,865	52,923
Noncurrent	-	-	-	2,550,325	115,942	2,666,267
Accounts receivable	234,238	960	833,220	-	-	1,068,418
Accrued interest receivable	239,078	-	-	-	558	239,636
Loans receivable	182,649	-	-	-	223,301	405,950
Due from other funds	125,716	31,318	-	-	-	157,034
Due from other governments	216,006	1,030,687	479,523	4,580	-	1,730,796
Leases receivable	1,080,000	-	-	-	-	1,080,000
Inventories	-	172,903	-	-	-	172,903
Advances to other funds	1,252,356	-	-	-	-	1,252,356
<b>Total Assets</b>	<b>\$ 7,492,903</b>	<b>\$ 3,642,163</b>	<b>\$ 5,958,303</b>	<b>\$ 4,223,578</b>	<b>\$ 1,595,729</b>	<b>\$ 22,912,676</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT 3  
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Ditch</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 259,483	\$ 34,413	\$ 505,474	\$ 82,424	\$ 71,550	\$ 953,344
Salaries payable	420,595	99,780	220,416	-	-	740,791
Contracts payable	-	51,194	-	-	-	51,194
Due to other funds	29,730	-	127,304	-	-	157,034
Due to other governments	49,241	1,342	266,503	10,371	3,261	330,718
Deferred revenue - unavailable	1,093,563	1,079,387	867,725	2,568,051	140,250	5,748,976
Deferred revenue - unearned	81,279	-	-	-	-	81,279
Advance from other funds	-	-	-	1,051,800	-	1,051,800
<b>Total Liabilities</b>	<b>\$ 1,933,891</b>	<b>\$ 1,266,116</b>	<b>\$ 1,987,422</b>	<b>\$ 3,712,646</b>	<b>\$ 215,061</b>	<b>\$ 9,115,136</b>
<b>Fund Balances</b>						
Reserved for						
Debt service	\$ -	\$ -	\$ -	\$ 870,817	\$ 978,980	\$ 1,849,797
Inventories	-	172,903	-	-	-	172,903
Advances to other funds	1,252,356	-	-	-	-	1,252,356
Law library	80,813	-	-	-	-	80,813
Recorder's technology compliance	176,390	-	-	-	-	176,390
Recorder's equipment	139,718	-	-	-	-	139,718
Enhanced 911	204,582	-	-	-	-	204,582
Attorney's forfeited property	4,545	-	-	-	-	4,545
Loans receivable	182,649	-	-	-	-	182,649
HAVA equipment	41,689	-	-	-	-	41,689
Endowments	-	-	-	-	112,839	112,839
Economic development	-	-	-	-	52,266	52,266
Health care	-	-	690,600	-	-	690,600
Unreserved						
Designated for						
Cash flows	2,710,327	849,248	2,445,878	-	-	6,005,453
Compensated absences	765,943	219,896	299,181	-	-	1,285,020
Contingencies	-	-	-	-	-	-
Future expenditures	-	1,134,000	-	-	-	1,134,000
Undesignated	-	-	535,222	(359,885)	-	175,337
Unreserved, reported in nonmajor						
Debt service funds	-	-	-	-	235,613	235,613
Permanent fund	-	-	-	-	970	970
<b>Total Fund Balances</b>	<b>\$ 5,559,012</b>	<b>\$ 2,376,047</b>	<b>\$ 3,970,881</b>	<b>\$ 510,932</b>	<b>\$ 1,380,668</b>	<b>\$ 13,797,540</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,492,903</b>	<b>\$ 3,642,163</b>	<b>\$ 5,958,303</b>	<b>\$ 4,223,578</b>	<b>\$ 1,595,729</b>	<b>\$ 22,912,676</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
DECEMBER 31, 2008**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$ 13,797,540</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Investment in joint venture is not reported in the governmental funds because it is not a current financial resource.		1,177,068
Net OPEB assets are not reported in the governmental funds because they are not a current financial resource.		15,610
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		76,137,985
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		5,748,976
An Internal Service Fund is used by management to charge the cost of building facilities to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets. (See Exhibit 7.)		
Total Internal Service Fund net assets	\$ 2,507,144	
Net assets representing capital assets included above	(15,724,456)	
Net assets representing long-term debt included below	<u>14,327,008</u>	1,109,696
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (8,315,000)	
General obligation lease revenue bonds	(6,155,000)	
Lease revenue bonds	(7,975,000)	
Compensated absences	(1,285,019)	
Loans payable	(175,827)	
Special assessment debt payable	(2,910,000)	
Accrued interest payable	(491,246)	
Unamortized discount	<u>102,964</u>	<u>(27,204,128)</u>
<b>Net Assets of Governmental Activities (Exhibit 1)</b>		<b><u><u>\$ 70,782,747</u></u></b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 5*

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Ditch</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Revenues</b>						
Taxes	\$ 6,714,762	\$ 2,740,580	\$ 4,387,427	\$ -	\$ 825,633	\$ 14,668,402
Special assessments	345,743	-	-	1,168,153	172,676	1,686,572
Licenses and permits	92,984	7,800	-	-	-	100,784
Intergovernmental	4,837,801	4,649,283	5,188,041	102,014	-	14,777,139
Charges for services	2,035,290	171,630	406,073	-	-	2,612,993
Fines and forfeits	35,811	-	1,253	-	-	37,064
Gifts and contributions	17,795	-	29,145	-	-	46,940
Investment earnings	527,246	-	-	-	7,589	534,835
Miscellaneous	674,685	42,341	308,912	5,380	467,294	1,498,612
<b>Total Revenues</b>	<b>\$ 15,282,117</b>	<b>\$ 7,611,634</b>	<b>\$ 10,320,851</b>	<b>\$ 1,275,547</b>	<b>\$ 1,473,192</b>	<b>\$ 35,963,341</b>
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 6,190,611	\$ -	\$ -	\$ -	\$ -	\$ 6,190,611
Public safety	5,101,289	-	281,882	-	-	5,383,171
Highways and streets	7,343	7,778,799	-	-	-	7,786,142
Sanitation	428,622	-	-	-	-	428,622
Human services	21,053	-	10,115,743	-	-	10,136,796
Health	1,485,470	-	1,984,441	-	-	3,469,911
Culture and recreation	346,859	-	-	-	-	346,859
Conservation of natural resources	602,350	-	-	1,505,430	2,836	2,110,616
Economic development	46,600	-	-	-	71,607	118,207
<b>Capital outlay</b>	<b>160,352</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>160,352</b>
<b>Debt service</b>						
Principal	34,000	-	-	310,459	967,848	1,312,307
Interest	-	-	-	112,394	411,081	523,475
Administrative (fiscal) charges	-	-	-	382	3,129	3,511
<b>Total Expenditures</b>	<b>\$ 14,424,549</b>	<b>\$ 7,778,799</b>	<b>\$ 12,382,066</b>	<b>\$ 1,928,665</b>	<b>\$ 1,456,501</b>	<b>\$ 37,970,580</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 857,568</b>	<b>\$ (167,165)</b>	<b>\$ (2,061,215)</b>	<b>\$ (653,118)</b>	<b>\$ 16,691</b>	<b>\$ (2,007,239)</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 5  
(Continued)*

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Social Services</u>	<u>Ditch</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Other Financing Sources (Uses)</b>						
Transfers in	\$ -	\$ 90,250	\$ -	\$ -	\$ -	\$ 90,250
Transfers out	(90,250)	-	-	-	-	(90,250)
Proceeds from sale of capital assets	149,700	-	-	-	-	149,700
<b>Total Other Financing Sources (Uses)</b>	<u>\$ 59,450</u>	<u>\$ 90,250</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,700</u>
<b>Net Change in Fund Balance</b>	<b>\$ 917,018</b>	<b>\$ (76,915)</b>	<b>\$ (2,061,215)</b>	<b>\$ (653,118)</b>	<b>\$ 16,691</b>	<b>\$ (1,857,539)</b>
<b>Fund Balance - January 1</b>	<b>4,641,994</b>	<b>2,480,848</b>	<b>6,032,096</b>	<b>1,164,050</b>	<b>1,363,977</b>	<b>15,682,965</b>
<b>Increase (decrease) in reserved for inventories</b>	<u>-</u>	<u>(27,886)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,886)</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 5,559,012</u></u>	<u><u>\$ 2,376,047</u></u>	<u><u>\$ 3,970,881</u></u>	<u><u>\$ 510,932</u></u>	<u><u>\$ 1,380,668</u></u>	<u><u>\$ 13,797,540</u></u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,857,539)**

