

# 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, 2014**

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

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

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

The State Auditor performs approximately 150 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 700 public pension funds; and

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

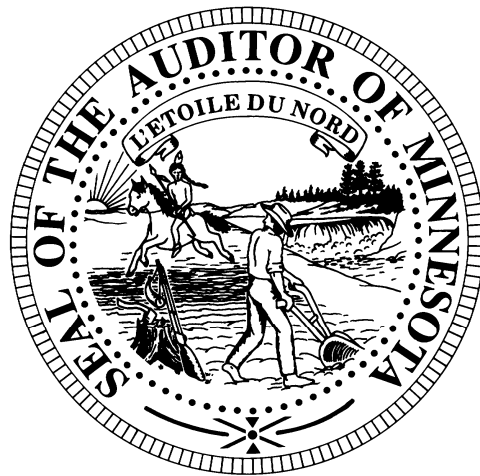
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**Year Ended December 31, 2014**



**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, 2014

			<u>Term Expires</u>
<b>Elected</b>			
<b>Commissioners</b>			
Board Member	John Roper	District 1	January 2017
Board Member	Greg Young	District 2	January 2019
Vice Chair	William Groskreutz, Jr.	District 3	January 2017
Chair	Tom Loveall	District 4	January 2019
Board Member	Tom Warmka	District 5	January 2017
Attorney	Troy Timmerman		January 2019
Auditor/Treasurer	John Thompson		January 2019
Judge	Douglas Richards		January 2019
County Recorder	Sheryl Asmus		January 2019
Registrar of Titles	Sheryl Asmus		January 2019
County Sheriff	Mike Gormley		January 2019
<b>Appointed</b>			
Assessor	Lynn Krachmer		December 2016
County Engineer	John McDonald		April 30, 2015
Veterans Service Officer	David Hanson		Indefinite
Medical Examiner	William Lee, M.D.		Indefinite
<b>Economic Development Authority Board</b>			
	John Herman	Wells	December 31, 2015
	Lars Bierly	Blue Earth	December 31, 2019
	Brad Wolf	Winnebago	December 31, 2016
	Jack Heinitz	Blue Earth	December 31, 2017
	Sharon Grunzke	Minnesota Lake	December 31, 2018

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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  
Blue Earth, Minnesota

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Faribault County Housing and Redevelopment Authority (HRA), which represent 2 percent, 0 percent, and 77 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Faribault County HRA, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinions***

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

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

*Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2015, on our consideration of Faribault County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Faribault County's internal control over financial reporting and compliance. It does not include the Faribault County HRA, which was audited by other auditors.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

November 12, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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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, 2014  
(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, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities' total net position is \$59,825,369, of which \$51,856,708 is the net investment in capital assets, and \$3,959,703 is restricted to specific purposes.
- Business-type activities' total net position is \$1,011,025, of which \$911,267 is the net investment in capital assets.
- Faribault County's governmental activities' net position increased by \$1,761,462 for the year ended December 31, 2014. The net position of the County's business-type activities decreased by \$46,001.
- The net cost of governmental activities was \$8,768,284 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$10,529,746. The net cost of business-type activities was \$46,001.
- Governmental funds' fund balances increased by \$8,824,218.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

## **Fund Financial Statements**

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

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

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

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

## **THE COUNTY AS A WHOLE**

The County's combined net position increased from \$59,120,933 to \$60,836,394. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County's governmental activities and business-type activities.

**Table 1  
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current and other assets	\$ 22,638,514	\$ 13,828,649	\$ 99,758	\$ 112,738	\$ 22,738,272	\$ 13,941,387
Capital assets	59,726,445	59,748,013	1,248,267	1,304,382	60,974,712	61,052,395
<b>Total Assets</b>	<b>\$ 82,364,959</b>	<b>\$ 73,576,662</b>	<b>\$ 1,348,025</b>	<b>\$ 1,417,120</b>	<b>\$ 83,712,984</b>	<b>\$ 74,993,782</b>
<b>Liabilities</b>						
Long-term liabilities	\$ 20,426,223	\$ 13,273,413	\$ 337,000	\$ 345,000	\$ 20,763,223	\$ 13,618,413
Other liabilities	1,445,953	1,093,415	-	15,094	1,445,953	1,108,509
<b>Total Liabilities</b>	<b>\$ 21,872,176</b>	<b>\$ 14,366,828</b>	<b>\$ 337,000</b>	<b>\$ 360,094</b>	<b>\$ 22,209,176</b>	<b>\$ 14,726,922</b>
Deferred Inflows of Resources	\$ 667,414	\$ 1,145,927	\$ -	\$ -	\$ 667,414	\$ 1,145,927
<b>Net Position</b>						
Net investment in capital assets	\$ 51,856,708	\$ 51,393,184	\$ 911,267	\$ 959,382	\$ 52,767,975	\$ 52,352,566
Restricted	3,959,703	3,654,091	-	-	3,959,703	3,654,091
Unrestricted	4,008,958	3,016,632	99,758	97,644	4,108,716	3,114,276
<b>Total Net Position</b>	<b>\$ 59,825,369</b>	<b>\$ 58,063,907</b>	<b>\$ 1,011,025</b>	<b>\$ 1,057,026</b>	<b>\$ 60,836,394</b>	<b>\$ 59,120,933</b>

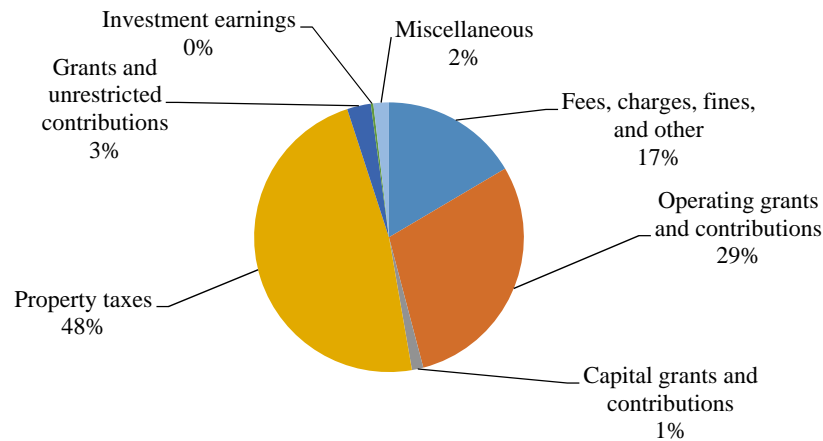
The net position of the County's governmental activities increased by 3.0 percent (\$1,761,462). Unrestricted net position--the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from \$3,016,632 at December 31, 2013, to \$4,008,958 at the end of this year. Net position of the business-type activities decreased by 4.4 percent (\$46,001).

**Table 2  
Change in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
<b>Program revenues</b>						
Fees, charges, fines, and other	\$ 3,294,874	\$ 3,653,396	\$ 25,748	\$ 27,340	\$ 3,320,622	\$ 3,680,736
Operating grants and contributions	5,873,454	5,512,790	-	-	5,873,454	5,512,790
Capital grants and contributions	276,281	276,312	-	-	276,281	276,312
<b>General revenues</b>						
Property taxes	9,526,129	9,082,465	-	-	9,526,129	9,082,465
Grants and contributions not restricted to specific programs	572,059	578,077	-	-	572,059	578,077
Unrestricted investment earnings	61,361	59,860	-	-	61,361	59,860
Miscellaneous and other	370,197	212,873	-	-	370,197	212,873
<b>Total Revenues</b>	<b>\$ 19,974,355</b>	<b>\$ 19,375,773</b>	<b>\$ 25,748</b>	<b>\$ 27,340</b>	<b>\$ 20,000,103</b>	<b>\$ 19,403,113</b>

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Expenses						
General government	\$ 3,491,419	\$ 3,277,001	\$ -	\$ -	\$ 3,491,419	\$ 3,277,001
Public safety	3,258,874	3,302,420	-	-	3,258,874	3,302,420
Highways and streets	6,212,632	5,560,099	-	-	6,212,632	5,560,099
Transit	183,343	166,202	-	-	183,343	166,202
Sanitation	241,577	253,620	71,749	73,976	313,326	327,596
Human services	1,933,234	1,968,696	-	-	1,933,234	1,968,696
Culture and recreation	338,842	333,178	-	-	338,842	333,178
Conservation of natural resources	1,882,703	2,422,782	-	-	1,882,703	2,422,782
Economic development	65,526	62,000	-	-	65,526	62,000
Interest	604,743	508,873	-	-	604,743	508,873
<b>Total Expenses</b>	<b>\$ 18,212,893</b>	<b>\$ 17,854,871</b>	<b>\$ 71,749</b>	<b>\$ 73,976</b>	<b>\$ 18,284,642</b>	<b>\$ 17,928,847</b>
<b>Net Change</b>	<b>\$ 1,761,462</b>	<b>\$ 1,520,902</b>	<b>\$ (46,001)</b>	<b>\$ (46,636)</b>	<b>\$ 1,715,461</b>	<b>\$ 1,474,266</b>

