

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2011**

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

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

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

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

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

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

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

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

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

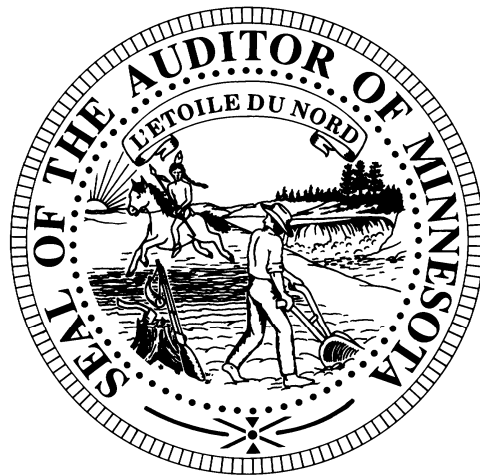
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Year Ended December 31, 2011**



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

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2011

			Term Expires
<b>Elected</b>			
<b>Commissioners</b>			
Board Member	John Roper	District 1	January 2013
Board Member	Greg Young	District 2	January 2015
Board Member	William Groskreutz, Jr.	District 3	January 2013
Board Member	Tom Loveall	District 4	January 2015
Chair	Tom Warmka	District 5	January 2013
Attorney	Troy Timmerman		January 2015
Auditor/Treasurer	John Thompson		January 2015
Judge	Douglas Richards		January 2015
County Recorder	Sheryl Asmus		January 2015
Registrar of Titles	Sheryl Asmus		January 2015
County Sheriff	Michael S. Gormley		January 2015
 <b>Appointed</b>			
Assessor	Joe Udermann		September 2015*
County Engineer	John McDonald		April 2012
Veterans Service Officer	David Hanson		Indefinite
Medical Examiner	William Lee, M.D.		Indefinite
 <b>Economic Development</b>			
Authority Board	John P. Herman	Wells	December 31, 2015
	Brad Wolf	Winnebago	December 31, 2011
	Jake Anderson	Frost	December 31, 2012
	Alice Moon	Kiester	December 31, 2013
	Colleen Gronewald	Blue Earth	December 31, 2014

\*Resigned December 2011

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Faribault County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Faribault County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Faribault County Housing and Redevelopment Authority (HRA), which represent 7 percent, 6 percent, and 99 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Faribault County HRA, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.10. to the financial statements, for 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 15, 2012, on our consideration of Faribault County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 15, 2012

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

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

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

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net assets are \$54,422,833, of which \$47,575,343 is invested in capital assets, net of related debt, and \$3,643,201 is restricted to specific purposes.
- Business-type activities' total net assets are \$1,154,081, of which \$1,063,608 is invested in capital assets, net of related debt.
- Faribault County's governmental activities' net assets increased by \$3,283,399 for the year ended December 31, 2011. The net assets of the County's discretely presented component units decreased by \$33,337.
- The net cost of governmental activities was \$6,084,234 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$9,367,633. The net cost of business-type activities was \$45,142.
- Governmental funds' fund balances increased by \$680,259.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on Exhibit 3. For governmental activities, these statements tell how these services were

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

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

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

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

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

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

## **Fund Financial Statements**

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

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

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

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

## **THE COUNTY AS A WHOLE**

The County's combined net assets increased from \$52,338,657 to \$55,576,914. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities and business-type activities.

**Table 1  
Net Assets**

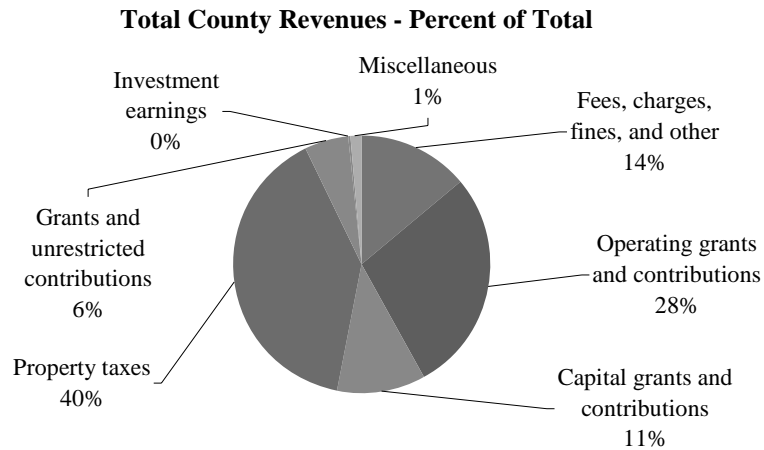
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current and other assets	\$ 13,625,375	\$ 11,841,001	\$ 105,917	\$ 105,121	\$ 13,731,292	\$ 11,946,122
Capital assets	56,508,406	54,765,856	1,416,608	1,472,721	57,925,014	56,238,577
<b>Total Assets</b>	<b>\$ 70,133,781</b>	<b>\$ 66,606,857</b>	<b>\$ 1,522,525</b>	<b>\$ 1,577,842</b>	<b>\$ 71,656,306</b>	<b>\$ 68,184,699</b>
<b>Liabilities</b>						
Long-term debt outstanding	\$ 14,164,551	\$ 14,668,273	\$ 353,000	\$ 357,000	\$ 14,517,551	\$ 15,025,273
Other liabilities	1,546,397	799,150	15,444	21,619	1,561,841	820,769
<b>Total Liabilities</b>	<b>\$ 15,710,948</b>	<b>\$ 15,467,423</b>	<b>\$ 368,444</b>	<b>\$ 378,619</b>	<b>\$ 16,079,392</b>	<b>\$ 15,846,042</b>
<b>Net Assets</b>						
Invested in capital assets, net of debt	\$ 47,575,343	\$ 45,490,736	\$ 1,063,608	\$ 1,115,721	\$ 48,638,951	\$ 46,606,457
Restricted	3,643,201	3,176,934	-	-	3,643,201	3,176,934
Unrestricted	3,204,289	2,471,764	90,473	83,502	3,294,762	2,555,266
<b>Total Net Assets</b>	<b>\$ 54,422,833</b>	<b>\$ 51,139,434</b>	<b>\$ 1,154,081</b>	<b>\$ 1,199,223</b>	<b>\$ 55,576,914</b>	<b>\$ 52,338,657</b>

Net assets of the County's governmental activities increased by 6.4 percent (\$3,283,399). 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 \$2,471,764 at December 31, 2010, to \$3,204,289 at the end of this year. Net assets of the business-type activities decreased by 3.8 percent (\$45,142).

**Table 2  
Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
Program revenues						
Fees, charges, fines, and other	\$ 2,759,086	\$ 2,109,771	\$ 32,315	\$ 23,255	\$ 2,791,401	\$ 2,133,026
Operating grants and contributions	5,567,042	5,539,807	-	-	5,567,042	5,539,807
Capital grants and contributions	2,249,489	815,062	568	-	2,250,057	815,062
General revenues						
Property taxes	7,924,503	7,566,337	-	-	7,924,503	7,566,337
Grants and restricted contributions	1,110,401	1,134,359	-	-	1,110,401	1,134,359
Unrestricted investment earnings	66,062	93,609	-	-	66,062	93,609
Miscellaneous	266,667	161,346	-	-	266,667	161,346
<b>Total Revenues</b>	<b>\$ 19,943,250</b>	<b>\$ 17,420,291</b>	<b>\$ 32,883</b>	<b>\$ 23,255</b>	<b>\$ 19,976,133</b>	<b>\$ 17,443,546</b>

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Expenses						
General government	\$ 3,485,977	\$ 3,762,386	\$ -	\$ -	\$ 3,485,977	\$ 3,762,386
Public safety	2,932,681	2,893,773	-	-	2,932,681	2,893,773
Highways and streets	5,631,517	6,009,675	-	-	5,631,517	6,009,675
Transit	256,960	181,077	-	-	256,960	181,077
Sanitation	201,058	104,630	78,025	88,505	279,083	193,135
Human services	1,814,201	1,368,896	-	-	1,814,201	1,368,896
Culture and recreation	328,278	324,636	-	-	328,278	324,636
Conservation of natural resources	1,327,695	1,065,966	-	-	1,327,695	1,065,966
Economic development	182,301	479,035	-	-	182,301	479,035
Interest	499,183	526,389	-	-	499,183	526,389
Total Expenses	\$ 16,659,851	\$ 16,716,463	\$ 78,025	\$ 88,505	\$ 16,737,876	\$ 16,804,968
Net Change	\$ 3,283,399	\$ 703,828	\$ (45,142)	\$ (65,250)	\$ 3,238,257	\$ 638,578