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

In the funds, under the modified accrual basis, distributions of joint venture equity interest are recorded as revenues. In the statement of net assets, an asset is reported for the equity interest in joint ventures, and distributions (decreases) and increases in joint venture equity are reported in the statement of activities. The change in the net assets differs from the change in fund balance by the increases and decreases in the investment in joint venture. 260,265

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

Deferred revenue - December 31	\$ 5,748,976	
Deferred revenue - January 1	<u>(5,016,625)</u>	732,351

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

Expenditures for general capital assets and infrastructure	\$ 1,761,216	
Net book value of assets disposed	(15,342)	
Current year depreciation	<u>(2,347,865)</u>	(601,991)

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net assets. 1,311,513

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 20,220	
Change in OPEB asset	15,610	
Change in compensated absences	(98,001)	
Change in inventories	<u>(27,886)</u>	(90,057)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Fund are reported with governmental activities. 229,650

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ (15,808)**

**PROPRIETARY FUND**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FUND NET ASSETS  
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND  
DECEMBER 31, 2008**

**Assets**

**Restricted assets**

Cash and pooled investments on deposit for debt service \$ 1,030,961

**Noncurrent assets**

Deferred debt issuance costs \$ 78,735

Capital assets

Depreciable - net 15,724,456

**Total noncurrent assets**

**\$ 15,803,191**

**Total Assets**

**\$ 16,834,152**

**Liabilities**

**Current liabilities payable from restricted assets**

Interest payable \$ 288,853

Revenue bonds payable - current 695,000

**Total current liabilities payable from restricted assets**

**\$ 983,853**

**Noncurrent liabilities**

Revenue bonds payable - long-term 13,343,155

**Total Liabilities**

**\$ 14,327,008**

**Net Assets**

Invested in capital assets - net of related debt \$ 1,765,036

Restricted for debt service 742,108

**Total Net Assets**

**\$ 2,507,144**

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT 8**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>Operating Revenues</b>	
Rental income	\$ 1,366,576
<b>Operating Expenses</b>	
Depreciation	<u>426,729</u>
<b>Operating Income (Loss)</b>	<b><u>\$ 939,847</u></b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest expense	\$ (698,086)
Bond issuance expense	<u>(12,111)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<b><u>\$ (710,197)</u></b>
<b>Change in Net Assets</b>	<b>\$ 229,650</b>
<b>Net Assets - January 1</b>	<b><u>2,277,494</u></b>
<b>Net Assets - December 31</b>	<b><u><u>\$ 2,507,144</u></u></b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF CASH FLOWS  
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008  
Increase (Decrease) in Cash and Cash Equivalents**

<b>Cash Flows from Operating Activities</b>	
Receipts from customers and users	<u>\$ 1,397,104</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal paid on long-term debt	\$ (670,000)
Interest paid on long-term debt	<u>(709,028)</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>\$ (1,379,028)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>\$ 18,076</u>
<b>Cash and Cash Equivalents at January 1</b>	<u>1,012,885</u>
<b>Cash and Cash Equivalents at December 31</b>	<u><u>\$ 1,030,961</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
Operating income (loss)	\$ 939,847
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	426,729
(Increase) decrease in taxes receivable	<u>30,528</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u><u>\$ 1,397,104</u></u>

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**FIDUCIARY FUNDS**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 10*

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

	Private-Purpose Trust	Agency Funds
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 11,185	\$ 761,541
Due from other governments	-	26,742
	<b>\$ 11,185</b>	<b>\$ 788,283</b>
<b><u>Liabilities</u></b>		
Due to other governments	\$ -	\$ 587,727
Advance from General Fund	-	200,556
	<b>\$ -</b>	<b>\$ 788,283</b>
<b><u>Net Assets</u></b>		
Net assets, held in trust for other purposes	<b>\$ 11,185</b>	

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 11*

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Private-Purpose Trust</u>
<b><u>Additions</u></b>	
Investment earnings	
Interest	\$ 479
<b><u>Deductions</u></b>	
Payments in accordance with trust agreements	<u>400</u>
<b>Change in Net Assets</b>	<b>\$ 79</b>
<b>Net Assets - January 1</b>	<b><u>11,106</u></b>
<b>Net Assets - December 31</b>	<b><u><u>\$ 11,185</u></u></b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2008. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Freeborn County was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Freeborn County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, appointed by the Board, serves as the clerk of the Board of Commissioners but has no vote.

Blended Component Unit

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

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

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

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs.

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

Additionally, the County reports the following fund types:

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Private-Purpose Trust Fund is used to account for resources legally held in trust for others.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2008, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2008 were \$527,246.

3. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

4. Inventories and Prepaid Items

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

5. Restricted Assets

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

6. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

7. Compensated Absences

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

8. Deferred Revenue

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

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

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

9. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

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

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.

**FREEBORN COUNTY  
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2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

For the year ended December 31, 2008, expenditures exceeded budgeted amounts in the following funds:

	Final Budget	Expenditures	Excess
General Fund	\$ 13,543,336	\$ 14,424,549	\$ 881,213
Special Revenue Funds			
Social Services	10,758,701	12,382,066	1,623,365
Ditch	776,000	1,928,665	1,152,665

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 13,583,597
Petty cash and change funds	1,775
Internal Service Fund	
Cash and pooled investments on deposit for debt service	1,030,961
Fiduciary funds	
Cash and pooled investments	
Private-Purpose Trust Fund	11,185
Agency funds	761,541
Total Cash and Investments	\$ 15,389,059

a. Deposits

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have custodial credit risk as of December 31, 2008.

b. Investments

The following types of investments are generally authorized as available to the County 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;

**FREEBORN COUNTY  
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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. 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.

Interest Rate Risk

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

Credit Risk

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County does not have a policy on concentration of credit risk.

The following table presents the County's deposit and investment balances at December 31, 2008, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
U.S. government agency securities					
Federal Home Loan Bank Note	AAA	S&P	10%	08/15/2011	\$ 501,720
Negotiable certificates of deposit					
First Federal Bank	N/A	N/A	N/A	01/07/2009	\$ 95,855
GMAC Bank	N/A	N/A	N/A	01/09/2009	95,073
Fidelity Bank	N/A	N/A	N/A	07/01/2009	95,000
Total negotiable certificates of deposit			6%		\$ 285,928
Municipal bonds					
Freeborn County, Minnesota, G.O. Taxable Tax Increment Bonds	A3	Moody's	<5%	02/01/2009	\$ 225,529

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
Investment pools/mutual funds					
Wells Fargo Advantage Heritage Fund - Admin	AAA	S&P	N/A	N/A	\$ 4,000,000
Total investments					\$ 5,013,177
Deposits					10,374,107
Petty cash					1,775
Total Cash and Investments					<u>\$ 15,389,059</u>

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

2. Receivables

Receivables as of December 31, 2008, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$ 2,023,237
Less: allowance for uncollectible Human Services Special Revenue Fund	<u>(754,263)</u>
Net Accounts Receivable	<u>\$ 1,268,974</u>

Receivables are expected to be collected within the next year.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land				
General	\$ 625,953	\$ -	\$ -	\$ 625,953
Highway infrastructure	3,534,332	-	-	3,534,332
Improvements other than buildings	811,328	-	110,838	700,490
Construction in progress				
Highway infrastructure	-	428,784	-	428,784
Total capital assets not depreciated	<u>\$ 4,971,613</u>	<u>\$ 428,784</u>	<u>\$ 110,838</u>	<u>\$ 5,289,559</u>
Capital assets depreciated				
Buildings and improvements	\$ 31,886,633	\$ -	\$ -	\$ 31,886,633
Other land improvements	-	110,838	-	110,838
Machinery, furniture, and equipment	5,661,095	509,160	536,922	5,633,333
Infrastructure - sewer	391,579	-	-	391,579
Infrastructure - highway	81,854,980	823,298	32,892	82,645,386
Total capital assets depreciated	<u>\$ 119,794,287</u>	<u>\$ 1,443,296</u>	<u>\$ 569,814</u>	<u>\$ 120,667,769</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 3,110,538	\$ 799,364	\$ 462	\$ 3,909,440
Other land improvements	-	6,004	-	6,004
Machinery, furniture, and equipment	3,330,532	598,761	530,773	3,398,520
Infrastructure - sewer	121,468	15,833	-	137,301
Infrastructure - highway	41,036,657	1,355,093	23,672	42,368,078
Total accumulated depreciation	<u>\$ 47,599,195</u>	<u>\$ 2,775,055</u>	<u>\$ 554,907</u>	<u>\$ 49,819,343</u>
Total capital assets depreciated, net	<u>\$ 72,195,092</u>	<u>\$ (1,331,759)</u>	<u>\$ 14,907</u>	<u>\$ 70,848,426</u>
Capital Assets, Net	<u>\$ 77,166,705</u>	<u>\$ (902,975)</u>	<u>\$ 125,745</u>	<u>\$ 76,137,985</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 867,082
Public safety	96,890
Highways and streets, including depreciation of infrastructure assets	1,805,474
Human services	3,764
Health	1,845
Total Depreciation Expense - Governmental Activities	<u>\$ 2,775,055</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Social Services Special Revenue Fund	Services provided	\$ 125,716
Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund General Fund	Services provided Services provided	\$ 1,588 29,730
Total due to Road and Bridge Special Revenue Fund			<u>\$ 31,318</u>
Total Due To/From Other Funds			<u>\$ 157,034</u>