### Total County Revenues - Percent of Total



### Governmental Activities

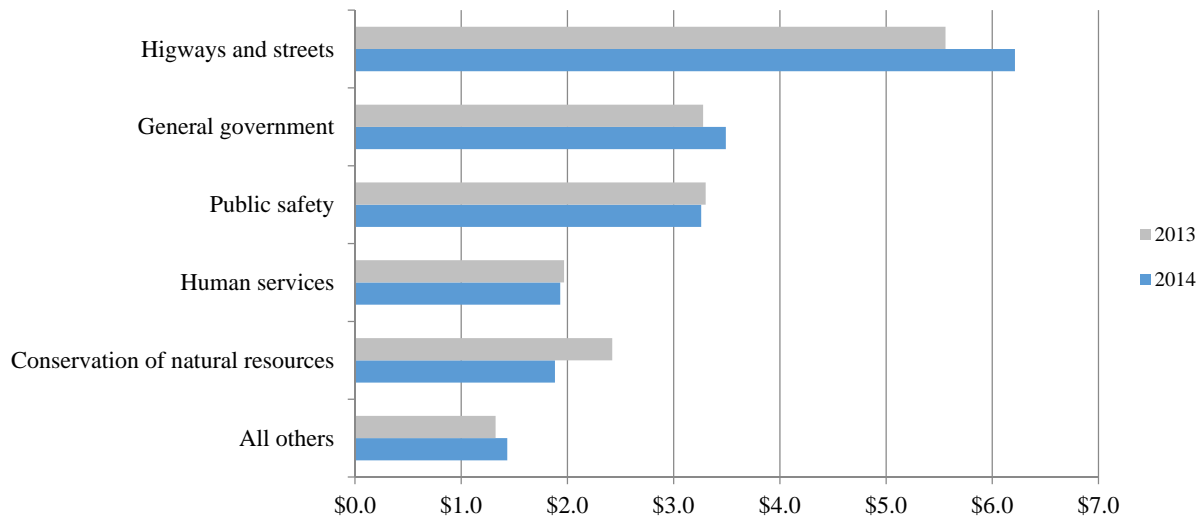
Revenues for the County's governmental activities were \$19,974,355, while total expenses were \$18,212,893. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was \$9,526,129, because some of the cost was paid by those who directly benefited from the programs (\$3,294,874) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,149,735). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, totaled \$9,444,609. The County paid for the remaining "public benefit" portion of governmental activities with \$10,529,746 in general revenues, which consisted primarily of taxes (some of which could be used only for certain programs) and other revenues, such as interest and general entitlements.

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

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Highways and streets	\$ 6,212,632	\$ 5,560,099	\$ 250,800	\$ 164,620
General government	3,491,419	3,277,001	2,781,649	2,624,476
Public safety	3,258,874	3,302,420	2,539,712	2,525,235
Human services	1,933,234	1,968,696	1,933,234	1,968,696
Conservation of natural resources	1,882,703	2,422,782	356,664	277,848
All others	1,434,031	1,323,873	906,225	851,498
<b>Total Expenses</b>	<b>\$ 18,212,893</b>	<b>\$ 17,854,871</b>	<b>\$ 8,768,284</b>	<b>\$ 8,412,373</b>

**Governmental Activities Expenses  
(in millions)**



**THE COUNTY’S FUNDS**

As the County completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit 3) reported a combined fund balance of \$16,750,165, which is above last year’s total of \$7,925,947. The General Fund showed an increase of \$1,337,568. The increase was due to positive variances in taxes, intergovernmental, charges for services, and miscellaneous revenues compared to budgeted amounts. General government expenditures also saw significantly fewer expenditures than budgeted due to the County’s plan to increase fund balances. The Public Works Special Revenue Fund showed an increase of \$437,044 due to increased charges for services



revenue and decreased construction expenditures. The Human Services Special Revenue Fund increased by \$63,998. The Ditch Special Revenue Fund showed a decrease of \$582,429 as repair, improvement, and redetermination costs were expended, and the assessments will be levied in future years. The Debt Service Fund increased by \$7,568,037 as the County issued \$7,480,000 in Jail Refunding Bonds which were used to refund bonds in early 2015. The General Fund's fund balance is 44.5 percent of the total governmental funds, compared to 77.2 percent at the end of 2013.

**General Fund Budgetary Highlights**

Revenues exceeded budgeted amounts by \$584,843. Positive variances in several revenues, including \$180,995 in intergovernmental, \$107,728 in charges for services, of which a significant amount was for public safety charges for services, and \$172,369 in miscellaneous revenue due to insurance dividends and repayment of small cities development loans, contributed to the variance. General government expenditures were \$674,360 below budget, primarily due to unspent funds budgeted for retiree insurance premiums. Sanitation expenditures were \$124,501 under budget as the County is keeping solid waste fees collected by assessments and distributing them to Prairieland Solid Waste Board on an as-needed basis. Public safety expenditures were \$75,775 over budget, largely due to the negative variances in the jail, fraud investigator, and probation and parole expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2014, the County had \$60,974,712 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net decrease (including additions and deductions) of \$77,683, or 0.1 percent, less than last year.

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

	<u>2014</u>	<u>2013</u>
Governmental Activities		
Land	\$ 1,869,777	\$ 1,717,074
Construction in progress	680,049	4,020,935
Building and improvements	9,741,634	10,054,628
Other improvements	54,160	63,116
Machinery and equipment	2,893,722	2,990,735
Infrastructure	<u>44,487,103</u>	<u>40,901,525</u>
Total	<u>\$ 59,726,445</u>	<u>\$ 59,748,013</u>

	<u>2014</u>	<u>2013</u>
Business-Type Activities		
Land	\$ 27,643	\$ 27,643
Machinery and equipment	37,334	42,001
Infrastructure	<u>1,183,290</u>	<u>1,234,738</u>
Total	<u>\$ 1,248,267</u>	<u>\$ 1,304,382</u>

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

## Debt

At year-end, the County had \$17,080,000 in governmental activities bonds outstanding, versus \$10,305,000 for last year. Table 5 shows the outstanding debt.

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

	<u>2014</u>	<u>2013</u>
Governmental Activities		
Bonds payable	\$ 17,080,000	\$ 10,305,000
Capital leases	26,831	22,088
Loans payable	<u>13,180</u>	<u>26,100</u>
Totals	<u>\$ 17,120,011</u>	<u>\$ 10,353,188</u>
Business-Type Activities		
Bonds payable	<u>\$ 337,000</u>	<u>\$ 345,000</u>

The County's general obligation bond rating was set at an AA- rating by Standard and Poor's as rated in 2014. 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 2015 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2015 are budgeted to increase 3.6 percent over 2014.

- County program aid from the State of Minnesota has stabilized. The County continues to monitor the State of Minnesota's budget deficit situation.
- Property tax levies have increased 2.9 percent for 2015. Cost of living adjustments affected the General Fund and the Public Works Special Revenue Fund.

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

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

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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 POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Primary Government</b>			<b>Discretely Presented Component Units</b>	
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Housing and Redevelopment Authority</b>	<b>Economic Development Authority</b>
<b><u>Assets</u></b>					
Cash and pooled investments	\$ 9,167,455	\$ 28,905	\$ 9,196,360	\$ -	\$ 383,312
Petty cash and change funds	2,562	-	2,562	-	-
Cash with fiscal agent	7,582,739	-	7,582,739	-	-
Taxes receivable					
Delinquent	158,330	-	158,330	-	-
Special assessments receivable					
Delinquent	56,253	25,348	81,601	-	-
Noncurrent	2,848,939	42,643	2,891,582	-	-
Accounts receivable	18,701	-	18,701	-	-
Accrued interest receivable	10,866	-	10,866	-	52
Loans receivable	-	-	-	-	173,257
Due from other governments	1,313,900	6,360	1,320,260	12,625	-
Advance to other governments	45,000	-	45,000	-	-
Internal balances	3,498	(3,498)	-	-	-
Inventories	1,413,775	-	1,413,775	-	-
Prepaid items	16,496	-	16,496	-	-
Restricted assets					
Investments - temporary	-	-	-	-	10,396
Capital assets					
Non-depreciable	2,549,826	27,643	2,577,469	-	-
Depreciable - net of accumulated depreciation	57,176,619	1,220,624	58,397,243	-	-
<b>Total Assets</b>	<b>\$ 82,364,959</b>	<b>\$ 1,348,025</b>	<b>\$ 83,712,984</b>	<b>\$ 12,625</b>	<b>\$ 567,017</b>