### Governmental Activities

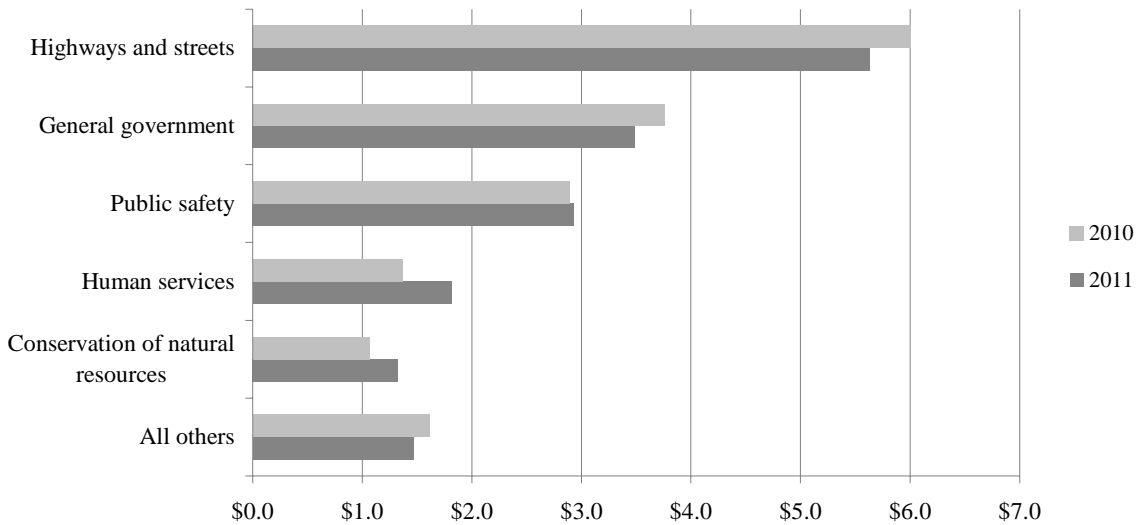
Revenues for the County’s governmental activities were \$19,943,250, while total expenses were \$16,659,851. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was \$7,924,503, because some of the cost was paid by those who directly benefited from the programs (\$2,759,086) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,816,531). Overall, the County’s governmental program revenues, including intergovernmental aid and fees for services, totaled \$10,575,617. The County paid for the remaining “public benefit” portion of governmental activities with \$9,367,633 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as interest and general entitlements.

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

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Highways and streets	\$ 5,631,517	\$ 6,009,675	\$ (1,623,526)	\$ 441,622
General government	3,485,977	3,762,386	2,904,970	3,125,019
Public safety	2,932,681	2,893,773	2,135,523	2,195,916
Human services	1,814,201	1,368,896	1,814,201	1,368,896
Conservation of natural resources	1,327,695	1,065,966	229,676	193,340
All others	1,467,780	1,615,767	623,390	927,030
<b>Total Expenses</b>	<b>\$ 16,659,851</b>	<b>\$ 16,716,463</b>	<b>\$ 6,084,234</b>	<b>\$ 8,251,823</b>

**Governmental Activities Expense  
(In Millions)**



**THE COUNTY’S FUNDS**

As the County completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit 3) reported a combined fund balance of \$7,656,861, which is above last year’s total of \$6,976,602. The General Fund showed an increase of \$1,016,214. The majority of the increase was due to positive variances in intergovernmental revenue, charges for services, and miscellaneous compared to budgeted amounts. General government and sanitation also saw significantly fewer expenditures than budgeted. The Debt Service Fund decreased by \$181,243 as funds restricted for Subsurface Sewage Treatment Systems projects were expended. The



Ditch Special Revenue Fund decreased by \$250,745 as repair and improvement costs were expended and the assessments will be levied in future years. The Public Works Special Revenue Fund increased by \$66,324, and the Human Services Special Revenue Fund increased \$29,709. The General Fund's fund balance is 53.7 percent of the total governmental funds, compared to 44.3 percent at the end of 2010.

### General Fund Budgetary Highlights

Revenues exceeded budgeted amounts by \$596,276. Positive variances in several areas including \$167,429 in boarding of prisoners, \$104,230 in insurance dividends, and \$130,687 in economic development reimbursements from a small cities development grant program that were not in the budget contributed to the variance. General government expenditures were \$260,716 below budget due to staff positions not being filled and unspent capital expenditures in anticipation of future cutbacks from the State of Minnesota. Sanitation expenditures were \$320,502 under budget as the County is keeping solid waste fees collected by assessments and distributing to Prairieland Solid Waste Board on an as-needed basis. Economic development expenditures were \$116,801 over budget due to the County acting as fiscal agent for an unbudgeted small cities development grant. These costs were covered by grants and reimbursements from the Faribault County Economic Development Authority. Public safety expenditures were \$38,945 under budget with several departments showing favorable variances. Transit expenditures were \$74,502 over budget due mainly to an unbudgeted purchase of a bus. Eighty percent of the cost of the bus is covered with a grant.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of 2011, the County had \$57,925,014 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$1,686,437, or 3.0 percent greater than last year.

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

	2011	2010
Governmental Activities		
Land	\$ 1,707,074	\$ 1,703,825
Construction in progress	710,121	1,881,818
Building and improvements	10,607,340	10,918,763
Other improvements	80,280	89,236
Machinery and equipment	2,972,845	3,469,745
Infrastructure	40,430,746	36,702,469
<b>Total</b>	<b>\$ 56,508,406</b>	<b>\$ 54,765,856</b>

	<u>2011</u>	<u>2010</u>
Business-Type Activities		
Land	\$ 27,643	\$ 27,643
Machinery and equipment	51,333	55,999
Infrastructure	<u>1,337,632</u>	<u>1,389,079</u>
Total	<u>\$ 1,416,608</u>	<u>\$ 1,472,721</u>

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

## Debt

At year-end, the County had \$11,645,000 in governmental activities bonds outstanding, versus \$12,310,000 for last year. Table 5 shows the outstanding debt.

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

	<u>2011</u>	<u>2010</u>
Governmental Activities		
Bonds payable	\$ 11,645,000	\$ 12,310,000
Capital leases	9,018	13,770
Loans payable	51,181	63,352
Other postemployment benefits liability	1,511,778	1,321,873
Compensated absences	<u>979,889</u>	<u>994,537</u>
Totals	<u>\$ 14,196,866</u>	<u>\$ 14,703,532</u>
Business-Type Activities		
Bonds payable	<u>\$ 353,000</u>	<u>\$ 357,000</u>

The County's general obligation bond rating continues to carry an A3 rating by Moody's Investor Service as rated in 2007. The state limits the amount of net debt that the County can issue to three percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this state-imposed limit. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

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

The County's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2012 are budgeted to increase 4.3 percent over 2011. A \$254,000 increase was budgeted for GASB 45 considerations, and \$80,000 was budgeted for squad cars.
- The County continues to monitor the State of Minnesota's budget deficit situation. Further unallotments and cuts in state aid are expected over the next several years and will be addressed in future budgets and possibly revised current budgets.
- Property tax levies have increased 3.0 percent for 2012.

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

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

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 1**

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

	Primary Government			Discretely Presented Component Units	
	Governmental	Business-Type	Total	Housing and	Economic
	Activities	Activities		Redevelopment	Development
	Activities	Activities	Total	Authority	Authority
<b>Assets</b>					
Cash and pooled investments	\$ 6,839,610	\$ 30,315	\$ 6,869,925	\$ 100	\$ 325,540
Petty cash and change funds	2,562	-	2,562	-	-
Cash with fiscal agent	-	-	-	37,983	-
Taxes receivable					
Prior - net	137,521	-	137,521	-	-
Special assessments receivable					
Prior	56,413	6,942	63,355	-	-
Noncurrent	2,667,186	70,755	2,737,941	-	-
Accounts receivable - net	20,764	-	20,764	-	556
Accrued interest receivable	10,499	-	10,499	-	-
Loans receivable	-	-	-	-	167,047
Due from other governments	2,352,624	-	2,352,624	-	-
Advance to other governments	45,000	-	45,000	-	-
Internal balances	4,439	(4,439)	-	-	-
Inventories	1,410,837	-	1,410,837	-	-
Prepaid items	14,824	-	14,824	-	-
Restricted assets					
Investments - temporary	-	-	-	-	14,000
Deferred charges	63,096	2,344	65,440	-	-
Capital assets					
Non-depreciable	2,417,195	27,643	2,444,838	-	-
Depreciable - net of accumulated depreciation	54,091,211	1,388,965	55,480,176	-	-
<b>Total Assets</b>	<b>\$ 70,133,781</b>	<b>\$ 1,522,525</b>	<b>\$ 71,656,306</b>	<b>\$ 38,083</b>	<b>\$ 507,143</b>