2. Advances To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ditch Special Revenue Fund Payroll Clearing Agency Fund Insurance Agency Fund Turtle Creek Watershed Agency Fund	\$ 1,051,800 25,053 116,703 58,800
Total Advances To/From Other Funds		<u>\$ 1,252,356</u>

3. Interfund Transfers

In 2008, \$90,250 was transferred from the Road and Bridge Special Revenue Fund to the General Fund for proceeds from the sale of assets.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

2. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2008</u>
General obligation bonds					
1998 G.O. Tax Increment Bonds	2009	\$280,000 - \$450,000	5.90 - 6.40	\$ 3,220,000	\$ 450,000
2002 G.O. Criminal Justice Bonds	2023	\$255,000 - \$695,000	3.00 - 5.00	<u>9,600,000</u>	<u>7,865,000</u>
Total General Obligation Bonds				<u>\$ 12,820,000</u>	<u>\$ 8,315,000</u>
Ditch Series 2006 G.O. Special Assessment Bonds	2022	\$325,000 - \$35,000	3.625 - 4.15	<u>\$ 3,020,000</u>	<u>\$ 2,695,000</u>
2002 Law Enforcement Center G.O. Lease Revenue Bonds	2023	\$190,000 - \$550,000	3.25 - 5.00	<u>\$ 7,470,000</u>	\$ 6,155,000
Less: unamortized discount					<u>(24,731)</u>
Lease Revenue Bonds, Net					<u>\$ 6,130,269</u>
2002 Criminal Justice Lease Revenue Bonds	2023	\$230,000 - \$720,000	3.50 - 5.50	<u>\$ 9,630,000</u>	\$ 7,975,000
Less: unamortized discount					<u>(67,112)</u>
Lease Revenue Bonds, Net					<u>\$ 7,907,888</u>
Special Assessment Refunding Bonds with government commitment	2010	\$120,000 - \$105,000	2.25 - 3.35	<u>\$ 800,000</u>	<u>\$ 215,000</u>
Minnesota Department of Employment and Economic Development loan	2013	\$6,007 - \$42,606	3.00	<u>\$ 280,000</u>	<u>\$ 175,827</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Special Assessment Ditch Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 845,000	\$ 350,890	\$ 325,000	\$ 93,385
2010	410,000	321,890	325,000	81,603
2011	425,000	305,703	280,000	70,637
2012	440,000	288,402	280,000	60,488
2013	455,000	270,502	255,000	50,791
2014 - 2018	2,565,000	1,046,860	1,030,000	128,325
2019 - 2023	3,175,000	397,499	200,000	12,746
Total	\$ 8,315,000	\$ 2,981,746	\$ 2,695,000	\$ 497,975

Year Ending December 31	Law Enforcement G.O. Lease Revenue Bonds		Criminal Justice Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 305,000	\$ 263,598	\$ 390,000	\$ 415,538
2010	315,000	252,354	405,000	397,144
2011	330,000	239,848	420,000	377,025
2012	340,000	226,448	435,000	355,650
2013	355,000	212,548	455,000	332,547
2014 - 2018	2,005,000	823,864	2,590,000	1,265,301
2019 - 2023	2,505,000	314,358	3,280,000	468,051
Total	\$ 6,155,000	\$ 2,333,018	\$ 7,975,000	\$ 3,611,256

Year Ending December 31	Special Assessment Refunding Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2009	\$ 110,000	\$ 5,236	\$ 34,319	\$ 4,805
2010	105,000	1,759	35,363	3,762
2011	-	-	36,438	2,686
2012	-	-	37,547	1,578
2013	-	-	32,160	444
Total	\$ 215,000	\$ 6,995	\$ 175,827	\$ 13,275

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Changes in Long-Term Liabilities

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

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
General obligation bonds	\$ 9,125,000	\$ -	\$ 810,000	\$ 8,315,000	\$ 845,000
Special assessment G.O. bond	3,020,000	-	325,000	2,695,000	325,000
G.O. lease revenue	6,450,000	-	295,000	6,155,000	305,000
Lease revenue bonds	8,350,000	-	375,000	7,975,000	390,000
Special assessment refunding bonds	325,000	-	110,000	215,000	110,000
Less: deferred amounts for issuance discounts	(110,278)	-	(7,314)	(102,964)	-
Total bonds payable	\$ 27,159,722	\$ -	\$ 1,907,686	\$ 25,252,036	\$ 1,975,000
Loans payable	209,134	-	33,307	175,827	34,319
Compensated absences	1,187,018	98,001	-	1,285,019	64,251
Armory commitment to state	34,000	-	34,000	-	-
Long-Term Liabilities	<u>\$ 28,589,874</u>	<u>\$ 98,001</u>	<u>\$ 1,974,993</u>	<u>\$ 26,712,882</u>	<u>\$ 2,073,570</u>

Payments on the general obligation bonds are made from the TIF #1 Debt Service Fund, and payments on the general obligation ditch special assessment bonds are made by the affected land owners, not the general populace of Freeborn County.

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

A. Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint 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.

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

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

For all Public Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund

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

A. Plan Description (Continued)

members, and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.0 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members were required to contribute 8.6 percent of their annual covered salary in 2008. That rate increased to 9.4 percent in 2009. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

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

B. Funding Policy (Continued)

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Public Employees Retirement Fund	\$ 627,647	\$ 561,051	\$ 520,212
Public Employees Police and Fire Fund	145,276	127,340	109,885
Public Employees Correctional Fund	114,684	109,543	99,142

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

C. Other Postemployment Benefits (OPEB)

In 2008, Freeborn County implemented the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

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

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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB) (Continued)

As of year-end, the County has 63 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2008, the County expended \$79,957 for these benefits.

The County offers the same benefit to elected officials. This benefit is funded on a pay-as-you-go basis. Freeborn County has eight former elected officials eligible for this benefit. The County expended \$10,924 for this benefit in 2008.

Annual OPEB Cost and Net OPEB Obligations

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer. The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	\$ 75,271
Interest on net OPEB obligations	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost	\$ 75,271
Contribution during the year	<u>(90,881)</u>
	<hr/>
Decrease in net OPEB obligation	\$ (15,610)
Net OPEB - Beginning of Year	-
	<hr/>
Net OBEB - End of Year	<u>\$ (15,610)</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligations (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2008, 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, 2008	\$ 75,271	\$ 90,881	120.74%	\$ 2,242,530

Funding Status and Progress

As of June 30, 2008, the actuarial accrued liability for benefits was \$2,242,530, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$12,245,942, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 18.2 percent. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plans

C. Other Postemployment Benefits (OPEB)

Actuarial Methods and Assumptions (Continued)

The following simplifying assumptions were made:

Retirement age for 41 active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the members would qualify for benefits.

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

Mortality - Life expectancies were based on mortality tables from the "Social Security On-Line" statistics. The 2008 Trustee Report Cohort Life Tables V.A4 for Males and for Females were used.

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

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

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

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

In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2008, was 30 years.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance 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 \$410,000 and \$430,000 per claim in 2008 and 2009, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The County has entered into a joint powers agreement with the cooperative to authorize the Board to exercise the common powers of the participating governmental units in connection with certain matters pertaining to the administration and funding of group employee benefits and other financial risk management services. The County may choose to participate in any of the services offered. The County may withdraw from the pool at any time giving a 90-day written notice. There is no contingent liability after withdrawal.

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

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Family Services Collaborative

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

Control of the Collaborative is vested in a Board of Directors. Freeborn County appoints two members to this 13-member Board. The Freeborn County Department of Social Services acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2005, Freeborn County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the Minnesota Department of Education.