**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 1  
(Continued)**

**STATEMENT OF NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Primary Government</b>			<b>Discretely Presented Component Units</b>	
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Housing and Redevelopment Authority</b>	<b>Economic Development Authority</b>
<b><u>Liabilities</u></b>					
Accounts payable	\$ 443,668	\$ -	\$ 443,668	\$ 533	\$ -
Due to fiscal agent	-	-	-	12,092	-
Salaries payable	154,056	-	154,056	-	-
Contracts payable	241,666	-	241,666	-	-
Due to other governments	183,674	-	183,674	-	-
Accrued interest payable	285,089	-	285,089	-	-
Unearned revenue	137,800	-	137,800	-	-
Long-term liabilities					
Due within one year	8,184,158	-	8,184,158	-	-
Due in more than one year	10,160,273	337,000	10,497,273	-	-
Other postemployment benefit obligations	2,081,792	-	2,081,792	-	-
<b>Total Liabilities</b>	<b>\$ 21,872,176</b>	<b>\$ 337,000</b>	<b>\$ 22,209,176</b>	<b>\$ 12,625</b>	<b>\$ -</b>
<b><u>Deferred Inflows of Resources</u></b>					
Advanced allotments	<b>\$ 667,414</b>	<b>\$ -</b>	<b>\$ 667,414</b>	<b>\$ -</b>	<b>\$ -</b>
<b><u>Net Position</u></b>					
Net investment in capital assets	\$ 51,856,708	\$ 911,267	\$ 52,767,975	\$ -	\$ -
Restricted for					
General government	509,436	-	509,436	-	-
Public safety	75,946	-	75,946	-	-
Highways and streets	1,058,967	-	1,058,967	-	-
Sanitation	622,992	-	622,992	-	-
Conservation of natural resources	901,349	-	901,349	-	-
Debt service	791,013	-	791,013	-	-
Commercial rehabilitation loans	-	-	-	-	110,303
Unrestricted	4,008,958	99,758	4,108,716	-	456,714
<b>Total Net Position</b>	<b>\$ 59,825,369</b>	<b>\$ 1,011,025</b>	<b>\$ 60,836,394</b>	<b>\$ -</b>	<b>\$ 567,017</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>
<b>Primary government</b>			
<b>Governmental activities</b>			
General government	\$ 3,491,419	\$ 704,615	\$ 5,155
Public safety	3,258,874	504,214	214,948
Highways and streets	6,212,632	563,337	5,122,214
Transit	183,343	25,180	162,533
Sanitation	241,577	278,538	-
Human services	1,933,234	-	-
Culture and recreation	338,842	61,555	-
Conservation of natural resources	1,882,703	1,157,435	368,604
Economic development	65,526	-	-
Interest	604,743	-	-
<b>Total governmental activities</b>	<b>\$ 18,212,893</b>	<b>\$ 3,294,874</b>	<b>\$ 5,873,454</b>
<b>Business-type activities</b>			
Huntley Sewer District	71,749	25,748	-
<b>Total Primary Government</b>	<b>\$ 18,284,642</b>	<b>\$ 3,320,622</b>	<b>\$ 5,873,454</b>
<b>Component units</b>			
Housing and Redevelopment Authority	\$ 307,678	\$ 19,700	\$ 267,222
Economic Development Authority	29,211	30,670	54,204
<b>Total Component Units</b>	<b>\$ 336,889</b>	<b>\$ 50,370</b>	<b>\$ 321,426</b>

**General Revenues**

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

**Total general revenues**

**Change in net position**

**Net Position - January 1**

**Net Position - December 31**

EXHIBIT 2

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position				
	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
\$ -	\$ (2,781,649)	\$ -	\$ (2,781,649)		
-	(2,539,712)	-	(2,539,712)		
276,281	(250,800)	-	(250,800)		
-	4,370	-	4,370		
-	36,961	-	36,961		
-	(1,933,234)	-	(1,933,234)		
-	(277,287)	-	(277,287)		
-	(356,664)	-	(356,664)		
-	(65,526)	-	(65,526)		
-	(604,743)	-	(604,743)		
<b>\$ 276,281</b>	<b>\$ (8,768,284)</b>	<b>\$ -</b>	<b>\$ (8,768,284)</b>		
-	-	(46,001)	(46,001)		
<b>\$ 276,281</b>	<b>\$ (8,768,284)</b>	<b>\$ (46,001)</b>	<b>\$ (8,814,285)</b>		
\$ -				\$ (20,756)	\$ -
-				-	55,663
<b>\$ -</b>				<b>\$ (20,756)</b>	<b>\$ 55,663</b>
	\$ 9,526,129	\$ -	\$ 9,526,129	\$ -	\$ -
	7,204	-	7,204	-	-
	54,797	-	54,797	-	-
	162,275	-	162,275	-	-
	572,059	-	572,059	-	-
	61,361	-	61,361	-	106
	145,921	-	145,921	-	-
	<b>\$ 10,529,746</b>	<b>\$ -</b>	<b>\$ 10,529,746</b>	<b>\$ -</b>	<b>\$ 106</b>
	<b>\$ 1,761,462</b>	<b>\$ (46,001)</b>	<b>\$ 1,715,461</b>	<b>\$ (20,756)</b>	<b>\$ 55,769</b>
	<b>58,063,907</b>	<b>1,057,026</b>	<b>59,120,933</b>	<b>20,756</b>	<b>511,248</b>
	<b>\$ 59,825,369</b>	<b>\$ 1,011,025</b>	<b>\$ 60,836,394</b>	<b>\$ -</b>	<b>\$ 567,017</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, 2014**

	<u>General</u>	<u>Public Works</u>
<u>Assets</u>		
Cash and pooled investments	\$ 5,725,055	\$ 374,357
Petty cash and change funds	2,265	297
Cash with fiscal agent	-	-
Taxes receivable		
Delinquent	93,505	19,683
Special assessments		
Delinquent	50,750	-
Noncurrent	1,004,161	-
Accounts receivable	11,309	6,585
Accrued interest receivable	10,866	-
Due from other funds	14,748	2,109
Due from other governments	107,783	1,065,055
Prepaid expense	3,236	13,260
Advance to other funds	1,948,374	-
Advance to other governments	45,000	-
Inventories	-	1,413,775
<b>Total Assets</b>	<b>\$ 9,017,052</b>	<b>\$ 2,895,121</b>



**EXHIBIT 3**

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 1,977,895	\$ 235,392	\$ 854,756	\$ 9,167,455
-	-	-	2,562
-	-	7,582,739	7,582,739
32,457	-	12,685	158,330
-	5,503	-	56,253
-	1,844,778	-	2,848,939
-	807	-	18,701
-	-	-	10,866
-	-	-	16,857
-	141,062	-	1,313,900
-	-	-	16,496
-	-	-	1,948,374
-	-	-	45,000
-	-	-	1,413,775
<u>\$ 2,010,352</u>	<u>\$ 2,227,542</u>	<u>\$ 8,450,180</u>	<u>\$ 24,600,247</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

	<b>General</b>	<b>Public Works</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 75,603	\$ 16,390
Salaries payable	113,097	40,959
Contracts payable	34,658	-
Due to other funds	2,109	-
Due to other governments	90,508	-
Unearned revenue	136,347	452
Advance from other funds	-	-
	<b>\$ 452,322</b>	<b>\$ 57,801</b>
<b>Deferred Inflows of Resources</b>		
Advanced allotments	\$ -	\$ 667,414
Unavailable revenue	1,107,605	1,072,766
	<b>\$ 1,107,605</b>	<b>\$ 1,740,180</b>
<b>Fund Balances</b>		
Nonspendable		
Inventories	\$ -	\$ 1,413,775
Prepaid items	3,236	13,260
Advances to other funds	1,948,374	-
Advances to other governments	45,000	-
Restricted for		
Debt service	-	-
Law library	20,762	-
Recorder's technology equipment	299,126	-
Recorder's compliance	189,548	-
Individual Sewage Treatment System (ISTS) loans	-	-
E-911	40,163	-
Drug abuse resistance education (DARE)	35,783	-
Ditch maintenance and repairs	-	-
Solid waste projects	622,992	-
ISTS repayments	241,968	-
Committed for		
Human services	-	-
Unassigned	4,010,173	(329,895)
	<b>\$ 7,457,125</b>	<b>\$ 1,097,140</b>
<b>Total Liabilities, Deferred Inflows of of Resources, and Fund Balances</b>	<b>\$ 9,017,052</b>	<b>\$ 2,895,121</b>

**EXHIBIT 3  
(Continued)**

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ -	\$ 351,675	\$ -	\$ 443,668
-	-	-	154,056
-	207,008	-	241,666
-	11,250	-	13,359
-	93,166	-	183,674
720	-	281	137,800
-	1,948,374	-	1,948,374
<u>\$ 720</u>	<u>\$ 2,611,473</u>	<u>\$ 281</u>	<u>\$ 3,122,597</u>
\$ -	\$ -	\$ -	\$ 667,414
22,878	1,847,888	8,934	4,060,071
<u>\$ 22,878</u>	<u>\$ 1,847,888</u>	<u>\$ 8,934</u>	<u>\$ 4,727,485</u>
\$ -	\$ -	\$ -	\$ 1,413,775
-	-	-	16,496
-	-	-	1,948,374
-	-	-	45,000
-	-	8,230,466	8,230,466
-	-	-	20,762
-	-	-	299,126
-	-	-	189,548
-	-	210,499	210,499
-	-	-	40,163
-	-	-	35,783
-	535,787	-	535,787
-	-	-	622,992
-	-	-	241,968
1,986,754	-	-	1,986,754
-	(2,767,606)	-	912,672
<u>\$ 1,986,754</u>	<u>\$ (2,231,819)</u>	<u>\$ 8,440,965</u>	<u>\$ 16,750,165</u>
<u>\$ 2,010,352</u>	<u>\$ 2,227,542</u>	<u>\$ 8,450,180</u>	<u>\$ 24,600,247</u>

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT 4**

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

**Fund balances - total governmental funds (Exhibit 3) \$ 16,750,165**

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 59,726,445

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds. 4,060,071

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	\$	(16,640,000)	
Special assessment bonds		(440,000)	
Loans payable		(13,180)	
Bond discount		19,664	
Bond premium		(185,075)	
Net other postemployment benefits liability		(2,081,792)	
Accrued interest payable		(285,089)	
Compensated absences payable		(1,059,009)	
Capital leases payable		(26,831)	
		(20,711,312)	(20,711,312)