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 1  
(Continued)**

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

	Primary Government			Discretely Presented Component Units	
	Governmental	Business-Type	Total	Housing and	Economic
	Activities	Activities		Redevelopment	Development
	Activities	Activities	Total	Authority	Authority
<b>Liabilities</b>					
Accounts payable	\$ 338,102	\$ -	\$ 338,102	\$ -	\$ 8
Due to fiscal agent	-	-	-	7,291	-
Salaries payable	87,727	-	87,727	-	-
Contracts payable	442,614	-	442,614	-	-
Due to other governments	66,605	-	66,605	-	-
Accrued interest payable	196,036	15,444	211,480	-	-
Unearned revenue	415,313	-	415,313	-	-
Long-term liabilities					
Due within one year	720,167	4,000	724,167	-	-
Due in more than one year	13,444,384	349,000	13,793,384	-	-
<b>Total Liabilities</b>	<b>\$ 15,710,948</b>	<b>\$ 368,444</b>	<b>\$ 16,079,392</b>	<b>\$ 7,291</b>	<b>\$ 8</b>
<b>Net Assets</b>					
Invested in capital assets - net of related debt	\$ 47,575,343	\$ 1,063,608	\$ 48,638,951	\$ -	\$ -
Restricted for					
General government	412,721	-	412,721	-	-
Public safety	160,951	-	160,951	-	-
Highways and streets	1,629,645	-	1,629,645	-	-
Sanitation	257,034	-	257,034	-	-
Conservation of natural resources	540,099	-	540,099	-	-
Debt service	642,751	-	642,751	-	-
Housing assistance payments	-	-	-	30,792	-
Unrestricted	3,204,289	90,473	3,294,762	-	507,135
<b>Total Net Assets</b>	<b>\$ 54,422,833</b>	<b>\$ 1,154,081</b>	<b>\$ 55,576,914</b>	<b>\$ 30,792</b>	<b>\$ 507,135</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

	<b>Program Revenues</b>		
<b>Expenses</b>	<b>Fees, Charges, Fines, and Other</b>	<b>Operating Grants and Contributions</b>	
<b><u>Functions/Programs</u></b>			
<b>Primary government</b>			
<b>Governmental activities</b>			
General government	\$ 3,485,977	\$ 541,829	\$ 39,178
Public safety	2,932,681	521,533	275,625
Highways and streets	5,631,517	240,378	4,814,269
Transit	256,960	29,737	135,387
Sanitation	201,058	464,766	-
Human services	1,814,201	-	-
Culture and recreation	328,278	34,540	-
Conservation of natural resources	1,327,695	926,303	171,716
Economic development	182,301	-	130,867
Interest	499,183	-	-
<b>Total governmental activities</b>	<b>\$ 16,659,851</b>	<b>\$ 2,759,086</b>	<b>\$ 5,567,042</b>
<b>Business-type activities</b>			
Huntley Sewer System	78,025	32,315	-
<b>Total Primary Government</b>	<b>\$ 16,737,876</b>	<b>\$ 2,791,401</b>	<b>\$ 5,567,042</b>
<b>Component units</b>			
Housing and Redevelopment Authority	\$ 317,163	\$ -	\$ 303,936
Economic Development Authority	23,354	2,949	-
<b>Total Component Units</b>	<b>\$ 340,517</b>	<b>\$ 2,949</b>	<b>\$ 303,936</b>

**General Revenues**

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

**Total general revenues**

**Change in net assets**

**Net Assets - January 1**

**Net Assets - December 31**

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Assets					
Capital Grants and Contributions	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
\$ -	\$ (2,904,970)	\$ -	\$ (2,904,970)		
-	(2,135,523)	-	(2,135,523)		
2,200,396	1,623,526	-	1,623,526		
49,093	(42,743)	-	(42,743)		
-	263,708	-	263,708		
-	(1,814,201)	-	(1,814,201)		
-	(293,738)	-	(293,738)		
-	(229,676)	-	(229,676)		
-	(51,434)	-	(51,434)		
-	(499,183)	-	(499,183)		
<b>\$ 2,249,489</b>	<b>\$ (6,084,234)</b>	<b>\$ -</b>	<b>\$ (6,084,234)</b>		
568	-	(45,142)	(45,142)		
<b>\$ 2,250,057</b>	<b>\$ (6,084,234)</b>	<b>\$ (45,142)</b>	<b>\$ (6,129,376)</b>		
\$ -				\$ (13,227)	\$ -
-				-	(20,405)
<b>\$ -</b>				<b>\$ (13,227)</b>	<b>\$ (20,405)</b>
	\$ 7,924,503	\$ -	\$ 7,924,503	\$ -	\$ -
	8,055	-	8,055	-	-
	34,074	-	34,074	-	-
	1,110,401	-	1,110,401	-	-
	66,062	-	66,062	49	246
	224,538	-	224,538	-	-
	<b>\$ 9,367,633</b>	<b>\$ -</b>	<b>\$ 9,367,633</b>	<b>\$ 49</b>	<b>\$ 246</b>
	\$ 3,283,399	\$ (45,142)	\$ 3,238,257	\$ (13,178)	\$ (20,159)
	<b>51,139,434</b>	<b>1,199,223</b>	<b>52,338,657</b>	<b>43,970</b>	<b>527,294</b>
	<b>\$ 54,422,833</b>	<b>\$ 1,154,081</b>	<b>\$ 55,576,914</b>	<b>\$ 30,792</b>	<b>\$ 507,135</b>

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**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

	<b>General</b>	<b>Public Works</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 3,075,976	\$ 405,331
Petty cash and change funds	2,265	297
Taxes receivable		
Prior	79,141	17,471
Special assessments		
Prior	54,220	-
Noncurrent	1,707,735	-
Accounts receivable	18,689	-
Accrued interest receivable	10,499	-
Due from other funds	4,439	6,208
Due from other governments	125,841	2,170,616
Prepaid expense	3,519	11,305
Advance to other funds	1,230,500	-
Advance to other governments	45,000	-
Inventories	-	1,410,837
	<b>\$ 6,357,824</b>	<b>\$ 4,022,065</b>
<b>Total Assets</b>	<b>\$ 6,357,824</b>	<b>\$ 4,022,065</b>



**EXHIBIT 3**

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 2,032,834	\$ 102,898	\$ 1,222,571	\$ 6,839,610
-	-	-	2,562
29,503	-	11,406	137,521
-	2,193	-	56,413
-	959,451	-	2,667,186
-	2,075	-	20,764
-	-	-	10,499
-	9,467	-	20,114
-	56,167	-	2,352,624
-	-	-	14,824
-	-	-	1,230,500
-	-	-	45,000
-	-	-	1,410,837
<u>\$ 2,062,337</u>	<u>\$ 1,132,251</u>	<u>\$ 1,233,977</u>	<u>\$ 14,808,454</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

	<b>General</b>	<b>Public Works</b>
<b><u>Liabilities and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 82,777	\$ 152,447
Salaries payable	64,663	23,064
Contracts payable	211,008	231,606
Due to other funds	5,679	9,467
Due to other governments	14,644	-
Deferred revenue - unavailable	1,458,696	2,092,736
Deferred revenue - unearned	412,182	888
Advance from other funds	-	-
	<b>\$ 2,249,649</b>	<b>\$ 2,510,208</b>
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 1,410,837
Prepaid items	3,519	11,305
Advances to other funds	1,230,500	-
Advances to other governments	45,000	-
Restricted for		
Debt service	-	-
Law library	20,661	-
Recorder's technology equipment	207,980	-
Recorder's compliance	157,275	-
Individual Sewage Treatment System (ISTS) loans	-	-
E-911	137,032	-
Drug abuse resistance education (DARE)	23,919	-
Ditch maintenance and repairs	-	-
Helping America Vote Act (HAVA)	26,805	-
Solid waste projects	257,034	-
ISTS repayments	247,250	-
County state-aid highway system	-	124,203
Committed for		
Human services	-	-
Assigned to		
Environmental trust	20,000	-
Unassigned	1,731,200	(34,488)
	<b>\$ 4,108,175</b>	<b>\$ 1,511,857</b>
<b>Total Fund Balances</b>	<b>\$ 4,108,175</b>	<b>\$ 1,511,857</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,357,824</b>	<b>\$ 4,022,065</b>

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

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ -	\$ 102,878	\$ -	\$ 338,102
-	-	-	87,727
-	-	-	442,614
-	529	-	15,675
-	51,961	-	66,605
23,942	970,539	9,144	4,555,057
1,591	-	652	415,313
-	1,230,500	-	1,230,500
<u>\$ 25,533</u>	<u>\$ 2,356,407</u>	<u>\$ 9,796</u>	<u>\$ 7,151,593</u>
\$ -	\$ -	\$ -	\$ 1,410,837
-	-	-	14,824
-	-	-	1,230,500
-	-	-	45,000
-	-	510,336	510,336
-	-	-	20,661
-	-	-	207,980
-	-	-	157,275
-	-	713,845	713,845
-	-	-	137,032
-	-	-	23,919
-	453,931	-	453,931
-	-	-	26,805
-	-	-	257,034
-	-	-	247,250
-	-	-	124,203
2,036,804	-	-	2,036,804
-	-	-	20,000
-	(1,678,087)	-	18,625
<u>\$ 2,036,804</u>	<u>\$ (1,224,156)</u>	<u>\$ 1,224,181</u>	<u>\$ 7,656,861</u>
<u>\$ 2,062,337</u>	<u>\$ 1,132,251</u>	<u>\$ 1,233,977</u>	<u>\$ 14,808,454</u>