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

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Family Services Collaborative (Continued)

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

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 2008, Cass, Crow Wing, Morrison, Todd, and Wadena Counties joined in the joint venture. The agreement was in accordance with Section 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the nine participating member counties' healthcare 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 aforementioned 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, 2008, was \$1,177,068. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as human services expenses.

Complete financial statements for the SCHA can be obtained from its fiscal agent at 630 Florence Avenue, P. O. Box 890, Owatonna, Minnesota 55060-0890.

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

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

D. Jointly-Governed Organizations

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

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Freeborn County expended \$87,122 to the Cooperative.

South Central Minnesota County Comprehensive Water Planning Project

This joint powers was established to provide regional water quality to Minnesota River Basin member counties. During the year, Freeborn County expended \$625 to the Project.

Southeast Minnesota Emergency Management Services (EMS)

This joint powers was established to provide various health services to member counties. During the year, Freeborn County made no payments to the EMS.

Southeast Minnesota Water Quality Board

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

Southeastern Minnesota Library

This joint powers was established to provide library services to member counties. During the year, Freeborn County expended \$262,000 to the Library.

Southeastern Minnesota Narcotics Task Force

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

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

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

E. Tax Increment Financing

The Freeborn County Housing and Redevelopment Authority is the administrative authority for the following tax increment financing district:

Tax Increment Financing District #1-1	
An Economic Development District	
Authorizing Law: Minn. Stat. §§ 469.174-469.179	
Year Established	1998
Duration of District	11 years
Original Net Tax Capacity	\$ 1,632
Current Net Tax Capacity	94,589
Captured Net Tax Capacity	92,957
Retained by Authority	92,957
Shared with Other Taxing Districts	-
Total general obligation bonds issued	\$ 3,220,000
Total loans incurred	-
Amounts redeemed (principal only)	<u>(2,770,000)</u>
Outstanding Bonds and Loans at December 31, 2008	<u>\$ 450,000</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**Schedule 1**

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

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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)
June 30, 2008	\$ -	\$ 2,242,530	\$ 2,242,530	0.0%	\$ 12,245,942	18.2%

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

Schedule 2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 6,898,345	\$ 6,898,345	\$ 6,714,762	\$ (183,583)
Special assessments	305,000	305,000	345,743	40,743
Licenses and permits	115,800	115,800	92,984	(22,816)
Intergovernmental	3,062,019	3,062,019	4,837,801	1,775,782
Charges for services	1,694,550	1,694,550	2,035,290	340,740
Fines and forfeits	45,500	45,500	35,811	(9,689)
Gifts and contributions	-	-	17,795	17,795
Investment earnings	801,000	801,000	527,246	(273,754)
Miscellaneous	729,050	729,050	674,685	(54,365)
<b>Total Revenues</b>	<b>\$ 13,651,264</b>	<b>\$ 13,651,264</b>	<b>\$ 15,282,117</b>	<b>\$ 1,630,853</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 171,719	\$ 171,719	\$ 168,426	\$ 3,293
Courts	127,000	127,000	133,369	(6,369)
County administration	1,390,929	1,390,929	1,053,682	337,247
County auditor-treasurer	550,442	550,442	528,876	21,566
License bureau	242,032	242,032	222,200	19,832
County assessor	469,422	469,422	445,601	23,821
Elections	81,200	81,200	53,011	28,189
Data processing	410,925	410,925	96,329	314,596
Attorney	551,005	551,005	528,791	22,214
Law library	29,500	29,500	11,045	18,455
Recorder	344,534	344,534	352,510	(7,976)
Surveyor	20,000	20,000	7,353	12,647
Planning and zoning	124,748	124,748	229,501	(104,753)
Buildings and plant	881,474	881,474	2,203,725	(1,322,251)
Veterans service officer	134,242	134,242	150,851	(16,609)
Other general government	12,000	12,000	5,341	6,659
<b>Total general government</b>	<b>\$ 5,541,172</b>	<b>\$ 5,541,172</b>	<b>\$ 6,190,611</b>	<b>\$ (649,439)</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Schedule 2*  
*(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,915,024	\$ 1,915,024	\$ 1,903,276	\$ 11,748
Boat and water safety	3,791	3,791	11,171	(7,380)
Ambulance	3,500	3,500	3,500	-
Coroner	67,000	67,000	79,741	(12,741)
E-911 system	64,520	64,520	48,547	15,973
County jail	2,056,842	2,056,842	2,054,622	2,220
Law enforcement center	173,500	173,500	59,021	114,479
Community corrections	630,944	630,944	859,682	(228,738)
Civil defense	61,484	61,484	81,595	(20,111)
Other public safety	11,300	11,300	134	11,166
<b>Total public safety</b>	<b>\$ 4,987,905</b>	<b>\$ 4,987,905</b>	<b>\$ 5,101,289</b>	<b>\$ (113,384)</b>
<b>Highways and streets</b>				
Administration	\$ 8,000	\$ 8,000	\$ 7,343	\$ 657
<b>Sanitation</b>				
Recycling	\$ 402,412	\$ 402,412	\$ 428,622	\$ (26,210)
<b>Human services</b>				
Income maintenance	\$ -	\$ -	\$ 10,526	\$ (10,526)
Social services	-	-	10,527	(10,527)
<b>Total human services</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,053</b>	<b>\$ (21,053)</b>
<b>Health</b>				
Community health	\$ 412,227	\$ 412,227	\$ 328,701	\$ 83,526
Administration	295,830	295,830	292,592	3,238
Health education	28,520	28,520	51,862	(23,342)
WIC	37,345	37,345	29,888	7,457
Maternal and child health	80,805	80,805	80,383	422
Disease prevention	41,700	41,700	44,973	(3,273)
Child and teen checkups	48,599	48,599	35,749	12,850
Home health	407,537	407,537	621,322	(213,785)
<b>Total health</b>	<b>\$ 1,352,563</b>	<b>\$ 1,352,563</b>	<b>\$ 1,485,470</b>	<b>\$ (132,907)</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Schedule 2  
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Culture and recreation</b>				
Parks	\$ 70,900	\$ 70,900	\$ 56,378	\$ 14,522
Museum	31,250	31,250	27,206	4,044
County/regional library	262,000	262,000	262,000	-
Other culture and recreation	1,275	1,275	1,275	-
<b>Total culture and recreation</b>	<b>\$ 365,425</b>	<b>\$ 365,425</b>	<b>\$ 346,859</b>	<b>\$ 18,566</b>
<b>Conservation of natural resources</b>				
County extension	\$ 155,775	\$ 155,775	\$ 148,322	\$ 7,453
Soil and water conservation	141,000	141,000	141,000	-
Agricultural inspection	51,896	51,896	31,834	20,062
Agricultural society/County fair	20,000	20,000	128,939	(108,939)
Water planning	115,324	115,324	66,922	48,402
Water quality	25,100	25,100	54,145	(29,045)
Environmental services	73,664	73,664	31,188	42,476
<b>Total conservation of natural resources</b>	<b>\$ 582,759</b>	<b>\$ 582,759</b>	<b>\$ 602,350</b>	<b>\$ (19,591)</b>
<b>Economic development</b>				
Community development	\$ 5,000	\$ 5,000	\$ 15,000	\$ (10,000)
Tourism	1,600	1,600	1,600	-
Other economic development	40,000	40,000	30,000	10,000
<b>Total economic development</b>	<b>\$ 46,600</b>	<b>\$ 46,600</b>	<b>\$ 46,600</b>	<b>\$ -</b>
<b>Capital outlay</b>				
General government	\$ 55,000	\$ 55,000	\$ 18,391	\$ 36,609
Public safety	23,500	23,500	57,327	(33,827)
Highways and streets	80,000	80,000	75,408	4,592
Human services	33,000	33,000	-	33,000
Health	-	-	9,226	(9,226)
Conservation of natural resources	65,000	65,000	-	65,000
<b>Total capital outlay</b>	<b>\$ 256,500</b>	<b>\$ 256,500</b>	<b>\$ 160,352</b>	<b>\$ 96,148</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Schedule 2*  
*(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (Continued)</b>				
<b>Debt service</b>				
Principal	\$ -	\$ -	\$ 34,000	\$ (34,000)
<b>Total Expenditures</b>	<b>\$ 13,543,336</b>	<b>\$ 13,543,336</b>	<b>\$ 14,424,549</b>	<b>\$ (881,213)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ 107,928</b>	<b>\$ 107,928</b>	<b>\$ 857,568</b>	<b>\$ 749,640</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ -	\$ -	\$ (90,250)	\$ (90,250)
Proceeds from sale of capital assets	-	-	149,700	149,700
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 59,450</b>	<b>\$ 59,450</b>
<b>Net Change in Fund Balance</b>	<b>\$ 107,928</b>	<b>\$ 107,928</b>	<b>\$ 917,018</b>	<b>\$ 809,090</b>
<b>Fund Balance - January 1</b>	<b>4,641,994</b>	<b>4,641,994</b>	<b>4,641,994</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,749,922</b>	<b>\$ 4,749,922</b>	<b>\$ 5,559,012</b>	<b>\$ 809,090</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Schedule 3*