**Net Position of Governmental Activities (Exhibit 1) \$ 59,825,369**

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

	<b>General</b>	<b>Public Works</b>
<b>Revenues</b>		
Taxes	\$ 5,735,399	\$ 1,332,698
Special assessments	592,216	-
Licenses and permits	670	-
Intergovernmental	1,036,962	5,219,367
Charges for services	1,159,789	549,955
Fines and forfeits	24,362	-
Gifts and contributions	1,910	-
Investment earnings	60,962	-
Miscellaneous	317,934	74,937
	<b>\$ 8,930,204</b>	<b>\$ 7,176,957</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 2,924,666	\$ -
Public safety	3,224,696	-
Highways and streets	-	6,050,128
Transit	172,668	-
Human services	-	-
Sanitation	241,577	-
Culture and recreation	187,763	151,079
Conservation of natural resources	514,722	-
Economic development	65,526	-
<b>Intergovernmental</b>	-	407,530
<b>Debt service</b>		
Principal	20,177	-
Interest	1,445	-
Bond issuance costs	-	-
Administrative (fiscal) charges	-	-
	<b>\$ 7,353,240</b>	<b>\$ 6,608,737</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 1,576,964</b>	<b>\$ 568,220</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ 66,155	\$ -
Transfers out	(317,551)	-
Capital lease purchase	12,000	-
Refunding bonds issued	-	-
Premium on bonds issued	-	-
	<b>\$ (239,396)</b>	<b>\$ -</b>
<b>Change in Fund Balances</b>	<b>\$ 1,337,568</b>	<b>\$ 568,220</b>
<b>Fund Balances - January 1</b>	<b>6,119,557</b>	<b>660,096</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(131,176)</b>
<b>Fund Balances - December 31</b>	<b>\$ 7,457,125</b>	<b>\$ 1,097,140</b>

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

**EXHIBIT 5**

<b>Human Services</b>	<b>Ditch</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
\$ 1,889,019	\$ -	\$ 734,873	\$ 9,691,989
-	758,292	-	1,350,508
-	-	-	670
108,213	110,008	42,095	6,516,645
-	-	-	1,709,744
-	-	-	24,362
-	-	-	1,910
-	-	-	60,962
-	-	-	392,871
<b>\$ 1,997,232</b>	<b>\$ 868,300</b>	<b>\$ 776,968</b>	<b>\$ 19,749,661</b>
\$ -	\$ -	\$ -	\$ 2,924,666
-	-	-	3,224,696
-	-	-	6,050,128
-	-	-	172,668
1,933,234	-	-	1,933,234
-	-	-	241,577
-	-	-	338,842
-	1,383,425	-	1,898,147
-	-	-	65,526
-	-	-	407,530
-	60,000	645,000	725,177
-	6,879	398,684	407,008
-	-	88,195	88,195
-	425	1,723	2,148
<b>\$ 1,933,234</b>	<b>\$ 1,450,729</b>	<b>\$ 1,133,602</b>	<b>\$ 18,479,542</b>
<b>\$ 63,998</b>	<b>\$ (582,429)</b>	<b>\$ (356,634)</b>	<b>\$ 1,270,119</b>
\$ -	\$ -	\$ 317,551	\$ 383,706
-	-	(66,155)	(383,706)
-	-	-	12,000
-	-	7,480,000	7,480,000
-	-	193,275	193,275
<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,924,671</b>	<b>\$ 7,685,275</b>
<b>\$ 63,998</b>	<b>\$ (582,429)</b>	<b>\$ 7,568,037</b>	<b>\$ 8,955,394</b>
<b>1,922,756</b>	<b>(1,649,390)</b>	<b>872,928</b>	<b>7,925,947</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>(131,176)</b>
<b>\$ 1,986,754</b>	<b>\$ (2,231,819)</b>	<b>\$ 8,440,965</b>	<b>\$ 16,750,165</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, 2014**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 8,955,394**

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

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

Unavailable revenue - December 31	\$ 4,060,071	
Unavailable revenue - January 1	<u>(3,835,377)</u>	224,694

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.

Expenditures for general capital assets and infrastructure	\$ 3,373,423	
Current year depreciation	<u>(3,394,991)</u>	(21,568)

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

Proceeds of new debt		
General obligation bonds	\$ (7,480,000)	
Premium on bond	(193,275)	
Capital lease purchase	<u>(12,000)</u>	(7,685,275)

Principal repayments		
General obligation bonds	\$ 645,000	
Special assessment bonds	60,000	
Capital lease payable	7,257	
Loans payable	<u>12,920</u>	725,177

Amortization of discount on bonds and issuance costs		(2,520)
Amortization of premium on bonds and issuance costs		8,200

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	\$ (113,072)	
Change in compensated absences	(69,801)	
Change in other postemployment benefits liabilities	(128,591)	
Change in inventories	<u>(131,176)</u>	<u>(442,640)</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,761,462**



**PROPRIETARY FUND**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 7*

**STATEMENT OF FUND NET POSITION  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
DECEMBER 31, 2014**

	<b>Business-Type Activities</b>
<b><u>Assets</u></b>	
<b>Current assets</b>	
Cash and pooled investments	\$ 28,905
Special assessments	
Delinquent	25,348
Noncurrent	42,643
Due from other governments	6,360
<b>Total current assets</b>	<b>\$ 103,256</b>
<b>Noncurrent assets</b>	
Capital assets	
Nondepreciable	\$ 27,643
Depreciable - net of accumulated depreciation	1,220,624
<b>Total noncurrent assets</b>	<b>\$ 1,248,267</b>
<b>Total Assets</b>	<b>\$ 1,351,523</b>
<b><u>Liabilities</u></b>	
<b>Current liabilities</b>	
Due to other funds	\$ 3,498
<b>Noncurrent liabilities</b>	
General obligation bonds payable - long-term	337,000
<b>Total Liabilities</b>	<b>\$ 340,498</b>
<b><u>Net Position</u></b>	
Net investment in capital assets	\$ 911,267
Unrestricted	99,758
<b>Total Net Position</b>	<b>\$ 1,011,025</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>Business-Type Activities</b>
<b>Operating Revenues</b>	
Charges for services	\$ 17,465
Special assessments	8,283
	<b>\$ 25,748</b>
<b>Operating Expenses</b>	
Professional services	\$ 715
Depreciation	56,115
	<b>\$ 56,830</b>
<b>Operating Income (Loss)</b>	<b>\$ (31,082)</b>
<b>Nonoperating Revenues (Expenses)</b>	
Interest expense	(14,919)
	<b>\$ (46,001)</b>
<b>Change in Net Position</b>	
<b>Net Position - January 1</b>	<b>1,057,026</b>
<b>Net Position - December 31</b>	<b>\$ 1,011,025</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 9*

**STATEMENT OF CASH FLOWS  
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014  
Increase (Decrease) in Cash and Cash Equivalents**

	<b>Business-Type Activities</b>
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 21,677
Payments to suppliers	(715)
	<b>\$ 20,962</b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Special assessments	\$ 12,898
Principal paid on long-term debt	(8,000)
Interest paid on long-term debt	(30,013)
	<b>\$ (25,115)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (4,153)</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>33,058</b>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 28,905</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>	
<b>Operating income (loss)</b>	<b>\$ (31,082)</b>
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</b>	
Depreciation expense	\$ 56,115
(Increase) decrease in special assessments - prior	(7,100)
(Increase) decrease in special assessments - noncurrent	4,401
(Increase) decrease in due from other governments	(1,372)
	<b>\$ 52,044</b>
<b>Total adjustments</b>	<b>\$ 52,044</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 20,962</b>

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**FIDUCIARY FUNDS**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT 10*

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

	<u>Agency Funds</u>
<b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 340,759</u>
<b><u>Liabilities</u></b>	
Due to other governments	<u>\$ 340,759</u>

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2014. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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 there is a financial benefit or burden relationship with the County.	Separate financial statements are not prepared.
Faribault County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints the Board members and must approve debt.	Faribault County HRA Minnesota Valley Action Council 706 North Victory Drive Mankato, Minnesota 56001

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. 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 accounted for in another fund.

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

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

**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 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.

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.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2014, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings in the General Fund for 2014 were \$60,962.

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. The investment in the pool is measured at the net position value per share provided by the pool.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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.

Investments of the County are reported at fair value.

2. Cash and Cash Equivalents

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



**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

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.

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

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.

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

4. Inventories and Prepaid Items

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items (Continued)

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

5. Restricted Assets

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

6. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

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

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

7. 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. The current portion is calculated as 1.3 percent of the total liability.

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations (Continued)

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

9. Deferred Outflows/Inflows of Resources

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

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

10. Unearned Revenue

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

11. Classification of Net Position

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

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

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

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

12. Classification of Fund Balances

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

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

12. Classification of Fund Balances (Continued)

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

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

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

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

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

13. Use of Estimates

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

E. Future Change in Accounting Standards

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

A. Ditch Special Revenue Fund Equity

On the full accrual basis of accounting, 72 of the 189 drainage systems have incurred expenses in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund equity as the December 31, 2014, using the full accrual basis of accounting.

Account balances	\$ 901,349
Account balance deficit	<u>(1,725,280)</u>
Fund Equity - Full Accrual Basis	<u>\$ (823,931)</u>

Using the modified accrual basis of accounting, noncurrent receivables and bonds payable do not affect fund balance. Noncurrent receivables are deferred inflows of resources, and bonds payable are not reported. Using this basis of accounting, 106 ditches had fund deficits.

Account balances	\$ 535,787
Account balance deficit	<u>(2,767,606)</u>
Fund Equity - Modified Accrual Basis	<u>\$ (2,231,819)</u>

B. Deficit Fund Balance

The Ditch Special Revenue Fund has a deficit fund balance of \$2,231,819 at December 31, 2014, which will be eliminated by special assessments.