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS  
TO NET ASSETS - GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>7,656,861</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		56,508,406
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,555,057
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (11,075,000)	
Special assessment bonds	(570,000)	
Loans payable	(51,181)	
Bond discount	32,315	
Net other postemployment benefits liability	(1,511,778)	
Deferred debt issuance charges	63,096	
Accrued interest payable	(196,036)	
Compensated absences payable	(979,889)	
Capital leases payable	(9,018)	(14,297,491)
<b>Net Assets of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>54,422,833</u></b>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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

	<b>General</b>	<b>Public Works</b>
<b>Revenues</b>		
Taxes	\$ 4,734,848	\$ 905,642
Special assessments	770,852	-
Licenses and permits	3,400	-
Intergovernmental	1,344,440	6,901,899
Charges for services	1,095,532	248,297
Fines and forfeits	28,014	-
Gifts and contributions	6,769	-
Investment earnings	65,058	-
Miscellaneous	273,723	57,961
	<b>\$ 8,322,636</b>	<b>\$ 8,113,799</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 2,888,686	\$ -
Public safety	2,831,275	-
Highways and streets	-	7,954,292
Transit	257,206	-
Human services	-	-
Sanitation	201,058	-
Culture and recreation	185,601	142,677
Conservation of natural resources	584,575	-
Economic development	182,301	-
<b>Debt service</b>		
Principal	16,923	-
Interest	1,836	-
Administrative (fiscal) charges	-	-
	<b>\$ 7,149,461</b>	<b>\$ 8,096,969</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,173,175</b>	<b>\$ 16,830</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 208,739	\$ -
Transfers out	(365,700)	-
	<b>\$ (156,961)</b>	<b>\$ -</b>
<b>Change in Fund Balances</b>	<b>\$ 1,016,214</b>	<b>\$ 16,830</b>
<b>Fund Balances - January 1</b>	<b>3,091,961</b>	<b>1,445,533</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>49,494</b>
	<b>\$ 4,108,175</b>	<b>\$ 1,511,857</b>
<b>Fund Balances - December 31</b>	<b>\$ 4,108,175</b>	<b>\$ 1,511,857</b>

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

**EXHIBIT 5**

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 1,617,089	\$ -	\$ 662,280	\$ 7,919,859
-	435,490	-	1,206,342
-	-	-	3,400
226,821	69,884	92,936	8,635,980
-	-	-	1,343,829
-	-	-	28,014
-	-	-	6,769
-	-	-	65,058
-	48,290	-	379,974
<b><u>\$ 1,843,910</u></b>	<b><u>\$ 553,664</u></b>	<b><u>\$ 755,216</u></b>	<b><u>\$ 19,589,225</u></b>
\$ -	\$ -	\$ -	\$ 2,888,686
-	-	-	2,831,275
-	-	-	7,954,292
-	-	-	257,206
1,814,201	-	-	1,814,201
-	-	-	201,058
-	-	-	328,278
-	735,583	-	1,320,158
-	-	-	182,301
-	45,000	620,000	681,923
-	23,395	471,508	496,739
-	431	1,912	2,343
<b><u>\$ 1,814,201</u></b>	<b><u>\$ 804,409</u></b>	<b><u>\$ 1,093,420</u></b>	<b><u>\$ 18,958,460</u></b>
<b><u>\$ 29,709</u></b>	<b><u>\$ (250,745)</u></b>	<b><u>\$ (338,204)</u></b>	<b><u>\$ 630,765</u></b>
\$ -	\$ -	\$ 365,700	\$ 574,439
-	-	(208,739)	(574,439)
<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 156,961</u></b>	<b><u>\$ -</u></b>
\$ 29,709	\$ (250,745)	\$ (181,243)	\$ 630,765
2,007,095	(973,411)	1,405,424	6,976,602
-	-	-	49,494
<b><u>\$ 2,036,804</u></b>	<b><u>\$ (1,224,156)</u></b>	<b><u>\$ 1,224,181</u></b>	<b><u>\$ 7,656,861</u></b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 6*

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 630,765**

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

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

Deferred revenue - December 31	\$ 4,555,057	
Deferred revenue - January 1	(4,201,032)	354,025

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	\$ 5,021,715	
Net book value of assets sold	(36,138)	
Current year depreciation	(3,243,027)	1,742,550

The repayment of debt consumes current financial resources but has no 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.

Principal repayments		
General obligation bonds	\$ 620,000	
Special assessment bonds	45,000	
Capital lease payable	4,752	
Loans payable	12,171	681,923
Amortization of discount on bonds and issuance costs		(8,587)

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	\$ 8,486	
Change in compensated absences	14,648	
Change in other postemployment benefits liabilities	(189,905)	
Change in inventories	49,494	(117,277)

**Change in Net Assets of Governmental Activities (Exhibit 2) \$ 3,283,399**



**PROPRIETARY FUND**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FUND NET ASSETS  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
DECEMBER 31, 2011**

	<b>Business-Type Activities</b>
<b><u>Assets</u></b>	
<b>Current assets</b>	
Cash and pooled investments	\$ 30,315
Special assessments	
Prior	6,942
Noncurrent	70,755
<b>Total current assets</b>	<b>\$ 108,012</b>
<b>Noncurrent assets</b>	
Deferred charges	\$ 2,344
Capital assets	
Nondepreciable	27,643
Depreciable - net of accumulated depreciation	1,388,965
<b>Total noncurrent assets</b>	<b>\$ 1,418,952</b>
<b>Total Assets</b>	<b>\$ 1,526,964</b>
<b><u>Liabilities</u></b>	
<b>Current liabilities</b>	
Due to other funds	\$ 4,439
Accrued interest payable	15,444
General obligation bonds payable - current	4,000
<b>Total current liabilities</b>	<b>\$ 23,883</b>
<b>Noncurrent liabilities</b>	
General obligation bonds payable - long-term	349,000
<b>Total Liabilities</b>	<b>\$ 372,883</b>
<b><u>Net Assets</u></b>	
Invested in capital assets - net of related debt	\$ 1,063,608
Unrestricted	90,473
<b>Total Net Assets</b>	<b>\$ 1,154,081</b>

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Business-Type Activities</b>
<b>Operating Revenues</b>	
Charges for services	<b>\$ 16,595</b>
<b>Operating Expenses</b>	
Professional services	\$ 1,967
Miscellaneous	4,439
Depreciation	56,113
<b>Total Operating Expenses</b>	<b>\$ 62,519</b>
<b>Operating Income (Loss)</b>	<b>\$ (45,924)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Special assessments	\$ 15,720
Interest expense	(15,444)
Amortization of deferred charges	(62)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 214</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>\$ (45,710)</b>
<b>Capital contributions</b>	
Capital contributions - federal	568
<b>Change in Net Assets</b>	<b>\$ (45,142)</b>
<b>Net Assets - January 1</b>	<b>1,199,223</b>
<b>Net Assets - December 31</b>	<b>\$ 1,154,081</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF CASH FLOWS  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Business-Type Activities</b>
<b>Cash Flows from Operating Activities</b>	
Payments from customers	\$ 33,620
Payments to suppliers	(1,967)
	<b>\$ 31,653</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Capital contribution - state grant	\$ 3,000
Capital contribution - federal grant	3,568
Special assessments	16,726
Principal paid on long-term debt	(4,000)
Interest paid on long-term debt	(15,619)
Construction expenses	(6,000)
	<b>\$ (2,325)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 29,328</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>987</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 30,315</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
<b>Operating income (loss)</b>	<b>\$ (45,924)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 56,113
(Increase) decrease in due from other governments	17,025
Increase (decrease) in due to other funds	4,439
	<b>\$ 77,577</b>
<b>Total adjustments</b>	<b>\$ 77,577</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 31,653</b>

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**FIDUCIARY FUNDS**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 10*

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

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 207,466</u>
<b><u>Liabilities</u></b>	
Due to other governments	<u>\$ 207,466</u>

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

Discretely Presented Component Units

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Faribault County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints the Board members and must approve debt.	Faribault County HRA Minnesota Valley Action Council 464 Raintree Road Mankato, Minnesota 56001

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

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

The County considers all governmental funds to be major.