**BUDGETARY COMPARISON SCHEDULE  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,781,522	\$ 2,781,522	\$ 2,740,580	\$ (40,942)
Licenses and permits	-	-	7,800	7,800
Intergovernmental	7,035,000	7,035,000	4,649,283	(2,385,717)
Charges for services	13,750	13,750	171,630	157,880
Miscellaneous	43,000	43,000	42,341	(659)
<b>Total Revenues</b>	<b>\$ 9,873,272</b>	<b>\$ 9,873,272</b>	<b>\$ 7,611,634</b>	<b>\$ (2,261,638)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 367,578	\$ 367,578	\$ 257,552	\$ 110,026
Maintenance	3,005,124	3,005,124	2,459,791	545,333
Construction	5,979,000	5,979,000	3,654,767	2,324,233
Equipment maintenance and shop	521,570	521,570	1,175,063	(653,493)
Other	-	-	231,626	(231,626)
<b>Total Expenditures</b>	<b>\$ 9,873,272</b>	<b>\$ 9,873,272</b>	<b>\$ 7,778,799</b>	<b>\$ 2,094,473</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (167,165)</b>	<b>\$ (167,165)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	90,250	90,250
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (76,915)</b>	<b>\$ (76,915)</b>
<b>Fund Balance - January 1</b>	<b>2,480,848</b>	<b>2,480,848</b>	<b>2,480,848</b>	<b>-</b>
<b>Increase (decrease) in reserved for inventories</b>	<b>-</b>	<b>-</b>	<b>(27,886)</b>	<b>(27,886)</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,480,848</b>	<b>\$ 2,480,848</b>	<b>\$ 2,376,047</b>	<b>\$ (104,801)</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**Schedule 4**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,420,652	\$ 4,420,652	\$ 4,387,427	\$ (33,225)
Intergovernmental	4,594,162	4,594,162	5,188,041	593,879
Charges for services	947,100	947,100	406,073	(541,027)
Fines and forfeits	4,000	4,000	1,253	(2,747)
Gifts and contributions	40,800	40,800	29,145	(11,655)
Miscellaneous	12,000	12,000	308,912	296,912
<b>Total Revenues</b>	<b>\$ 10,018,714</b>	<b>\$ 10,018,714</b>	<b>\$ 10,320,851</b>	<b>\$ 302,137</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Victim crisis	\$ 266,682	\$ 266,682	\$ 281,882	\$ (15,200)
<b>Human services</b>				
Income maintenance	\$ 2,469,421	\$ 2,469,421	\$ 3,223,318	\$ (753,897)
Social services	6,675,178	6,675,178	6,892,425	(217,247)
<b>Total human services</b>	<b>\$ 9,144,599</b>	<b>\$ 9,144,599</b>	<b>\$ 10,115,743</b>	<b>\$ (971,144)</b>
<b>Health</b>				
Mental health center	\$ 1,347,420	\$ 1,347,420	\$ 1,984,441	\$ (637,021)
<b>Total Expenditures</b>	<b>\$ 10,758,701</b>	<b>\$ 10,758,701</b>	<b>\$ 12,382,066</b>	<b>\$ (1,623,365)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ (739,987)	\$ (739,987)	\$ (2,061,215)	\$ (1,321,228)
<b>Fund Balance - January 1</b>	<b>6,032,096</b>	<b>6,032,096</b>	<b>6,032,096</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,292,109</b>	<b>\$ 5,292,109</b>	<b>\$ 3,970,881</b>	<b>\$ (1,321,228)</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Schedule 5*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 776,000	\$ 776,000	\$ 1,168,153	\$ 392,153
Intergovernmental	-	-	102,014	102,014
Miscellaneous	-	-	5,380	5,380
<b>Total Revenues</b>	<b>\$ 776,000</b>	<b>\$ 776,000</b>	<b>\$ 1,275,547</b>	<b>\$ 499,547</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	\$ 776,000	\$ 776,000	\$ 1,505,430	\$ (729,430)
<b>Debt service</b>				
Principal	-	-	310,459	(310,459)
Interest	-	-	112,394	(112,394)
Administrative (fiscal) charges	-	-	382	(382)
<b>Total Expenditures</b>	<b>\$ 776,000</b>	<b>\$ 776,000</b>	<b>\$ 1,928,665</b>	<b>\$ (1,152,665)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (653,118)</b>	<b>\$ (653,118)</b>
<b>Fund Balance - January 1</b>	<b>1,164,050</b>	<b>1,164,050</b>	<b>1,164,050</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,164,050</b>	<b>\$ 1,164,050</b>	<b>\$ 510,932</b>	<b>\$ (653,118)</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

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1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, all special revenue funds other than the Revolving Loan Fund, and all debt service funds other than the Tax Increment District #1 Fund and the Turtle Creek Watershed District Fund. All annual appropriations lapse at fiscal year-end.

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2008, expenditures exceeded appropriations in the General Fund by \$881,213, the Social Services Special Revenue Fund by \$1,623,365, and in the Ditch Special Revenue Fund by \$1,152,665.

3. Other Postemployment Benefits

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

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**SUPPLEMENTARY INFORMATION**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

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

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

DEBT SERVICE FUNDS

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

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

The Courthouse Improvement Fund accounts for the accumulation of resources used for the retirement of the 2002 General Obligation Criminal Justice Bonds and related interest costs.

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

PERMANENT FUND

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

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

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

Statement 1

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

	<u>Special Revenue Revolving Loan</u>	<u>Debt Service</u>			<u>Permanent Fund U.S. Fish and Wildlife</u>	<u>Total (Exhibit 3)</u>
		<u>TIF #1</u>	<u>Courthouse Improvement</u>	<u>Turtle Creek Watershed District</u>		
<b><u>Assets</u></b>						
Cash and pooled investments	\$ 20,770	\$ 75,542	\$ 556,986	\$ 457,608	\$ 113,809	\$ 1,224,715
Taxes receivable						
Prior	-	-	29,348	-	-	29,348
Special assessments receivable						
Noncurrent	-	-	-	115,942	-	115,942
Prior	-	-	-	1,865	-	1,865
Accrued interest receivable	558	-	-	-	-	558
Loans receivable	223,301	-	-	-	-	223,301
<b>Total Assets</b>	<b>\$ 244,629</b>	<b>\$ 75,542</b>	<b>\$ 586,334</b>	<b>\$ 575,415</b>	<b>\$ 113,809</b>	<b>\$ 1,595,729</b>
<b><u>Liabilities and Fund Balances</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ -	\$ 71,550	\$ -	\$ -	\$ -	\$ 71,550
Due to other governments	3,261	-	-	-	-	3,261
Deferred revenue - unavailable	-	-	22,443	117,807	-	140,250
<b>Total Liabilities</b>	<b>\$ 3,261</b>	<b>\$ 71,550</b>	<b>\$ 22,443</b>	<b>\$ 117,807</b>	<b>\$ -</b>	<b>\$ 215,061</b>
<b>Fund Balances</b>						
Reserved for debt service	\$ 189,102	\$ 3,992	\$ 563,891	\$ 221,995	\$ -	\$ 978,980
Reserved for endowments	-	-	-	-	112,839	112,839
Reserved for economic development	52,266	-	-	-	-	52,266
Unreserved						
Undesignated	-	-	-	235,613	970	236,583
<b>Total Fund Balances</b>	<b>\$ 241,368</b>	<b>\$ 3,992</b>	<b>\$ 563,891</b>	<b>\$ 457,608</b>	<b>\$ 113,809</b>	<b>\$ 1,380,668</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 244,629</b>	<b>\$ 75,542</b>	<b>\$ 586,334</b>	<b>\$ 575,415</b>	<b>\$ 113,809</b>	<b>\$ 1,595,729</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