**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	\$	9,167,455
Petty cash and change funds		2,562
Cash with fiscal agent		7,582,739
Business-type activities		
Cash and pooled investments		28,905
Component unit - EDA		
Cash and pooled investments		383,312
Restricted temporary investment		10,396
Fiduciary funds		
Cash and pooled investments		<u>340,759</u>
Total Cash and Investments	\$	<u>17,516,128</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, 2014, the County's deposits were not exposed to custodial credit risk.

b. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. 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	\$ 8,633,247	\$ -
Petty cash and change funds	2,562	-
Cash with fiscal agent	7,582,739	-
MAGIC Fund	580	-
Mutual funds	100,000	-
Federal Home Loan Bank (1)	-	245,000
Negotiable certificates of deposit	-	952,000
	\$ 16,319,128	\$ 1,197,000
Total Cash and Investments	\$ 16,319,128	\$ 1,197,000

(1) These securities have step provisions, which could result in 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. The County's exposure to credit risk as of December 31, 2014, is as follows:

<u>Moody's Rating</u>	<u>Fair Value</u>
Aaa	\$ 245,000
Aaa-mf	<u>100,000</u>
Total	<u>\$ 345,000</u>

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, 2014, none of the County's investments were subject to custodial credit risk.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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.

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

<u>Issuer</u>	<u>Moody's Rating</u>	<u>Maturity Date</u>	<u>Market Value</u>
Federal Home Loan Bank	Aaa	05/23/2023	\$ 245,000
Goldman Sachs Bank	NR	08/01/2017	205,000
GE Capital Bank	NR	07/13/2018	200,000
GE Capital Retail Bank	NR	07/13/2018	200,000
Worlds Foremost Bank	NR	08/13/2019	100,000
Discover Bank	NR	10/08/2019	247,000

NR - not rated

2. Receivables

Receivables as of December 31, 2014, for the County are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes - delinquent	\$ 158,330	\$ -
Special assessments - delinquent	56,253	-
Special assessments - noncurrent	2,848,939	2,024,583
Accounts	18,701	-
Accrued interest	10,866	-
Due from other governments	1,313,900	-
Advance to other governments	45,000	-
Total Governmental Activities	<u>\$ 4,451,989</u>	<u>\$ 2,024,583</u>

**FARIBAULT 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 - delinquent	\$ 25,348	\$ -
Special assessments - noncurrent	42,643	23,891
Due from other governments	6,360	-
Total Business-Type Activities	\$ 74,351	\$ 23,891

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,717,074	\$ 152,703	\$ -	\$ 1,869,777
Construction in progress	4,020,935	567,272	3,908,158	680,049
Total capital assets not depreciated	\$ 5,738,009	\$ 719,975	\$ 3,908,158	\$ 2,549,826
Capital assets depreciated				
Buildings and improvements	\$ 13,501,390	\$ -	\$ -	\$ 13,501,390
Other improvements	161,597	-	-	161,597
Machinery and equipment	8,586,955	421,139	30,507	8,977,587
Infrastructure	84,191,799	6,140,467	-	90,332,266
Total capital assets depreciated	\$ 106,441,741	\$ 6,561,606	\$ 30,507	\$ 112,972,840
Less: accumulated depreciation for				
Buildings and improvements	\$ 3,446,762	\$ 312,994	\$ -	\$ 3,759,756
Other improvements	98,481	8,956	-	107,437
Machinery and equipment	5,596,220	518,152	30,507	6,083,865
Infrastructure	43,290,274	2,554,889	-	45,845,163
Total accumulated depreciation	\$ 52,431,737	\$ 3,394,991	\$ 30,507	\$ 55,796,221
Total capital assets depreciated, net	\$ 54,010,004	\$ 3,166,615	\$ -	\$ 57,176,619
Capital Assets, Net	\$ 59,748,013	\$ 3,886,590	\$ 3,908,158	\$ 59,726,445

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 27,643	\$ -	\$ -	\$ 27,643
Capital assets depreciated				
Machinery and equipment	\$ 70,000	\$ -	\$ -	\$ 70,000
Infrastructure	1,543,420	-	-	1,543,420
Total capital assets depreciated	\$ 1,613,420	\$ -	\$ -	\$ 1,613,420
Less: accumulated depreciation for				
Machinery and equipment	\$ 27,999	\$ 4,667	\$ -	\$ 32,666
Infrastructure	308,682	51,448	-	360,130
Total accumulated depreciation	\$ 336,681	\$ 56,115	\$ -	\$ 392,796
Total capital assets depreciated, net	\$ 1,276,739	\$ (56,115)	\$ -	\$ 1,220,624
Capital Assets, Net	<u>\$ 1,304,382</u>	<u>\$ (56,115)</u>	<u>\$ -</u>	<u>\$ 1,248,267</u>

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

Governmental Activities	
General government	\$ 434,676
Public safety	177,821
Highways and streets, including depreciation of infrastructure assets	2,780,627
Conservation of natural resources	1,867
	<u>3,394,991</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,394,991</u>
Business-Type Activities	
Huntley Sewer District	<u>\$ 56,115</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, 2014, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Huntley	\$ 3,498	Interest on loans
	Ditch	11,250	Debt issuance costs
Total due to General Fund		<u>\$ 14,748</u>	
Public Works	General	\$ 2,109	Fuel
Total		<u>\$ 16,857</u>	

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

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 1,948,374</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, 2014.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2014, consisted of a transfer from the General Fund to the Debt Service Fund of \$317,551 for debt service payments and from the Debt Service Fund to the General Fund of \$66,155 to transfer bond proceeds to reimburse the General Fund for Individual Sewage Treatment Systems loans issued.

**FARIBAULT 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 postretirement health care benefits for certain retirees and their dependents. For employees and officers employed before January 1, 2002, the County pays 100 percent of the single premium and 50 percent of the family premium for life. The County's contribution depends on which bargaining unit the employee was a member of and the plan chosen at retirement. As of year-end, the County has 33 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2014, the County expended \$147,406 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, 2014, the date of the last valuation, there were approximately 40 retirees receiving health benefits from the County's health plan. The implicit rate subsidy amount was determined by an actuarial study to be \$16,969 for 2014.

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	\$	336,943
Interest on net OPEB obligation		78,128
Adjustment to ARC		(112,953)
		-----
Annual OPEB cost (expense)	\$	302,118
Contributions made		(173,527)
		-----
Increase in net OPEB obligation	\$	128,591
Net OPEB Obligation - January 1		1,953,201
		-----
Net OPEB Obligation - December 31	\$	2,081,792

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, 2012, 2013, and 2014, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2012	\$ 381,946	\$ 178,114	46.6%	\$ 1,715,610
December 31, 2013	388,883	151,292	38.9	1,953,201
December 31, 2014	302,118	173,527	57.4	2,081,792

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$4,112,581, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,112,581. The covered payroll (annual payroll of active employees covered by the plan) was \$4,782,966, and the ratio of the UAAL to the covered payroll was 86.0 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, 2014, 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 initially 7.5 percent for non-Medicare and 6.5 percent for Medicare, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 2.75 percent inflation assumption. The UAAL is being amortized over 30 years on a level dollar amount. The remaining amortization period at December 31, 2014, was 23 years.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

The County has entered into capital lease agreements as lessee for financing the acquisition of copiers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases consist of the following at December 31, 2014:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2013 machine room copier	2018	Monthly	\$ 236	\$ 13,300	\$ 9,483
2013 County attorney copier	2018	Monthly	127	6,875	4,948
2013 veteran services copier	2017	Monthly	84	3,700	2,437
2014 extension copier	2019	Monthly	219	12,000	9,963
Total Leases					<u>\$ 26,831</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, 2014, were as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2015	\$ 7,997
2016	7,997
2017	7,532
2018	4,786
2019	219
<hr/>	
Total lease payments	\$ 28,531
Less: amount representing interest	<u>(1,700)</u>
Present Value of Minimum Lease Payments	<u>\$ 26,831</u>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Governmental Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2014
General obligation bonds					
2001 G.O. Bonds Taxable Refunding Waste Disposal Bonds	2016	\$25,000 - \$30,000	6.70	\$ 300,000	\$ 55,000
2007 G.O. Jail Bonds	2028	\$ 415,000 - \$745,000	4.00 - 4.25	10,000,000	7,855,000
2007 G.O. Waste Disposal Bonds	2018	\$80,000 - \$95,000	5.45 - 6.00	750,000	350,000
2009 G.O. Waste Disposal Bonds	2020	\$150,000	3.25 - 4.70	1,500,000	900,000
2014 G.O. Jail Refunding Bonds	2028	\$ 480,000 - \$690,000	2.50 - 2.85	<u>7,480,000</u>	<u>7,480,000</u>
Total general obligation bonds				<u>\$ 20,030,000</u>	\$ 16,640,000
Plus: unamortized premium					185,075
Less: unamortized discount					<u>(19,664)</u>
Total General Obligation Bonds, Net					<u>\$ 16,805,411</u>

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Balance December 31, 2014
General obligation special assessment bonds					
2013 G.O. Refunding Ditch Bonds	2024	\$40,000 - \$50,000	0.45 - 2.00	<u>\$ 485,000</u>	<u>\$ 440,000</u>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installments Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2014</u>
2005 Minnesota Pollution Control Agency Loan	2015	\$13,378	2.00	\$ 120,704	\$ 13,180

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, 2014</u>
2009 G.O. Revenue Bonds	2049	\$4,000 - \$18,000	4.38	\$ 360,000	\$ 337,000