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund type:

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2011, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings in the General Fund for 2011 were \$65,058.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Cash and Cash Equivalents

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

3. Receivables and Payables

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

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

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

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

4. Inventories

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

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

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

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

6. Compensated Absences

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

9. Classification of Net Assets

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Net Assets (Continued)

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

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

10. Classification of Fund Balances

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

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

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

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

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Classification of Fund Balances (Continued)

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

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

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

11. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance as of December 31, 2011, as follows:

Fund Balance - modified accrual basis	\$ (1,224,156)
Bonds payable	(570,000)
Deferred revenue – unavailable	<u>970,539</u>
Net Assets - full accrual basis	<u><u>\$ (823,617)</u></u>

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

110 ditches with positive net asset balances	\$ 540,099
78 ditches with deficit net asset balances	<u>(1,363,716)</u>
Net Assets - full accrual basis	<u><u>\$ (823,617)</u></u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Governmental activities	
Cash and pooled investments	\$ 6,839,610
Petty cash and change funds	2,562
Business-type activities	
Cash and pooled investments	30,315
Component unit - EDA	
Cash and pooled investments	325,540
Restricted temporary investment	14,000
Fiduciary funds	
Cash and pooled investments	<u>207,466</u>
 Total Cash and Investments	 <u>\$ 7,419,493</u>

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

a. Deposits

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2011, the County's deposits were not exposed to custodial credit risk.

b. Investments

Interest Rate Risk

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

	Maturity Dates	
	0 - 1 Year	Over 1 Year
Deposits	\$ 6,117,002	\$ -
Petty cash	2,562	-
MAGIC Fund	579	-
Federal Home Loan Bank (1)	-	250,000
Federal Home Loan Mortgage Company (1)	-	100,000
Federal National Mortgage Association (1)	-	949,350
	\$ 6,120,143	\$ 1,299,350
Total Cash and Investments		

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



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County's investment policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2011, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

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

Issuer		
Federal Home Loan Bank	\$	250,000
Federal Home Loan Mortgage Company		100,000
Federal National Mortgage Association		949,350

2. Receivables

Receivables as of December 31, 2011, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - prior	\$ 137,521	\$ -
Special assessments - prior	56,413	-
Special assessments - noncurrent	2,667,186	1,612,949
Accounts	20,764	-
Accrued interest	10,499	-
Due from other governments	2,352,624	-
Advance to other governments	45,000	-
Total Governmental Activities	\$ 5,290,007	\$ 1,612,949

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Special assessments		
Prior	\$ 6,942	\$ -
Noncurrent	70,755	55,869
Total Business-Type Activities	\$ 77,697	\$ 55,869

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,703,825	\$ 3,249	\$ -	\$ 1,707,074
Construction in progress	1,881,818	619,422	1,791,119	710,121
Total capital assets not depreciated	\$ 3,585,643	\$ 622,671	\$ 1,791,119	\$ 2,417,195
Capital assets depreciated				
Buildings and improvements	\$ 13,454,264	\$ -	\$ -	\$ 13,454,264
Other improvements	161,597	-	-	161,597
Machinery and equipment	7,913,061	79,323	214,079	7,778,305
Infrastructure	72,858,402	6,110,840	-	78,969,242
Total capital assets depreciated	\$ 94,387,324	\$ 6,190,163	\$ 214,079	\$ 100,363,408
Less: accumulated depreciation for				
Buildings and improvements	\$ 2,535,501	\$ 311,423	\$ -	\$ 2,846,924
Other improvements	72,361	8,956	-	81,317
Machinery and equipment	4,443,316	540,085	177,941	4,805,460
Infrastructure	36,155,933	2,382,563	-	38,538,496
Total accumulated depreciation	\$ 43,207,111	\$ 3,243,027	\$ 177,941	\$ 46,272,197
Total capital assets depreciated, net	\$ 51,180,213	\$ 2,947,136	\$ 36,138	\$ 54,091,211
Capital Assets, Net	\$ 54,765,856	\$ 3,569,807	\$ 1,827,257	\$ 56,508,406

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 27,643	\$ -	\$ -	\$ 27,643
Capital assets depreciated				
Machinery and equipment	\$ 70,000	\$ -	\$ -	\$ 70,000
Infrastructure	1,543,420	-	-	1,543,420
Total capital assets depreciated	\$ 1,613,420	\$ -	\$ -	\$ 1,613,420
Less: accumulated depreciation for				
Machinery and equipment	\$ 14,001	\$ 4,666	\$ -	\$ 18,667
Infrastructure	154,341	51,447	-	205,788
Total accumulated depreciation	\$ 168,342	\$ 56,113	\$ -	\$ 224,455
Total capital assets depreciated, net	\$ 1,445,078	\$ (56,113)	\$ -	\$ 1,388,965
Capital Assets, Net	<u>\$ 1,472,721</u>	<u>\$ (56,113)</u>	<u>\$ -</u>	<u>\$ 1,416,608</u>

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

Governmental Activities	
General government	\$ 462,282
Public safety	115,233
Highways and streets, including depreciation of infrastructure assets	2,660,553
Conservation of natural resources	<u>4,959</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,243,027</u>
Business-Type Activities	
Huntley Sewer District	<u>\$ 56,113</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Huntley Sewer District	\$ 4,439	Charges for services
Public Works	General	5,679	Fuel and maintenance
	Ditch	529	Ditch repairs
Ditch	Public Works	<u>9,467</u>	Ditch benefits to roads
		<u>\$ 20,114</u>	

These interfund receivables and payables are expected to be paid within one year of December 31, 2011.

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 1,230,500</u>

The advance from the General Fund to the Ditch Special Revenue Fund was to cover individual negative ditch balances. This advance is not expected to be eliminated within one year of December 31, 2011.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of a transfer from the General Fund to the Debt Service Fund of \$365,700 for debt service payments and from the Debt Service Fund to the General Fund of \$208,739 to transfer bond proceeds to reimburse the General Fund for Individual Sewage Treatment Systems loans issued.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Plan Description

The County provides post-retirement health care benefits for certain retirees and their dependents. For employees and officers employed before January 1, 2002, the County pays 100 percent of the single premium and 50 percent of the family premium for life. The County's contribution depends on which bargaining unit the employee was a member of and the plan chosen at retirement. As of year-end, the County has 34 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2011, the County expended \$177,516 for these benefits.

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis. As of January 1, 2011, there were approximately 37 retirees receiving health benefits from the County's health plan. The implicit rate subsidy amount was determined by an actuarial study to be \$8,972 for 2011.

Annual OPEB Cost and Net OPEB Obligation

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	399,962
Interest on net OPEB obligation		52,875
Adjustment to ARC		(76,444)
		(76,444)
Annual OPEB cost (expense)	\$	376,393
Contributions made		(186,488)
		(186,488)
Increase in net OPEB obligation	\$	189,905
Net OPEB Obligation - January 1		1,321,873
		1,321,873
Net OPEB Obligation - December 31	\$	1,511,778

The County's annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligation for the years ended December 31, 2009, 2010, and 2011, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2009	\$ 592,674	\$ 159,409	26.9%	\$ 860,635
December 31, 2010	610,003	148,765	24.4	1,321,873
December 31, 2011	376,393	186,488	49.5	1,511,778

Funded Status and Funding Progress

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Faribault County's implicit rate of return on the General Fund. The annual health care cost trend is 9.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a level dollar amount. The remaining amortization period at December 31, 2011, was 26 years.



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

The County has entered into two capital lease agreements as lessee for financing the acquisition of copiers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases consist of the following at December 31, 2011:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2010 extension copier	2014	Monthly	\$ 233	\$ 9,990	\$ 5,692
2008 general copier	2013	Monthly	216	11,407	<u>3,326</u>
Total Leases					<u>\$ 9,018</u>

Lease payments are made from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2011, were as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2012	\$ 5,382
2013	3,660
2014	<u>467</u>
Total lease payments	\$ 9,509
Less: amount representing interest	<u>(491)</u>
Present Value of Minimum Lease Payments	<u>\$ 9,018</u>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Governmental Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
General obligation bonds					
2001 G.O. Bonds Taxable Refunding Waste Disposal Bonds	2016	\$25,000 - \$30,000	6.50 - 6.70	\$ 300,000	\$ 130,000
2001 G.O. Solid Waste Revenue Refunding Bonds	2012	\$35,000	6.40	285,000	35,000
2007 G.O. Jail Bonds	2028	\$365,000 - \$745,000	3.75 - 4.25	10,000,000	8,995,000
2007 G.O. Waste Disposal Bonds	2018	\$70,000 - \$95,000	5.30 - 6.00	750,000	565,000
2009 G.O. Waste Disposal Bonds	2020	\$150,000	1.85 - 4.70	<u>1,500,000</u>	<u>1,350,000</u>
Total general obligation bonds				<u>\$ 12,835,000</u>	\$ 11,075,000
Less: unamortized discount					<u>(27,222)</u>
Total General Obligation Bonds, Net					<u>\$ 11,047,778</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities

Bonds Payable (Continued)

<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, 2011</u>
General obligation special assessment bonds					
1999 G.O. Ditch Bonds	2014	\$15,000	4.95	\$ 280,000	\$ 45,000
2003 G.O. Ditch Bonds	2024	\$30,000 - \$50,000	3.10 - 4.25	<u>725,000</u>	<u>525,000</u>
Total general obligation special assessment Bonds				<u>\$ 1,005,000</u>	\$ 570,000
Less: unamortized discount					<u>(5,093)</u>
Total General Obligation Special Assessment Bonds, Net					<u>\$ 564,907</u>

Loans Payable

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installments Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
2005 Minnesota Pollution Control Agency loan	2015	\$ 13,378	2.00	<u>\$ 120,704</u>	<u>\$ 51,181</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Business-Type Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2011</u>
2009 G.O. Revenue Bonds	2049	\$4,000 - \$18,000	4.38	\$ 360,000	\$ 353,000