Statement 2

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

	<u>Special Revenue Revolving Loan</u>	<u>Debt Service</u>			<u>Permanent Fund U.S. Fish and Wildlife</u>	<u>Total (Exhibit 3)</u>
		<u>TIF #1</u>	<u>Courthouse Improvement</u>	<u>Turtle Creek Watershed District</u>		
<b>Revenues</b>						
Taxes	\$ -	\$ 71,550	\$ 754,083	\$ -	\$ -	\$ 825,633
Special assessments	-	-	-	172,676	-	172,676
Investment earnings	6,619	-	-	-	970	7,589
Miscellaneous	-	467,294	-	-	-	467,294
<b>Total Revenues</b>	<b>\$ 6,619</b>	<b>\$ 538,844</b>	<b>\$ 754,083</b>	<b>\$ 172,676</b>	<b>\$ 970</b>	<b>\$ 1,473,192</b>
<b>Expenditures</b>						
<b>Current</b>						
Conservation of natural resources	\$ -	\$ -	\$ -	\$ -	\$ 2,836	\$ 2,836
Economic development	-	71,607	-	-	-	71,607
<b>Debt service</b>						
Principal	33,307	425,000	385,000	124,541	-	967,848
Interest	5,818	42,294	349,659	13,310	-	411,081
Administrative - fiscal charges	-	2,100	350	679	-	3,129
<b>Total Expenditures</b>	<b>\$ 39,125</b>	<b>\$ 541,001</b>	<b>\$ 735,009</b>	<b>\$ 138,530</b>	<b>\$ 2,836</b>	<b>\$ 1,456,501</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (32,506)</b>	<b>\$ (2,157)</b>	<b>\$ 19,074</b>	<b>\$ 34,146</b>	<b>\$ (1,866)</b>	<b>\$ 16,691</b>
<b>Fund Balance - January 1</b>	<b>273,874</b>	<b>6,149</b>	<b>544,817</b>	<b>423,462</b>	<b>115,675</b>	<b>1,363,977</b>
<b>Fund Balance - December 31</b>	<b>\$ 241,368</b>	<b>\$ 3,992</b>	<b>\$ 563,891</b>	<b>\$ 457,608</b>	<b>\$ 113,809</b>	<b>\$ 1,380,668</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Schedule 6*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 758,000	\$ 758,000	\$ 754,083	\$ (3,917)
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 375,000	\$ 375,000	\$ 385,000	\$ (10,000)
Interest	373,000	373,000	349,659	23,341
Administrative (fiscal) charges	1,500	1,500	350	1,150
<b>Total Expenditures</b>	<b>\$ 749,500</b>	<b>\$ 749,500</b>	<b>\$ 735,009</b>	<b>\$ 14,491</b>
<b>Net Change in Fund Balance</b>	<b>\$ 8,500</b>	<b>\$ 8,500</b>	<b>\$ 19,074</b>	<b>\$ 10,574</b>
<b>Fund Balance - January 1</b>	<b>544,817</b>	<b>544,817</b>	<b>544,817</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 553,317</b>	<b>\$ 553,317</b>	<b>\$ 563,891</b>	<b>\$ 10,574</b>

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Agency Collections Fund accounts for the following:

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

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

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

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

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

The Refunding Section accounts for the refunding of property taxes.

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

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

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS  
(Continued)

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

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

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

The Payroll Clearing Fund accounts for payroll withholdings.

The Insurance Fund accounts for insurance payments.

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

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Statement 3*

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

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>AGENCY COLLECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>94,002</u>	\$ <u>3,658,838</u>	\$ <u>3,704,189</u>	\$ <u>48,651</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>94,002</u>	\$ <u>3,658,838</u>	\$ <u>3,704,189</u>	\$ <u>48,651</u>
 <b><u>COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>205,824</u>	\$ <u>142,800</u>	\$ <u>149,272</u>	\$ <u>199,352</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>205,824</u>	\$ <u>142,800</u>	\$ <u>149,272</u>	\$ <u>199,352</u>
 <b><u>RECORDER'S - CLEARING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>2,541</u>	\$ <u>36,791</u>	\$ <u>35,432</u>	\$ <u>3,900</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ <u>2,541</u>	\$ <u>36,791</u>	\$ <u>35,432</u>	\$ <u>3,900</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Statement 3*  
*(Continued)*

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

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAX COLLECTION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <b>386,878</b>	\$ <b>41,093,005</b>	\$ <b>41,181,048</b>	\$ <b>298,835</b>
<b><u>Liabilities</u></b>				
Due to other funds	\$ -	\$ 16,196,660	\$ 16,196,660	\$ -
Due to other governments	386,878	24,896,345	24,984,388	298,835
<b>Total Liabilities</b>	<b>\$ 386,878</b>	<b>\$ 41,093,005</b>	<b>\$ 41,181,048</b>	<b>\$ 298,835</b>
 <b><u>PAYROLL CLEARING</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 140,672	\$ 140,672	\$ -
Due from other governments	26,499	25,053	26,499	25,053
<b>Total Assets</b>	<b>\$ 26,499</b>	<b>\$ 165,725</b>	<b>\$ 167,171</b>	<b>\$ 25,053</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 140,672	\$ 140,672	\$ -
Advance from governmental funds	26,499	25,053	26,499	25,053
<b>Total Liabilities</b>	<b>\$ 26,499</b>	<b>\$ 165,725</b>	<b>\$ 167,171</b>	<b>\$ 25,053</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Statement 3*  
*(Continued)*

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

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>INSURANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 112,512	\$ 2,502	\$ -	\$ 115,014
Due from other governments	4,129	1,689	4,129	1,689
<b>Total Assets</b>	<b>\$ 116,641</b>	<b>\$ 4,191</b>	<b>\$ 4,129</b>	<b>\$ 116,703</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Advance from governmental funds	116,641	62	-	116,703
<b>Total Liabilities</b>	<b>\$ 116,641</b>	<b>\$ 62</b>	<b>\$ -</b>	<b>\$ 116,703</b>
 <b><u>MOTOR VEHICLE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 6,957,619	\$ 6,957,619	\$ -
<b><u>Liabilities</u></b>				
Due to other governments	\$ -	\$ 6,957,619	\$ 6,957,619	\$ -

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**Statement 3**  
***(Continued)***

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

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TURTLE CREEK WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ <u>83,204</u>	\$ <u>393,212</u>	\$ <u>380,627</u>	\$ <u>95,789</u>
<b><u>Liabilities</u></b>				
Due to other governments	\$ 83,204	\$ 334,412	\$ 380,627	\$ 36,989
Advance from governmental funds	<u>-</u>	<u>58,800</u>	<u>-</u>	<u>58,800</u>
<b>Total Liabilities</b>	<b>\$ <u>83,204</u></b>	<b>\$ <u>393,212</u></b>	<b>\$ <u>380,627</u></b>	<b>\$ <u>95,789</u></b>
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 884,961	\$ 52,425,439	\$ 52,548,859	\$ 761,541
Due from other governments	<u>30,628</u>	<u>26,742</u>	<u>30,628</u>	<u>26,742</u>
<b>Total Assets</b>	<b>\$ <u>915,589</u></b>	<b>\$ <u>52,452,181</u></b>	<b>\$ <u>52,579,487</u></b>	<b>\$ <u>788,283</u></b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 140,672	\$ 140,672	\$ -
Due to other funds	-	16,196,660	16,196,660	-
Due to other governments	772,449	36,026,805	36,211,527	587,727
Advance from governmental funds	<u>143,140</u>	<u>83,915</u>	<u>26,499</u>	<u>200,556</u>
<b>Total Liabilities</b>	<b>\$ <u>915,589</u></b>	<b>\$ <u>52,448,052</u></b>	<b>\$ <u>52,575,358</u></b>	<b>\$ <u>788,283</u></b>

**OTHER SCHEDULE**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

Schedule 7

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

**Shared Revenue**

**State**

Highway users tax	\$ 4,265,970
PERA rate reimbursement	44,126
Disparity reduction aid	46,504
Police aid	127,340
County program aid	1,423,654
Market value credit	1,509,769
Enhanced 911	113,571
	<u>113,571</u>

**Total Shared Revenue** **\$ 7,530,934**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$ 281,207
	<u>281,207</u>

**Payments**

**Local**

Local contributions	\$ 131,120
Payments in lieu of taxes	35,324
	<u>35,324</u>

**Total Payments** **\$ 166,444**

**Grants**

**State**

Minnesota Department/Board of	
Public Safety	\$ 56,413
Health	137,410
Employment and Economic Development	392,922
Natural Resources	131,615
Human Services	2,316,420
Veterans Affairs	10,000
Corrections	233,607
Water and Soil Resources	81,638
Pollution Control Agency	83,877
Peace Officer Standards and Training Board	8,812
	<u>8,812</u>