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2014, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 8,110,000	\$ 462,039	\$ 40,000	\$ 5,945
2016	745,000	230,152	40,000	5,675
2017	730,000	205,317	45,000	5,293
2018	750,000	181,180	45,000	4,887
2019	670,000	158,805	40,000	4,395
2020 - 2024	3,015,000	537,800	230,000	11,105
2025 - 2028	2,620,000	147,319	-	-
Total	\$ 16,640,000	\$ 1,922,612	\$ 440,000	\$ 37,300

Year Ending December 31	Loan Payable	
	Principal	Interest
2015	\$ 13,180	\$ 198

Business-Type Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2015	\$ -	\$ -
2016	4,000	14,744
2017	5,000	14,569
2018	5,000	14,350
2019	5,000	14,131
2020 - 2024	29,000	67,113
2025 - 2029	36,000	60,156
2030 - 2034	45,000	51,581
2035 - 2039	55,000	40,862
2040 - 2044	69,000	27,650
2045 - 2049	84,000	11,375
Total	\$ 337,000	\$ 316,531

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Debt Refunding

On April 23, 2014, the County issued \$7,480,000 of General Obligation Crossover Refunding Bonds, Series 2014A, with an average interest rate of 2.60 percent to refund \$7,440,000 of the General Obligation Jail Bonds, Series 2007A, with an average interest rate of 4.18 percent. The refunding of the Series 2007A bonds will be conducted by means of a crossover refunding mechanism. The County will continue to make principal and interest payments on the Series 2007A bonds through the call date of February 1, 2015. The County refunded the bonds to reduce its total debt service payments by \$891,825 and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$757,974.

6. Changes in Long-Term Liabilities

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

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 9,805,000	\$ 7,480,000	\$ 645,000	\$ 16,640,000	\$ 8,110,000
General obligation special assessment bonds	500,000	-	60,000	440,000	40,000
Plus: unamortized premium	-	193,275	8,200	185,075	-
Less: unamortized discount	(22,184)	-	(2,520)	(19,664)	-
Total bonds payable	\$ 10,282,816	\$ 7,673,275	\$ 710,680	\$ 17,245,411	\$ 8,150,000
Capital leases	22,088	12,000	7,257	26,831	7,211
Loans payable	26,100	-	12,920	13,180	13,180
Compensated absences	989,208	69,801	-	1,059,009	13,767
Long-Term Liabilities	\$ 11,320,212	\$ 7,755,076	\$ 730,857	\$ 18,344,431	\$ 8,184,158

Compensated absence liabilities are generally liquidated by the General Fund and Public Works Special Revenue Fund.

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

6. 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	\$ 345,000	\$ -	\$ 8,000	\$ 337,000	\$ -

7. Construction Commitments

The County has no active construction projects as of December 31, 2014.

D. Unearned Revenue/Deferred Inflows of Resources

Unearned revenue and deferred inflows of resources as of December 31, 2014, for the County's governmental funds are as follows:

	<u>Unearned Revenue</u>	<u>Deferred Inflow of Resources</u>
Advanced allotments		
Highway allotments that were received in advance	\$ -	\$ 667,414
Unavailable revenue		
Delinquent property taxes	-	111,002
Special assessments receivable, delinquent and noncurrent	-	2,887,309
Highway allotments that do not provide current financial resources	-	1,058,967
Grants	134,190	-
Other	3,610	1,298
Unavailable revenue from accrued interest	-	1,495
 Total Governmental Funds	 <u>\$ 137,800</u>	 <u>\$ 4,727,485</u>



**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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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.

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

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

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

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

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

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Employees Retirement Fund	\$ 178,378	\$ 174,011	\$ 174,195
Public Employees Police and Fire Fund	94,674	86,170	82,114
Public Employees Correctional Fund	63,648	65,367	57,951

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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4. Pension Plans (Continued)

B. Defined Contribution Plan

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

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

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

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 9,272	\$ 9,272
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

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

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

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5. Risk Management (Continued)

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$480,000 per claim in 2014 and \$490,000 per claim in 2015. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

Human Services of Faribault and Martin Counties

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

Complete financial information can be obtained from:

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

Prairieland Solid Waste Board (Prairieland)

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

The Prairieland Solid Waste Board reported a change in net position of \$70,117 in 2014. The full-faith and credit and taxing power of Faribault and Martin Counties is pledged to the payment of each County's proportional share of the principal and interest when due.

Complete financial statements can be obtained at:

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

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was formed under the authority of Minn. Stat. § 471.59. The Board was established in 2005 to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. It is the intention of the counties that they cooperate in a joint venture to provide the greatest public service benefit for the 18-county area encompassed by the counties in planning, management, and implementation of methods to deal with energy and transmission in rural Minnesota.

Control of the Rural Minnesota Energy Board is vested in a Joint Powers Board. Faribault County appoints one voting member and one alternate member to this Board who shall both be County Commissioners. During 2014, Faribault County contributed \$1,000 to the Board. The Board shall prepare an annual budget to cover the administrative and planning costs of and agree that it shall continue to do so for each year of its existence. These costs will be paid equally by each member county of the Board up to a ceiling of \$3,500 per county per year, and further costs shall be based on per capita.

Separate audited financial information can be obtained from:

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

South Central Drug Investigation Unit (Drug Task Force)

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

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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

South Central Minnesota Emergency Communications Board

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

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

Blue Earth County acts as the fiscal agent for the Board. During 2014, the County made no contributions to the Joint Powers Board. The Chair of the Board is Kip Bruender, and the address is: P. O. Box 8608, Mankato, Minnesota 56002-8608.

South Central Workforce Service Area Joint Powers Board

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

Faribault County made no payments to this organization in 2014.



**FARIBAULT COUNTY  
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6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

South Central Workforce Service Area Joint Powers Board (Continued)

Separate financial information can be obtained from:

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

C. Jointly-Governed Organizations

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

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

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

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

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

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

The South Central Community Based Initiative was established pursuant to Minn. Stat. §§ 471.59 and 245.4661 and a joint powers agreement effective June 20, 2008. The purpose of this joint powers agreement is to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state-operated services programs and community-based treatment. The membership of the Board is comprised of one representative appointed by Blue Earth, Brown, Faribault, Freeborn, Le Sueur, Martin, Nicollet, Rice, Sibley, and Watonwan Counties. The County made no payments to the Community Based Initiative in 2014.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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

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

The Three Rivers Resource Conservation & Development (RC&D) is a locally initiated, sponsored, and directed organization that works to enhance the quality of life by improving the economic, social, and environmental conditions within the area. The RC&D is lead locally by Soil and Water Conservation District Supervisors and County Commissioners from the nine-county area that is served by the council. During the year, the County made no payments 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 2014.

**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, 2014, consist of \$52 accrued interest receivable and \$173,257 in loans made to individuals and businesses for development.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

C. Summary of Significant Contingencies

Nonexchange Financial Guarantees

The EDA has entered into nonexchange financial guarantees with lenders to guarantee payments if the guarantor does not make loan payments. The guarantee is located in the jurisdiction of the guarantor, the EDA. Upon default of the loan, the lender will request payment for the guarantor's portion from the guarantor.

Nonexchange financial guarantees at December 31, 2014, were as follows:

<u>Guarantee</u>	<u>Lender</u>	<u>Year of Guarantee</u>	<u>Outstanding Balance at December 31, 2014</u>
Hardware Store	First National Bank	2008	\$ 10,396
Everwood Log to Home, LLC	Paragon Bank	2011	11,500
Kiester Market	First State Bank of Kiester	2013	15,000

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.

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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8. Housing and Redevelopment Authority (HRA)

Summary of Significant Accounting Policies (Continued)

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 5,612,495	\$ 5,612,495	\$ 5,735,399	\$ 122,904
Special assessments	594,873	594,873	592,216	(2,657)
Licenses and permits	3,400	3,400	670	(2,730)
Intergovernmental	855,967	855,967	1,036,962	180,995
Charges for services	1,032,061	1,052,061	1,159,789	107,728
Fines and forfeits	16,000	16,000	24,362	8,362
Gifts and contributions	-	-	1,910	1,910
Investment earnings	65,000	65,000	60,962	(4,038)
Miscellaneous	145,565	145,565	317,934	172,369
<b>Total Revenues</b>	<b>\$ 8,325,361</b>	<b>\$ 8,345,361</b>	<b>\$ 8,930,204</b>	<b>\$ 584,843</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 289,795	\$ 289,795	\$ 262,070	\$ 27,725
Courts	39,705	39,705	39,018	687
County auditor/treasurer	441,575	441,575	432,717	8,858
Motor vehicle/license bureau	149,575	149,575	149,200	375
County assessor	320,720	320,720	296,673	24,047
Elections	60,000	60,000	51,017	8,983
Data processing	169,450	169,450	163,271	6,179
Central administration	143,940	143,940	144,598	(658)
Machine room	11,000	11,000	4,858	6,142
Attorney	240,040	240,040	231,922	8,118
Law library	12,000	12,000	16,624	(4,624)
Recorder	255,430	255,430	206,849	48,581
Vital statistics	20,075	20,075	9,891	10,184
Planning and zoning	118,435	118,435	104,646	13,789
Buildings and plant	378,421	378,421	295,441	82,980
Veterans service officer	256,715	184,215	164,459	19,756
Other general government	764,650	764,650	351,412	413,238
<b>Total general government</b>	<b>\$ 3,671,526</b>	<b>\$ 3,599,026</b>	<b>\$ 2,924,666</b>	<b>\$ 674,360</b>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