4. Debt Service Requirements

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

Governmental Activities

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 645,000	\$ 448,576	\$ 45,000	\$ 21,745
2013	625,000	423,483	50,000	19,995
2014	645,000	398,684	50,000	18,106
2015	670,000	372,085	35,000	16,157
2016	695,000	343,742	35,000	14,949
2017 - 2021	3,250,000	1,280,733	210,000	52,075
2022 - 2026	3,090,000	644,905	145,000	9,422
2027 - 2028	1,455,000	62,581	-	-
Total	<u>\$ 11,075,000</u>	<u>\$ 3,974,789</u>	<u>\$ 570,000</u>	<u>\$ 152,449</u>

<u>Year Ending December 31</u>	<u>Loan Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 12,416	\$ 962
2013	12,665	712
2014	12,920	458
2015	13,180	198
Total	<u>\$ 51,181</u>	<u>\$ 2,330</u>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2012	\$ 4,000	\$ 15,444
2013	4,000	15,269
2014	4,000	15,094
2015	4,000	14,919
2016	4,000	14,744
2017 - 2021	26,000	70,656
2022 - 2026	32,000	64,487
2027 - 2031	39,000	56,962
2032 - 2036	49,000	47,556
2037 - 2041	60,000	35,919
2042 - 2046	74,000	21,525
2047 - 2049	53,000	4,681
Total	\$ 353,000	\$ 377,256

5. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 11,695,000	\$ -	\$ 620,000	\$ 11,075,000	\$ 645,000
General obligation special assessment bonds	615,000	-	45,000	570,000	45,000
Less: deferred amounts for issuance discounts	(35,259)	-	(2,944)	(32,315)	-
Total bonds payable	\$ 12,274,741	\$ -	\$ 662,056	\$ 11,612,685	\$ 690,000
Capital leases	13,770	-	4,752	9,018	5,013
Loans payable	63,352	-	12,171	51,181	12,416
Net OPEB payable	1,321,873	376,393	186,488	1,511,778	-
Compensated absences	994,537	-	14,648	979,889	12,738
Long-Term Liabilities	\$ 14,668,273	\$ 376,393	\$ 880,115	\$ 14,164,551	\$ 720,167

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 357,000	\$ -	\$ 4,000	\$ 353,000	\$ 4,000

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

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

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

Funding Policy

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

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

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



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

	<u>2011</u>		<u>2010</u>		<u>2009</u>
General Employees Retirement Fund	\$ 175,747		\$ 167,031		\$ 164,940
Public Employees Police and Fire Fund	77,280		76,095		76,203
Public Employees Correctional Fund	57,402		54,322		50,814

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

B. Defined Contribution Plan

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

B. Defined Contribution Plan (Continued)

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 8,741	\$ 8,741
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

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

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

B. Joint Ventures

Human Services of Faribault and Martin Counties

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

Complete financial information can be obtained from:

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Prairieland Solid Waste Board (Prairieland)

Faribault and Martin Counties entered into a joint venture in 1990 to build and operate a solid waste composting plant - Prairieland. Prairieland is composed of ten members, the County Commissioners from both Faribault and Martin Counties. Faribault County's proportionate interest in Prairieland is 43 percent. Prairieland reported a net loss of \$494,480 in 2011.

Bonds issued to finance construction of the facility were paid off in 2010. Prairieland continues to place a special assessment on homeowners to offset net losses, equipment depreciation, and future plans. Fees not sent to Prairieland will be kept in the General Fund of the County and are restricted for solid waste programs approved by the County Board.

Separate financial information can be obtained from:

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

C. Jointly-Governed Organizations

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

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. During the year, the County made \$7,446 in contributions to the GBERBA.

The Rural Minnesota Energy Board was established in 2005 to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. During 2011, Faribault County contributed \$2,500 to the Board made payable to the Southwest Regional Development Commission.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Rural Minnesota River Board was established to promote orderly water quality improvement and management of the Minnesota River watersheds. During the year, the County paid \$1,663 to the Board.

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

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

The South Central Service Cooperative establishes, procures, and administers group employee benefits and other financial and risk management services that embody the concept of pooling risk and the purpose of stabilizing and/or reducing costs. During the year, the County made no payments to the Cooperative.

The South Central Community Based Initiative was formed with nine other counties to provide mental health services to residents. Contributions to the group are made by the Human Services of Faribault and Martin Counties. The County made no payments to the Community Based Initiative in 2011.

The South Central Minnesota Regional Radio Board was formed for the planning, financing, development, design, construction, operation, management, control, and administration of the regional enhancement to the Statewide Public Safety Radio and Communications System for the Allied Radio Matrix for Emergency Response (ARMER) in accordance with the Statewide Public Safety Radio Plan and the operational standards of the Statewide Radio Board. The Regional Radio Board consists of one County Commissioner or City Council member of member organizations. The County paid \$808 in Radio Board dues in 2011.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The South Central Workforce Council Joint Powers Board is comprised of one representative from each of the participating County Boards. The Board is the local governmental body that appoints the Workforce Council members and is a full partner with them in overseeing area employment and training programs. The County made no payments to the Board in 2011.

The Southeast Minnesota Homeland Security/Emergency Management Joint Powers Board was established to provide for regional coordination of planning, training, purchasing equipment, and allocating emergency services and staff in the event of a disaster within the region. There are 16 counties participating, with one member from each entity being represented on the Joint Powers Board. The County made no payments to the Board in 2011.

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

D. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the program. The County has met those responsibilities for 2011.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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7. Faribault County Economic Development Authority (EDA)

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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

B. Detailed Notes

Assets

Receivables as of December 31, 2011, consist of \$167,047 in loans made to individuals and businesses for development.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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8. Housing and Redevelopment Authority (HRA)

Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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



**REQUIRED SUPPLEMENTARY INFORMATION**

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**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-1*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,701,711	\$ 4,701,711	\$ 4,734,848	\$ 33,137
Special assessments	690,377	690,377	770,852	80,475
Licenses and permits	1,220	1,220	3,400	2,180
Intergovernmental	1,160,842	1,160,842	1,344,440	183,598
Charges for services	912,466	912,466	1,095,532	183,066
Fines and forfeits	15,000	15,000	28,014	13,014
Gifts and contributions	-	-	6,769	6,769
Investment earnings	70,000	70,000	65,058	(4,942)
Miscellaneous	174,744	174,744	273,723	98,979
<b>Total Revenues</b>	<b>\$ 7,726,360</b>	<b>\$ 7,726,360</b>	<b>\$ 8,322,636</b>	<b>\$ 596,276</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 260,170	\$ 260,170	\$ 267,101	\$ (6,931)
Courts	38,925	38,925	38,681	244
County auditor/treasurer	447,312	447,312	388,480	58,832
Motor vehicle/license bureau	142,010	142,010	142,673	(663)
County assessor	269,480	269,480	265,040	4,440
Elections	10,000	10,000	14,797	(4,797)
Data processing	132,000	132,000	114,646	17,354
Central administration	135,753	135,753	133,428	2,325
Machine room	10,500	10,500	4,793	5,707
Attorney	188,299	188,299	202,390	(14,091)
Law library	12,000	12,000	16,824	(4,824)
Recorder	255,231	255,231	470,845	(215,614)
Vital statistics	19,605	19,605	1,069	18,536
Planning and zoning	95,070	95,070	105,187	(10,117)
Buildings and plant	434,489	434,489	222,804	211,685
Veterans service officer	152,056	152,056	152,087	(31)
Other general government	546,502	546,502	347,841	198,661
<b>Total general government</b>	<b>\$ 3,149,402</b>	<b>\$ 3,149,402</b>	<b>\$ 2,888,686</b>	<b>\$ 260,716</b>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,124,240	\$ 1,124,240	\$ 1,041,393	\$ 82,847
Public safety grants	3,000	3,000	6,754	(3,754)
Task force	8,000	8,000	6,204	1,796
Boat and water safety	1,000	1,000	3,341	(2,341)
County jail	1,246,780	1,246,780	1,325,004	(78,224)
Sentence to serve	57,300	57,300	68,516	(11,216)
Fraud investigator	71,320	71,320	79,709	(8,389)
Animal control	4,000	4,000	2,301	1,699
Probation and parole	193,910	193,910	168,766	25,144
Sheriff's contingency	1,000	1,000	-	1,000
MRCI reimbursement	30,000	30,000	28,687	1,313
Emergency management	29,670	29,670	28,473	1,197
Enhanced 911	91,000	91,000	48,272	42,728
Radio project	-	-	16,231	(16,231)
Medical examiner	9,000	9,000	6,490	2,510
DARE	-	-	1,134	(1,134)
<b>Total public safety</b>	<b>\$ 2,870,220</b>	<b>\$ 2,870,220</b>	<b>\$ 2,831,275</b>	<b>\$ 38,945</b>
<b>Transit</b>				
Transit	<b>\$ 182,704</b>	<b>\$ 182,704</b>	<b>\$ 257,206</b>	<b>\$ (74,502)</b>
<b>Sanitation</b>				
Recycling/education	\$ 465,210	\$ 465,210	\$ 157,597	\$ 307,613
SCORE funds	55,900	55,900	43,461	12,439
<b>Total sanitation</b>	<b>\$ 521,110</b>	<b>\$ 521,110</b>	<b>\$ 201,058</b>	<b>\$ 320,052</b>
<b>Culture and recreation</b>				
Historical society	\$ 11,200	\$ 11,200	\$ 10,000	\$ 1,200
County library	181,649	181,649	175,601	6,048
Culture and celebration	825	825	-	825
<b>Total culture and recreation</b>	<b>\$ 193,674</b>	<b>\$ 193,674</b>	<b>\$ 185,601</b>	<b>\$ 8,073</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-1  
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 111,028	\$ 111,028	\$ 99,326	\$ 11,702
Soil conservation	54,000	54,000	56,000	(2,000)
County agricultural society	18,000	18,000	17,000	1,000
Water planning	83,741	83,741	129,824	(46,083)
Drainage/septic inspection	97,904	97,904	73,685	24,219
Septic loan program	300,000	300,000	208,740	91,260
<b>Total conservation of natural resources</b>	<b>\$ 664,673</b>	<b>\$ 664,673</b>	<b>\$ 584,575</b>	<b>\$ 80,098</b>
<b>Economic development</b>				
Community development	\$ 15,500	\$ 15,500	\$ 2,211	\$ 13,289
SCDL program	-	-	129,910	(129,910)
Economic development	50,000	50,000	50,180	(180)
<b>Total economic development</b>	<b>\$ 65,500</b>	<b>\$ 65,500</b>	<b>\$ 182,301</b>	<b>\$ (116,801)</b>
<b>Debt service</b>				
Principal	\$ 11,931	\$ 11,931	\$ 16,923	\$ (4,992)
Interest	1,446	1,446	1,836	(390)
<b>Total debt service</b>	<b>\$ 13,377</b>	<b>\$ 13,377</b>	<b>\$ 18,759</b>	<b>\$ (5,382)</b>
<b>Total Expenditures</b>	<b>\$ 7,660,660</b>	<b>\$ 7,660,660</b>	<b>\$ 7,149,461</b>	<b>\$ 511,199</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 65,700</b>	<b>\$ 65,700</b>	<b>\$ 1,173,175</b>	<b>\$ 1,107,475</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 300,000	\$ 300,000	\$ 208,739	\$ (91,261)
Transfers out	(365,700)	(365,700)	(365,700)	-
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (65,700)</b>	<b>\$ (65,700)</b>	<b>\$ (156,961)</b>	<b>\$ (91,261)</b>
<b>Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,016,214</b>	<b>\$ 1,016,214</b>
<b>Fund Balance - January 1</b>	<b>3,091,961</b>	<b>3,091,961</b>	<b>3,091,961</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,091,961</b>	<b>\$ 3,091,961</b>	<b>\$ 4,108,175</b>	<b>\$ 1,016,214</b>