**Total State** **\$ 3,452,714**

**Federal**

Department of	
Agriculture	\$ 365,012
Justice	94,218
Health and Human Services	2,542,353
Homeland Security	289,109
Transportation	55,148
	<u>55,148</u>

**Total Federal** **\$ 3,345,840**

**Total State and Federal Grants** **\$ 6,798,554**

**Total Intergovernmental Revenue** **\$ 14,777,139**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Schedule 8*

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

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

- A. Our report expresses unqualified opinions on the basic financial statements of Freeborn County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Freeborn County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." We consider one of the deficiencies to be a material weakness.
- C. No instances of noncompliance material to the financial statements of Freeborn County were disclosed during the audit.
- D. Significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133." None were material weaknesses.
- E. The Auditor's Report on Compliance for the major federal award programs for Freeborn County expresses an unqualified opinion.
- F. Findings relative to a major federal award program for Freeborn County were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- |  |              |
|--|--------------|
| Temporary Assistance for Needy Families (TANF) | CFDA #93.558 |
| Child Support Program                          | CFDA #93.563 |
| Child Care Cluster                             |              |
| Child Care Development Block Grant             | CFDA #93.575 |
| Child Care Mandatory and Matching Funds        | CFDA #93.596 |
| Medical Assistance Program                     | CFDA #93.778 |

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

I. Freeborn County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

Adjustments were made to the General Fund for the following:

- increase receivables \$451,755 and deferred revenue \$191,098 for unrecorded amounts and
- increase payables \$112,708 for unrecorded items.

Adjustments were made to the Road and Bridge Special Revenue Fund for the following:

- increase payables \$10,274 for an improperly unrecorded item,
- increase due from other governments \$119,063 for additional receivables, and
- increase deferred revenues \$371,653 for unrecorded amounts.

Adjustments were made to the Social Services Special Revenue Fund for the following:

- increase due to other governments \$184,073 for additional payable,
- increase deferred revenue \$679,317 for additional items, and
- decrease receivables \$60,244.

Adjustments were made to the Ditch Special Revenue Fund for the following:

- increase payables \$39,771.

Reclassification entries were also made within:

- General Fund assets \$102,322, fund balance \$1,013,997, and revenues \$680,820;
- Road and Bridge Special Revenue Fund revenues \$448,657 and fund balance \$485,182;
- Social Services Special Revenue Fund revenues \$4,480,006 and fund balance \$1,084,767;
- Revolving Loan Special Revenue Fund fund balance \$39,125; and
- Turtle Creek Debt Service Fund fund balance \$118,605.

Proposed audit adjustments are 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 government's internal control.

We also noted that the County does not have written procedures stating the review process for the general ledger on a periodic basis.

We recommend the County establish internal procedures to ensure the financial statements are correct. We also recommend the County develop procedures relating to documentation of review and monitoring of review of the general ledger.

Client's Response:

*We will make every attempt to meet the recommendations of the State Auditor.*

07-2 Preparation of Financial Statements

Freeborn County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Freeborn County has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements and also is preparing the notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the County lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend Freeborn County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If Freeborn County still intends to have staff from the Office of the State Auditor assist in preparation then, at a minimum, the County must identify and train individuals to review, understand, and approve the County's financial statements, including notes. As an alternative, the County could hire an outside consultant to assist in preparing its basic financial statements.

Client's Response:

*We will make every attempt to meet the recommendations of the State Auditor.*

07-3 Controls Within the Auditor/Treasurer's Office Cash

The County Auditor/Treasurer has the ability to purchase, exchange, and sell investments. No other County employee reviews or monitors County investments. The County's investment policy states, "There is hereby created an investment advisory committee, consisting of the Treasurer, the Finance Director, County Administrator, one member of the County Board and one private-sector investment professional that is appointed by the County Board." It also states, ". . . and shall meet at least quarterly to determine general strategies and monitor results." The policy also states, "The County Auditor/Treasurer shall submit quarterly to the Board of Commissioners an investment report that summarizes the portfolio in terms of investment securities, characteristics,

maturities and carrying value. The report shall explain the quarter's total investment return and compare the return to budgetary expectations." The County does not have an investment advisory committee, and the Auditor/Treasurer is not submitting quarterly reports to the Board of County Commissioners.

We recommend that County officials adhere to its investment policy, calling for the establishment of an investment advisory committee and the quarterly reporting to County Commissioners of investment activities.

Client's Response:

*The investment committee is meeting per the policy.*

07-4 Segregation of Duties - Payroll

During our review of the County's payroll function, we noted those who process payroll also have the ability to change pay rates and add new employees. These duties should ideally be segregated. However, if segregation is not practical, changes to pay rates and additions of new employees should be monitored on a monthly basis by someone independent of payroll processing.

We recommend the County re-evaluate whether payroll processing staff can be segregated from staff who need to have the ability to change pay rates and add new employees. If this is not practical, someone independent of the payroll processing function should review payroll edit reports to monitor that any pay rate changes made or new employees added were authorized.

Client's Response:

*The Personnel Department is reviewing payroll runs and changes.*

ITEMS ARISING THIS YEAR

08-1 Social Services Disbursement Internal Controls

During the review of the Social Services disbursement process, we noted that the disbursement duties were not properly segregated to prevent or detect misstatements. There is no independent review of checks to the original documentation prior to being disbursed and mailed. We also noted during the walkthrough of the process that signatures of approval were not being obtained for the childcare vouchers. The County stated that these were being done electronically in the Child Care Assistance Program (CCAP). The CCAP is no longer in use and has several program issues; therefore, we were unable to determine that the social workers were approving the services. The vouchers did have the name of the social worker printed on the bottom of the preprinted voucher, but this voucher failed to include the total units and cost along with the most current social worker's name.

We recommend that all vouchers have the appropriate approvals and that the person signing is approving the cost and units of the claim. We also recommend that an employee independent of input review the output to the source documents.

Client's Response:

*The accountant pays the administrative bills. The account tech pays the client service bills. The I.T. Department sends DHS an email that the checks are done. The account tech picks up the check register. The account tech will verify that the accountant's administrative bills are on the check register. The accountant will verify that the account tech's client service bills are on the check register. After verification, the account tech will call the Treasurer's Office to release the checks.*

*Payments for CCAP childcare are issued by the State so there are no costs on the County books to audit.*

*Accounting will seek approval on all vouchers.*

08-2 Departmental Internal Accounting Controls

One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction.

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

We recommend the County Board segregate accounting duties as much as possible. When it is not feasible to segregate certain duties, Freeborn County management should be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being followed by staff.

Client's Response:

*We will make every attempt to meet the recommendations of the State Auditor.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Recorder's Department (06-1)**

The Recorder's Department was not depositing receipts in a timely manner.

**Resolution**

Deposits are being made in a timely manner.

**Prior Period Adjustment (07-1)**

A prior period adjustment was required to the January 1, 2007, fund balances of the General Fund and the Social Services Special Revenue Fund to recognize deferred revenue not previously reported.

**Resolution**

A prior period adjustment was not required for the current year.

**Controls Within the Auditor/Treasurer's Office Cash (07-3)**

Bank reconciliations were not being made in a timely manner. Likewise, interest was not being received in a timely manner.

**Resolution**

Bank reconciliations are being done, and interest is being received in a timely manner.

**New Vendors (07-5)**

Employees performing cash disbursement procedures, which include printing checks and entering disbursements into the general ledger system, also had the ability to enter new vendors into the general ledger system.

**Resolution**

Employees performing cash disbursement procedures do not have the ability to enter new vendors into the general ledger system.

**Public Health Department Controls (07-6)**

Deposits on collections were not being submitted to the County Auditor/Treasurer in a timely manner, and a credit card was opened that was not approved by the County Board.

**Resolution**

Collections are being receipted in a timely manner, and credit cards are Board approved.

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

**ITEMS ARISING THIS YEAR**

**08-3 Monitoring and Review of Case Files (CFDA #93.575/93.596, Child Care Block Grant)**

The case files for the Child Care Block Grant are not being reviewed by an employee independent of the data entry to determine that proper information is obtained for eligibility requirements, redeterminations are conducted, and information is accurately input into the state MAXIS system (prior to October 2008) or the state MEC<sup>2</sup> system (October 2008 and after) by the County financial workers. Several eligibility and program requirements should be reviewed to ensure the County is properly awarding assistance.