**EXHIBIT A-1  
(Continued)**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,345,185	\$ 1,327,885	\$ 1,289,603	\$ 38,282
Public safety grants	-	-	5,740	(5,740)
Task force	-	6,500	6,500	-
Boat and water safety	1,541	1,541	371	1,170
County jail	1,374,035	1,374,035	1,393,134	(19,099)
Sentence to serve	57,875	57,875	58,156	(281)
Fraud investigator	73,285	73,285	117,026	(43,741)
Animal control	4,000	4,000	4,920	(920)
Probation and parole	171,200	171,200	198,923	(27,723)
Sheriff's contingency	1,000	1,000	-	1,000
Emergency management	10,000	28,600	28,551	49
Enhanced 911	91,000	91,000	81,049	9,951
Radio project	-	-	15,167	(15,167)
Medical examiner	12,000	12,000	23,983	(11,983)
DARE	6,500	-	1,573	(1,573)
<b>Total public safety</b>	<b>\$ 3,147,621</b>	<b>\$ 3,148,921</b>	<b>\$ 3,224,696</b>	<b>\$ (75,775)</b>
<b>Transit</b>				
Transit	<b>\$ 196,400</b>	<b>\$ 196,400</b>	<b>\$ 172,668</b>	<b>\$ 23,732</b>
<b>Sanitation</b>				
Recycling/education	\$ 310,128	\$ 310,128	\$ 159,099	\$ 151,029
SCORE funds	55,950	55,950	82,478	(26,528)
<b>Total sanitation</b>	<b>\$ 366,078</b>	<b>\$ 366,078</b>	<b>\$ 241,577</b>	<b>\$ 124,501</b>
<b>Culture and recreation</b>				
Historical society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
County library	181,161	181,161	177,763	3,398
<b>Total culture and recreation</b>	<b>\$ 191,161</b>	<b>\$ 191,161</b>	<b>\$ 187,763</b>	<b>\$ 3,398</b>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-1  
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 114,758	\$ 114,758	\$ 126,460	\$ (11,702)
Soil conservation	58,000	58,000	58,000	-
County agricultural society	10,000	10,000	10,000	-
Predator control	500	500	-	500
Water planning	95,246	95,246	109,527	(14,281)
Drainage/septic inspection	153,526	153,526	144,580	8,946
Septic loan program	125,000	125,000	66,155	58,845
<b>Total conservation of natural resources</b>	<b>\$ 557,030</b>	<b>\$ 557,030</b>	<b>\$ 514,722</b>	<b>\$ 42,308</b>
<b>Economic development</b>				
Community development	\$ 14,050	\$ 14,050	\$ 15,526	\$ (1,476)
Economic development	50,000	50,000	50,000	-
<b>Total economic development</b>	<b>\$ 64,050</b>	<b>\$ 64,050</b>	<b>\$ 65,526</b>	<b>\$ (1,476)</b>
<b>Debt service</b>				
Principal	\$ 11,750	\$ 11,750	\$ 20,177	\$ (8,427)
Interest	650	650	1,445	(795)
<b>Total debt service</b>	<b>\$ 12,400</b>	<b>\$ 12,400</b>	<b>\$ 21,622</b>	<b>\$ (9,222)</b>
<b>Total Expenditures</b>	<b>\$ 8,206,266</b>	<b>\$ 8,135,066</b>	<b>\$ 7,353,240</b>	<b>\$ 781,826</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 119,095</b>	<b>\$ 210,295</b>	<b>\$ 1,576,964</b>	<b>\$ 1,366,669</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 136,950	\$ 136,950	\$ 66,155	\$ (70,795)
Transfers out	(317,275)	(317,275)	(317,551)	(276)
Capital lease purchase	-	-	12,000	12,000
<b>Total Other Financing Sources (Uses)</b>	<b>\$ (180,325)</b>	<b>\$ (180,325)</b>	<b>\$ (239,396)</b>	<b>\$ (59,071)</b>
<b>Change in Fund Balance</b>	<b>\$ (61,230)</b>	<b>\$ 29,970</b>	<b>\$ 1,337,568</b>	<b>\$ 1,307,598</b>
<b>Fund Balance - January 1</b>	<b>6,119,557</b>	<b>6,119,557</b>	<b>6,119,557</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 6,058,327</b>	<b>\$ 6,149,527</b>	<b>\$ 7,457,125</b>	<b>\$ 1,307,598</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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,327,944	\$ 1,327,944	\$ 1,332,698	\$ 4,754
Intergovernmental	7,364,532	7,364,532	5,219,367	(2,145,165)
Charges for services	504,000	504,000	549,955	45,955
Miscellaneous	-	-	74,937	74,937
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Revenues</b>	<b>\$ 9,196,476</b>	<b>\$ 9,196,476</b>	<b>\$ 7,176,957</b>	<b>\$ (2,019,519)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 197,293	\$ 197,293	\$ 193,969	\$ 3,324
Maintenance	1,791,364	1,791,364	1,446,171	345,193
Construction	4,417,203	4,417,203	2,672,498	1,744,705
Equipment maintenance and shop	1,165,711	1,165,711	970,135	195,576
Material and services for resale	104,300	104,300	283,216	(178,916)
Other - highways and streets	513,853	513,853	484,139	29,714
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total highways and streets</b>	<b>\$ 8,189,724</b>	<b>\$ 8,189,724</b>	<b>\$ 6,050,128</b>	<b>\$ 2,139,596</b>
<b>Culture and recreation</b>				
Parks	181,667	181,667	151,079	30,588
<b>Intergovernmental</b>				
Highways and streets	382,500	382,500	407,530	(25,030)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Expenditures</b>	<b>\$ 8,753,891</b>	<b>\$ 8,753,891</b>	<b>\$ 6,608,737</b>	<b>\$ 2,145,154</b>
<b>Change in Fund Balance</b>	<b>\$ 442,585</b>	<b>\$ 442,585</b>	<b>\$ 568,220</b>	<b>\$ 125,635</b>
<b>Fund Balance - January 1</b>	<b>660,096</b>	<b>660,096</b>	<b>660,096</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(131,176)</b>	<b>(131,176)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund Balance - December 31</b>	<b>\$ 1,102,681</b>	<b>\$ 1,102,681</b>	<b>\$ 1,097,140</b>	<b>\$ (5,541)</b>

**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-3*

**BUDGETARY COMPARISON SCHEDULE  
HUMAN SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,884,787	\$ 1,884,787	\$ 1,889,019	\$ 4,232
Intergovernmental	108,213	108,213	108,213	-
<b>Total Revenues</b>	<b>\$ 1,993,000</b>	<b>\$ 1,993,000</b>	<b>\$ 1,997,232</b>	<b>\$ 4,232</b>
<b>Expenditures</b>				
<b>Current</b>				
Human services	2,014,153	2,014,153	1,933,234	80,919
<b>Change in Fund Balance</b>	<b>\$ (21,153)</b>	<b>\$ (21,153)</b>	<b>\$ 63,998</b>	<b>\$ 85,151</b>
<b>Fund Balance - January 1</b>	<b>1,922,756</b>	<b>1,922,756</b>	<b>1,922,756</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,901,603</b>	<b>\$ 1,901,603</b>	<b>\$ 1,986,754</b>	<b>\$ 85,151</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-4*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 670,000	\$ 670,000	\$ 758,292	\$ 88,292
Intergovernmental	-	-	110,008	110,008
<b>Total Revenues</b>	<b>\$ 670,000</b>	<b>\$ 670,000</b>	<b>\$ 868,300</b>	<b>\$ 198,300</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Ditch maintenance	\$ 600,000	\$ 600,000	\$ 1,383,425	\$ (783,425)
<b>Debt service</b>				
Principal	50,000	50,000	60,000	(10,000)
Interest	20,000	20,000	6,879	13,121
Administrative (fiscal) charges	-	-	425	(425)
<b>Total Expenditures</b>	<b>\$ 670,000</b>	<b>\$ 670,000</b>	<b>\$ 1,450,729</b>	<b>\$ (780,729)</b>
<b>Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (582,429)</b>	<b>\$ (582,429)</b>
<b>Fund Balance - January 1</b>	<b>(1,649,390)</b>	<b>(1,649,390)</b>	<b>(1,649,390)</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ (1,649,390)</b>	<b>\$ (1,649,390)</b>	<b>\$ (2,231,819)</b>	<b>\$ (582,429)</b>

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT A-5*

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

<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
January 1, 2014	-	4,112,581	4,112,581	0.0	4,782,966	86.0

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**FARIBAUT COUNTY  
BLUE EARTH, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014

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

The revenue and expenditure budgets in the General Fund were amended as follows:

	Original Budget	Increase (Decrease)	Final Budget
General Fund			
Revenues	\$ 8,325,361	\$ 20,000	\$ 8,345,361
Expenditures	8,206,266	(71,200)	8,135,066

3. Excess of Expenditures Over Appropriations

The Ditch Special Revenue Fund's expenditures exceeded appropriations by \$780,729. 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