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-2*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 907,853	\$ 907,853	\$ 905,642	\$ (2,211)
Intergovernmental	8,040,959	8,040,959	6,901,899	(1,139,060)
Charges for services	225,000	225,000	248,297	23,297
Miscellaneous	100,000	100,000	57,961	(42,039)
<b>Total Revenues</b>	<b>\$ 9,273,812</b>	<b>\$ 9,273,812</b>	<b>\$ 8,113,799</b>	<b>\$ (1,160,013)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 198,373	\$ 198,373	\$ 202,670	\$ (4,297)
Maintenance	1,696,237	1,696,237	1,570,873	125,364
Construction	5,754,444	5,754,444	4,711,458	1,042,986
Equipment maintenance and shop	859,310	859,310	864,186	(4,876)
Material and services for resale	106,560	106,560	106,409	151
Other - highways and streets	488,497	488,497	498,696	(10,199)
<b>Total highways and streets</b>	<b>\$ 9,103,421</b>	<b>\$ 9,103,421</b>	<b>\$ 7,954,292</b>	<b>\$ 1,149,129</b>
<b>Culture and recreation</b>				
Parks	170,391	170,391	142,677	27,714
<b>Total Expenditures</b>	<b>\$ 9,273,812</b>	<b>\$ 9,273,812</b>	<b>\$ 8,096,969</b>	<b>\$ 1,176,843</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,830</b>	<b>\$ 16,830</b>
<b>Fund Balance - January 1</b>	<b>1,445,533</b>	<b>1,445,533</b>	<b>1,445,533</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>49,494</b>	<b>49,494</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,445,533</b>	<b>\$ 1,445,533</b>	<b>\$ 1,511,857</b>	<b>\$ 66,324</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-3*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,621,694	\$ 1,621,694	\$ 1,617,089	\$ (4,605)
Intergovernmental	253,919	253,919	226,821	(27,098)
<b>Total Revenues</b>	<b>\$ 1,875,613</b>	<b>\$ 1,875,613</b>	<b>\$ 1,843,910</b>	<b>\$ (31,703)</b>
<b>Expenditures</b>				
<b>Current</b>				
Human services	1,875,613	1,875,613	1,814,201	61,412
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 29,709</b>	<b>\$ 29,709</b>
<b>Fund Balance - January 1</b>	<b>2,007,095</b>	<b>2,007,095</b>	<b>2,007,095</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 2,007,095</b>	<b>\$ 2,007,095</b>	<b>\$ 2,036,804</b>	<b>\$ 29,709</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-4*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 380,000	\$ 380,000	\$ 435,490	\$ 55,490
Intergovernmental	-	-	69,884	69,884
Miscellaneous	-	-	48,290	48,290
<b>Total Revenues</b>	<b>\$ 380,000</b>	<b>\$ 380,000</b>	<b>\$ 553,664</b>	<b>\$ 173,664</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Ditch maintenance	\$ 300,000	\$ 300,000	\$ 735,583	\$ (435,583)
<b>Debt service</b>				
Principal	50,000	50,000	45,000	5,000
Interest	30,000	30,000	23,395	6,605
Administrative (fiscal) charges	-	-	431	(431)
<b>Total Expenditures</b>	<b>\$ 380,000</b>	<b>\$ 380,000</b>	<b>\$ 804,409</b>	<b>\$ (424,409)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ (250,745)	\$ (250,745)
<b>Fund Balance - January 1</b>	<b>(973,411)</b>	<b>(973,411)</b>	<b>(973,411)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (973,411)</b>	<b>\$ (973,411)</b>	<b>\$ (1,224,156)</b>	<b>\$ (250,745)</b>



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-5*

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

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

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**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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

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1. Budgetary Information

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

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

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

2. Budget Amendments

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

3. Excess of Expenditures Over Appropriations

The Ditch Special Revenue Fund's expenditures exceeded appropriations by \$424,409. The expenditures in excess of budget were funded by revenues in excess of budget and advances from the General Fund. Future special assessments will be made to pay for ditch repairs and improvements.

4. Other Postemployment Benefits Funded Status

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

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**SUPPLEMENTARY INFORMATION**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT B-1*

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 664,461	\$ 664,461	\$ 662,280	\$ (2,181)
Intergovernmental	104,039	104,039	92,936	(11,103)
<b>Total Revenues</b>	<b>\$ 768,500</b>	<b>\$ 768,500</b>	<b>\$ 755,216</b>	<b>\$ (13,284)</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 620,000	\$ 620,000	\$ 620,000	\$ -
Interest	471,458	471,458	471,508	(50)
Administrative (fiscal) charges	-	-	1,912	(1,912)
<b>Total Expenditures</b>	<b>\$ 1,091,458</b>	<b>\$ 1,091,458</b>	<b>\$ 1,093,420</b>	<b>\$ (1,962)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (322,958)</b>	<b>\$ (322,958)</b>	<b>\$ (338,204)</b>	<b>\$ (15,246)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 365,700	\$ 365,700	\$ 365,700	\$ -
Transfers out	(300,000)	(300,000)	(208,739)	91,261
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 65,700</b>	<b>\$ 65,700</b>	<b>\$ 156,961</b>	<b>\$ 91,261</b>
<b>Change in Fund Balance</b>	<b>\$ (257,258)</b>	<b>\$ (257,258)</b>	<b>\$ (181,243)</b>	<b>\$ 76,015</b>
<b>Fund Balance - January 1</b>	<b>1,405,424</b>	<b>1,405,424</b>	<b>1,405,424</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,148,166</b>	<b>\$ 1,148,166</b>	<b>\$ 1,224,181</b>	<b>\$ 76,015</b>

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**FIDUCIARY FUNDS**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**AGENCY FUNDS**

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

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

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

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

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT C-1*

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

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>MORTGAGE REGISTRATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ (35,854)	\$ 169,714	\$ 159,083	\$ (25,223)
<b><u>Liabilities</u></b>				
Due to other governments	\$ (35,854)	\$ 169,714	\$ 159,083	\$ (25,223)
 <b><u>DEED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 69,241	\$ 138,225	\$ 147,292	\$ 60,174
<b><u>Liabilities</u></b>				
Due to other governments	\$ 69,241	\$ 138,225	\$ 147,292	\$ 60,174
 <b><u>TAX AND PENALTY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 161,018	\$ 18,076,184	\$ 18,064,687	\$ 172,515
<b><u>Liabilities</u></b>				
Due to other governments	\$ 161,018	\$ 18,076,184	\$ 18,064,687	\$ 172,515
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 194,405	\$ 18,384,123	\$ 18,371,062	\$ 207,466
<b><u>Liabilities</u></b>				
Due to other governments	\$ 194,405	\$ 18,384,123	\$ 18,371,062	\$ 207,466