We recommend that Child Care Block Grant case files be reviewed on a periodic basis by an employee independent of the data entry. This employee should see that eligibility requirements are met and that accurate information is being input to the state MAXIS system (prior to October 2008) or the state MEC<sup>2</sup> system (October 2008 and after). This review should also be documented.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Dennis Roelfsema, Financial Assistance Supervisor II*

Corrective Action Planned:

*As time allows, one case per month will be reviewed for program compliance.*

Anticipated Completion Date:

*This will be an ongoing process.*

08-4 Social Services Disbursement Internal Controls (CFDA #93.575/93.596, Child Care Block Grant)

During the review of the Social Services disbursement process, which includes the Child Care Block Grant, we noted that the disbursement duties were not properly segregated to prevent or detect misstatements. There is no independent review of checks to the original documentation prior to being disbursed and mailed. We also noted during the walkthrough of the process that signatures of approval were not being obtained for the childcare vouchers. The client stated that these were being done electronically in the CCAP. The CCAP is no longer in use and has several program issues; therefore, we were unable to determine that the social workers were approving the services. The vouchers did have the name of the social worker printed on the bottom of the preprinted voucher, but this voucher failed to include the total units and cost along with the most current social worker's name.

We recommend that all vouchers have the appropriate approvals and that the person signing is approving the cost and units of the claim. We also recommend that an employee independent of input review the output to the source documents.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Alan Olson, DHS Accounting*

Corrective Action Planned:

*The accountant pays the administrative bills. The account tech pays the client service bills. The I.T. Department sends DHS an email that the checks are done. The account tech picks up the check register. The account tech will verify that the accountant's administrative bills are on the check register. The accountant will verify that the account tech's client service bills are on the check register. After verification, the account tech will call the Treasurer's Office to release the checks.*

*Payments for CCAP childcare are issued by the State so there are no costs on the County books to audit.*

*Accounting will seek approval on all vouchers.*

Anticipated Completion Date:

*Process to start January 1, 2010.*

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

08-5 Declaration Statement

While reviewing the County's disbursement claims and warrants, the declaration statement required by Minn. Stat. § 471.38 was not present. The statute requires that every person, or the person's agent, claiming payment put such claim in writing (which includes an electronic transaction record) by items. Each declaration for payment must be signed to the effect that such account, claim, or demand is just and correct and that no part of it has been paid.

We recommend the County either add the declaration statement to the back of the warrants or put the declaration statement on each claim along with the signature of claimant.

Client's Response:

*We will make every attempt to meet the recommendations of the State Auditor.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Collateral Assignments (06-1)**

The County could not provide current documentation of a perfected security interest in the pledged collateral.

**Resolution**

The County Auditor/Treasurer obtained current documentation to ensure the County has a perfected security interest for the collateral pledged from its depositories.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Disaster Recovery Plan

Freeborn County has an informal disaster recovery agreement with another county but does not have a formal disaster recovery plan. A disaster recovery plan gives assurance the County is prepared for a disaster or major computer breakdown. The County needs to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;

- a plan as to how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they will be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to off-site back-up storage facilities;
- a list of vendor contracts;
- identification of what space will be used; and
- a schedule for developing and periodically reviewing and updating the plan.

We again recommend the County develop, implement, and test a disaster recovery plan. The Board should approve the formal plan. A copy should be stored at an off-site facility and with the leader of each recovery team. We also recommend the County periodically determine if the alternative computer system is compatible with the County's system.

Client's Response:

*A Disaster Recovery Plan that encompasses the Auditor's recommendations will be explored.*

07-9

Investment Policy

While reviewing the investment policy for compliance with Governmental Accounting Standards Board (GASB) Statement 40, we noticed the policy does not address the various risks identified in GASB Statement 40.

We recommend the County update its investment policy to address the risks listed in GASB Statement 40.

Client's Response:

*We will make every attempt to meet the recommendation of the State Auditor.*

07-10 Social Services Department - Social Welfare Special Revenue Fund  
Disbursements

During the review of the disbursements made in the Social Welfare Special Revenue Fund, we noted 3 of the 25 disbursements tested did not have documentation to support the checks written for individual clients.

We recommend the Social Services Department obtain proper supporting documentation before disbursement checks are written on behalf of clients.

Client's Response:

*An invoice is not available on many Social Welfare Client account transactions. Some clients are not competent to sign a document authorizing payment approval. The social workers will send an email to their supervisor (the Mental Health Program Manager or the Social Services Administrator) for approval who will then forward the email to the Account Tech for payment. Supervisor approval and social worker approval will provide documented assurance the transaction is legitimate.*

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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

Board of County Commissioners  
Freeborn County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2008, and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Freeborn County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-2, 07-2 through 07-4, 08-1, and 08-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-2 to be a material weakness.

#### Compliance and Other Matters

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

#### Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Freeborn County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 08-5.

Also included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to Freeborn County, and they are reported for that purpose.

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 30, 2009

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REBECCA OTTO  
STATE AUDITOR

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

Board of County Commissioners  
Freeborn County

### Compliance

We have audited the compliance of Freeborn County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Freeborn County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Freeborn County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

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

#### Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in Freeborn County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-3 and 08-4 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by Freeborn County's internal control. We did not consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 30, 2009. Our audit was performed for the

purpose of forming opinions on the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 30, 2009

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

Schedule 9

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 173,615
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	186,697
Food Stamp Program Outreach Grants	10.580	<u>4,700</u>
<b>Total U.S. Department of Agriculture</b>		<b>\$ 365,012</b>
<b>U.S. Department of Justice</b>		
Passed Through Minnesota Department of Public Safety Crime Victim Assistance	16.575	<b>\$ 94,218</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	\$ 49,612
Interagency Hazardous Material Planning Grant	20.703	<u>5,536</u>
<b>Total U.S. Department of Transportation</b>		<b>\$ 55,148</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Immunization Grant	93.268	\$ 720
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	49,957
Temporary Assistance for Needy Families (TANF)	93.558	45,095
Maternal and Child Health Services Block Grant	93.994	38,698
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	14,250
Temporary Assistance for Needy Families (TANF)	93.558	443,349
Child Support Enforcement	93.563	505,290
Refugee and Entrant Assistance Grant	93.566	514
Child Care Cluster Child Care Development Block Grants	93.575	231,974
Child Care Mandatory and Matching Funds	93.596	115,758
Foster Care Title IV-E	93.658	234,602
Social Services Block Grant Title XX	93.667	224,037
Chafee Foster Care Independence Program	93.674	3,791
Children's Health Insurance Program	93.767	691
Medical Assistance Program	93.778	577,402
Community Mental Health Services Block Grant	93.958	4,440
Passed Through Mayo Foundation National Bioterrorism Hospital Preparedness	93.889	<u>46,206</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 2,536,774</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*Schedule 9*  
*(Continued)*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	\$ 6,042
Passed Through Minnesota Department of Public Safety President-Declared Disaster Assistance	97.036	231,161
Emergency Management Performance Grant	97.042	11,015
Homeland Security Grant Program	97.067	40,891
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 289,109</b>
<b>Total Federal Awards</b>		<b>\$ 3,340,261</b>

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

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

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1. Reporting Entity

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

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues in Schedule 7 are recorded when susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Under the modified accrual basis, expenditures in Schedule 9 are recorded when the liability is incurred.

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

3. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Schedule 7)	\$ 3,345,840
Foster Care Title IV-E grant received more than 60 days after year-end (CFDA #93.658)	8,320
Chafee Foster Care Independence Program grant received more than 60 days after year-end (CFDA #93.674)	811
Medical Assistance Program grant received more than 60 days after year-end (CFDA #93.778)	41,222
Promoting Safe and Stable Families grant deferred in 2007 and recognized in 2008 (CFDA #93.556)	(13,552)
Child Care Development Block grant deferred in 2007 and recognized in 2008 (CFDA #93.575)	(7,505)
Foster Care Title IV-E grant deferred in 2007 and recognized in 2008 (CFDA #93.658)	(34,389)
Chafee Foster Care Independence Program grant deferred in 2007 and recognized in 2008 (CFDA #93.674)	(447)
Refugee and Entrant Assistance grant deferred in 2007 and recognized in 2008 (CFDA #93.566)	(39)
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Expenditures per Schedule of Expenditures of Federal Awards (Schedule 9)	<u>\$ 3,340,261</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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4. Pass-Through Grant Numbers

Pass-through grant numbers were not assigned by the pass-through agencies.