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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 733,205	\$ 733,205	\$ 734,873	\$ 1,668
Intergovernmental	42,095	42,095	42,095	-
<b>Total Revenues</b>	<b>\$ 775,300</b>	<b>\$ 775,300</b>	<b>\$ 776,968</b>	<b>\$ 1,668</b>
<b>Expenditures</b>				
<b>Debt service</b>				
Principal	\$ 630,000	\$ 630,000	\$ 645,000	\$ (15,000)
Interest	414,183	414,183	398,684	15,499
Bond issuance costs	-	-	88,195	(88,195)
Administrative (fiscal) charges	1,400	1,400	1,723	(323)
<b>Total Expenditures</b>	<b>\$ 1,045,583</b>	<b>\$ 1,045,583</b>	<b>\$ 1,133,602</b>	<b>\$ (88,019)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (270,283)</b>	<b>\$ (270,283)</b>	<b>\$ (356,634)</b>	<b>\$ (86,351)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 317,275	\$ 317,275	\$ 317,551	\$ 276
Transfers out	(136,950)	(136,950)	(66,155)	70,795
Refunding bonds issued	-	-	7,480,000	7,480,000
Premium on bonds issued	-	-	193,275	193,275
<b>Total Other Financing Sources (Uses)</b>	<b>\$ 180,325</b>	<b>\$ 180,325</b>	<b>\$ 7,924,671</b>	<b>\$ 7,744,346</b>
<b>Change in Fund Balance</b>	<b>\$ (89,958)</b>	<b>\$ (89,958)</b>	<b>\$ 7,568,037</b>	<b>\$ 7,657,995</b>
<b>Fund Balance - January 1</b>	<b>872,928</b>	<b>872,928</b>	<b>872,928</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 782,970</b>	<b>\$ 782,970</b>	<b>\$ 8,440,965</b>	<b>\$ 7,657,995</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, 2014**

	Balance January 1	Additions	Deductions	Balance December 31
<b><u>MORTGAGE REGISTRATION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 5,225	\$ 67,624	\$ 67,836	\$ 5,013
<b><u>Liabilities</u></b>				
Due to other governments	\$ 5,225	\$ 67,624	\$ 67,836	\$ 5,013
 <b><u>DEED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 11,609	\$ 176,933	\$ 172,291	\$ 16,251
<b><u>Liabilities</u></b>				
Due to other governments	\$ 11,609	\$ 176,933	\$ 172,291	\$ 16,251
 <b><u>TAX AND PENALTY</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 201,974	\$ 22,967,478	\$ 22,849,957	\$ 319,495
<b><u>Liabilities</u></b>				
Due to other governments	\$ 201,974	\$ 22,967,478	\$ 22,849,957	\$ 319,495
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 218,808	\$ 23,212,035	\$ 23,090,084	\$ 340,759
<b><u>Liabilities</u></b>				
Due to other governments	\$ 218,808	\$ 23,212,035	\$ 23,090,084	\$ 340,759

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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 POSITION  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY  
DECEMBER 31, 2014**

	<b>General Fund</b>	<b>Adjustments*</b>	<b>Statement of Net Position</b>
<b><u>Assets</u></b>			
Current assets			
Cash and pooled investments	\$ 383,312	\$ -	\$ 383,312
Accrued interest receivable	52	-	52
Loans receivable	173,257	-	173,257
Restricted assets			
Investments - temporary	10,396	-	10,396
<b>Total Assets</b>	<b>\$ 567,017</b>	<b>\$ -</b>	<b>\$ 567,017</b>
 <b><u>Deferred Inflows of Resources</u></b>			
Unavailable revenue	<b>\$ 173,257</b>	<b>\$ (173,257)</b>	<b>\$ -</b>
 <b><u>Fund Balance/Net Position</u></b>			
<b>Fund Balance</b>			
Nonspendable - loan guarantee security	\$ 10,396	\$ (10,396)	
Restricted for commercial rehabilitation loans	110,303	(110,303)	
Assigned for loan guarantees	26,500	(26,500)	
Unassigned	246,561	(246,561)	
<b>Total Fund Balance</b>	<b>\$ 393,760</b>	<b>\$ (393,760)</b>	
 <b>Net Position</b>			
Restricted for commercial rehabilitation loans		\$ 110,303	\$ 110,303
Unrestricted		456,714	456,714
<b>Total Net Position</b>		<b>\$ 567,017</b>	<b>\$ 567,017</b>
 <b>Total Deferred Inflows of Resources and Fund Balance</b>	 <b>\$ 567,017</b>		

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

**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT D-2*

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Intergovernmental	\$ 54,204	\$ -	\$ 54,204
Charges for services	18,391	12,279	30,670
Investment earnings	106	-	106
<b>Total Revenues</b>	<b>\$ 72,701</b>	<b>\$ 12,279</b>	<b>\$ 84,980</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
Economic development	29,211	-	29,211
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ 43,490</b>	<b>\$ 12,279</b>	<b>\$ 55,769</b>
<b>Fund Balance/Net Position - January 1</b>	<b>350,270</b>	<b>160,978</b>	<b>511,248</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 393,760</b>	<b>\$ 173,257</b>	<b>\$ 567,017</b>

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



## **SCHEDULE**

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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

*EXHIBIT E-1*

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

	<u><b>Total Primary Government</b></u>
<b>Shared Revenue</b>	
<b>State</b>	
Highway users tax	\$ 4,827,181
PERA rate reimbursement	13,448
Disparity reduction aid	71,726
Police aid	67,909
County program aid	344,793
Market value credit	142,092
Enhanced 911	87,065
Aquatic invasive species prevention aid	15,845
	<hr/>
<b>Total shared revenue</b>	<b>\$ 5,570,059</b>
<b>Reimbursement for Services</b>	
<b>State</b>	
Minnesota Department of Human Services	\$ 16,475
	<hr/>
<b>Payments</b>	
<b>Local</b>	
Payments in lieu of taxes	\$ 54,797
	<hr/>
<b>Grants</b>	
<b>State</b>	
Minnesota Department/Board of	
Public Safety	\$ 32,113
Natural Resources	29,016
Revenue	3,529
Corrections	38,508
Transportation	392,006
Water and Soil Resources	92,509
Pollution Control Agency	119,753
	<hr/>
<b>Total state</b>	<b>\$ 707,434</b>
<b>Federal</b>	
Department of	
Transportation	\$ 68,924
Homeland Security	98,956
	<hr/>
<b>Total federal</b>	<b>\$ 167,880</b>
	<hr/>
<b>Total state and federal grants</b>	<b>\$ 875,314</b>
	<hr/>
<b>Total Intergovernmental Revenue</b>	<b>\$ 6,516,645</b>
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**FARIBAULT COUNTY  
BLUE EARTH, MINNESOTA**

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-005

Capital Assets Records

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

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

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

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

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

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

Client's Response:

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

Finding 2006-002

Budgeting

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

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

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

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

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



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

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

Client's Response:

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

Finding 2013-001

Audit Adjustments

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

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

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

**Effect:** The following audit adjustments were necessary to be recorded for December 31, 2014:

- Adjustments of \$569,154 and \$979,626 were required in the Public Works Special Revenue Fund to record respectively, additional state highway allotment receivables and the related deferred inflow of resources; and to correct a deferred inflow of resources journal entry that had been recorded incorrectly.
- The Huntley Sewer District Enterprise Fund was adjusted by \$5,022, \$18,919, and \$48,115 to record, respectively, a correction to an accrual entry that had been recorded incorrectly; to adjust an early debt payment as a reduction in debt-related liabilities rather than as a prepaid asset; and to adjust net investment in capital assets for the change in the current year that had not been recorded.

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

**Recommendation:** We recommend that the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

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

## II. OTHER FINDINGS AND RECOMMENDATIONS

### A. MINNESOTA LEGAL COMPLIANCE

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-001

#### Individual Ditch System Deficits

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

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

**Condition:** The County had individual ditch systems with deficit cash balances and deficit fund balances at December 31, 2014.

**Context:** At December 31, 2014, 44 of 189 ditch systems had negative cash balances totaling \$822,761, and 72 ditches had deficit fund balances totaling \$1,725,280.

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

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

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

Client's Response:

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

Finding 2013-002

Delegation to Pay Claims

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

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

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

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

**Effect:** By not reviewing the actions of the delegated authority, the County is not in compliance with Minn. Stat. § 375.18, subd. 1b.

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

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

Client's Response:

*The County will provide lists of all claims paid to the County Board beginning in 2015.*

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

Finding 2014-001

Ditch Special Revenue Fund Deficit Fund Balance

**Criteria:** Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive fund balance.

**Condition:** At December 31, 2014, the assets in the County's Ditch Special Revenue Fund did not exceed liabilities, resulting in a deficit fund balance amount.

**Context:** At December 31, 2014, the Ditch Special Revenue Fund has a deficit fund balance of \$2,231,819.

**Effect:** A negative fund balance indicates that measures have not been taken to ensure that the fund can meet current or future financial obligations.

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

**Recommendation:** We recommend the County eliminate the deficit fund balance in the Ditch Special Revenue Fund.

Client's Response:

*The County will assess drainage systems to eliminate the deficit balances.*

C. OTHER ITEM FOR CONSIDERATION

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

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

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

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

The net pension liability that will be reported in Faribault County's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live,

how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by the employers to report the net pension liability and deferred outflows/inflows of resources.



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

### Independent Auditor's Report

Board of County Commissioners  
Faribault County  
Blue Earth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 12, 2015. Our report includes a reference to other auditors who audited the financial statements of the Faribault County Housing and Redevelopment Authority as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

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

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

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

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

## **Compliance and Other Matters**

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

## **Minnesota Legal Compliance**

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



In connection with our audit, nothing came to our attention that caused us to believe that Faribault County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as items 1996-001 and 2013-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

### **Other Matters**

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

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

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

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

November 12, 2015