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## **COMPONENT UNIT**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT D-1*

**GOVERNMENTAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY  
DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Adjustments*</b>	<b>Statement of Net Assets</b>
<b><u>Assets</u></b>			
Current assets			
Cash and pooled investments	\$ 325,540	\$ -	\$ 325,540
Accounts receivable	556	-	556
Loans receivable	167,047	-	167,047
Restricted assets			
Investments - temporary	14,000	-	14,000
<b>Total Assets</b>	<b>\$ 507,143</b>	<b>\$ -</b>	<b>\$ 507,143</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 8	\$ -	\$ 8
Deferred revenue	167,047	(167,047)	-
<b>Total Liabilities</b>	<b>\$ 167,055</b>	<b>\$ (167,047)</b>	<b>\$ 8</b>
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Nonspendable - loan guarantee	\$ 14,000	\$ (14,000)	
Unassigned	326,088	(326,088)	
<b>Total Fund Balance</b>	<b>\$ 340,088</b>	<b>\$ (340,088)</b>	
<b>Net Assets</b>			
Unrestricted		<b>\$ 507,135</b>	<b>\$ 507,135</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 507,143</b>		

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT D-2*

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Charges for services	\$ 17,648	\$ (14,699)	\$ 2,949
Investment earnings	246	-	246
<b>Total Revenues</b>	<b>\$ 17,894</b>	<b>\$ (14,699)</b>	<b>\$ 3,195</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Economic development	9,292	14,062	23,354
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ 8,602</b>	<b>\$ (28,761)</b>	<b>\$ (20,159)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>331,486</b>	<b>195,808</b>	<b>527,294</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 340,088</b>	<b>\$ 167,047</b>	<b>\$ 507,135</b>

\*Note: Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund. Expenses for loans written off in the statement of activities are not reported as expenditures in the fund. These adjustments are the change in deferred revenues during the year.

## **SCHEDULES**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT E-1*

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

	<b>Governmental Funds</b>	<b>Enterprise Fund</b>	<b>Total Primary Government</b>
<b>Shared Revenue</b>			
<b>State</b>			
Highway users tax	\$ 4,508,282	\$ -	\$ 4,508,282
PERA rate reimbursement	13,448	-	13,448
Disparity reduction aid	71,725	-	71,725
Police aid	58,761	-	58,761
County program aid	457,544	-	457,544
Market value credit	567,684	-	567,684
Enhanced 911	90,792	-	90,792
	<b>\$ 5,768,236</b>	<b>\$ -</b>	<b>\$ 5,768,236</b>
<b>Total shared revenue</b>			
<b>Reimbursement for Services</b>			
<b>State</b>			
Minnesota Department of Human Services	\$ 23,709	\$ -	\$ 23,709
	<b>\$ 23,709</b>	<b>\$ -</b>	<b>\$ 23,709</b>
<b>Payments</b>			
<b>Local</b>			
Payments in lieu of taxes	\$ 34,074	\$ -	\$ 34,074
	<b>\$ 34,074</b>	<b>\$ -</b>	<b>\$ 34,074</b>
<b>Grants</b>			
<b>State</b>			
Minnesota Department/Board of			
Public Safety	\$ 34,447	\$ -	\$ 34,447
Natural Resources	49,895	-	49,895
Veterans Affairs	8,800	-	8,800
Corrections	30,180	-	30,180
Transportation	919,142	-	919,142
Water and Soil Resources	4,909	-	4,909
Peace Officer Standards and Training Board	4,923	-	4,923
Pollution Control Agency	55,950	-	55,950
	<b>\$ 1,108,246</b>	<b>\$ -</b>	<b>\$ 1,108,246</b>
<b>Total state</b>			
<b>Federal</b>			
Department of			
Agriculture	\$ -	\$ 568	\$ 568
Commerce	38,705	-	38,705
Housing and Urban Development	130,867	-	130,867
Transportation	1,395,247	-	1,395,247
Homeland Security	136,896	-	136,896
	<b>\$ 1,701,715</b>	<b>\$ 568</b>	<b>\$ 1,702,283</b>
<b>Total federal</b>			
<b>Total state and federal grants</b>			
	<b>\$ 2,809,961</b>	<b>\$ 568</b>	<b>\$ 2,810,529</b>
<b>Total Intergovernmental Revenue</b>			
	<b>\$ 8,635,980</b>	<b>\$ 568</b>	<b>\$ 8,636,548</b>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT E-2*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Direct		
Water and Waste Disposal Loans and Grants (Section 306C)	10.770	<u>\$          568</u>
<b>U.S. Department of Commerce</b>		
Passed Through Blue Earth County		
Public Safety Interoperable Communications Grant Program	11.555	\$          23,301
Passed Through Minnesota Department of Public Safety		
Public Safety Interoperable Communications Grant Program	11.555	<u>          15,404</u>
<b>Total U.S. Department of Commerce</b>		<u><b>\$          38,705</b></u>
<b>U.S. Department of Housing and Urban Development</b>		
Passed Through Minnesota Department of Employment and Economic Development		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	<u>\$          130,867</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$          1,289,014
Formula Grants for Other Than Urbanized Areas	20.509	90,121
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	<u>                  492</u>
<b>Total U.S. Department of Transportation</b>		<u><b>\$          1,379,627</b></u>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$          56,069
Emergency Management Performance Grants	97.042	3,392
Passed Through Blue Earth County		
Interoperable Emergency Communications	97.055	2,231
Homeland Security Grant Program	97.067	5,919
Passed Through Olmsted County		
Homeland Security Grant Program	97.067	<u>          26,436</u>
<b>Total U.S. Department of Homeland Security</b>		<u><b>\$          94,047</b></u>
<b>Total Federal Awards</b>		<u><b>\$          1,643,814</b></u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Faribault County. The County's reporting entity is defined in Note 1 to the financial statements. Faribault County's financial statements include the operations of the Faribault County Housing and Redevelopment Authority (HRA) which expended \$303,936 in federal awards during the year ended December 31, 2011. Our audit, described below, did not include the operations of the HRA because the HRA was audited by other auditors.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Faribault County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Faribault County, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Faribault County.

3. Summary of Significant Accounting Policies

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 1,702,283
Grants received more than 60 days after year-end, deferred in 2011	
Highway Planning and Construction	36,621
Formula Grants for Other Than Urbanized Areas	49,093
Grants received more than 60 days after year-end, deferred in 2010	
Highway Planning and Construction	(89,881)
Formula Grants for Other Than Urbanized Areas	(11,453)
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	(42,849)
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 1,643,814</u>

5. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.





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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

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

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major program is:

Highway Planning and Construction

CFDA #20.205

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

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

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 96-5 Capital Assets Records

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

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

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

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

**Cause:** The County has not reviewed or updated its capital assets policy for a number of years.

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

#### Client's Response:

*The County will continue to work on an amended policy to address these issues in 2012.*

## 06-2 Budgeting

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

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

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

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

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

**Cause:** The County has had time constraints and limited personnel.

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

Client's Response:

*The County has drafted a budget policy. Formal action should take place in 2012.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Audit Adjustments (06-1)**

Management and employees, in the normal course of performing their assigned functions, were not able to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

**Resolution**

There were no material and significant audit adjustments required in our audit of the County's financial statements.

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Individual Ditch System Deficits

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

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

**Condition:** The County had individual ditch systems with deficit cash balances and deficit fund balances at December 31, 2011.

**Context:** At December 31, 2011, 41 of 188 ditch systems had negative cash balances totaling \$461,395, and 78 ditches had deficit net assets totaling \$1,363,716.

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

**Cause:** Ditch expenditures were necessary, and the ditch cash balance and levies were not sufficient to cover all costs.

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

Client's Response:

*The County will continue to assess for ditch repair in a more aggressive manner. Staff will work at making necessary advances from other funds.*

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners  
Faribault County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 15, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Faribault County Housing and Redevelopment Authority, a discretely presented component unit of the County, as described in our report on Faribault County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 96-5 and 06-2 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

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

#### Minnesota Legal Compliance

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

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

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

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

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

*/s/Rebecca Otto*

*/s/Greg Hierlinger*

REBECCA OTTO  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 15, 2012

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REBECCA OTTO  
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# STATE OF MINNESOTA

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

Board of County Commissioners  
Faribault County

#### Compliance

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

Faribault County's basic financial statements include the operations of the Faribault County Housing and Redevelopment Authority (HRA) component unit, which expended \$303,936 in federal awards during the year ended December 31, 2011, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA because the HRA was audited by other auditors.

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

necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Faribault County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

### Internal Control Over Compliance

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

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

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

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

June 15, 2012