STATE OF MINNESOTA
Office of the State Auditor

Julie Blaha
State Auditor

FARIBAULT COUNTY
(Including the Faribault County
Economic Development Authority)
BLUE EARTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

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 650 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
(Including the Faribault County Economic Development Authority)
BLUE EARTH, MINNESOTA

Year Ended December 31, 2017

Audit Practice Division
Office of the State Auditor
State of Minnesota

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FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

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Introductory Section

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FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

ORGANIZATION
DECEMBER 31, 2017

			Term Expires
Elected			
Commissioners			
Chair	John Roper	District 1	January 2021
Vice Chair	Greg Young	District 2	January 2019
Board Member	William Groskreutz, Jr.	District 3	January 2021
Board Member	Tom Loveall	District 4	January 2019
Board Member	Tom Warmka	District 5	January 2021
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
Appointed			
Assessor	Gertrude Paschke		December 2020
County Engineer	Mark Daly		May 1, 2020
Veterans Service Officer	Jenna Schmidtke		Indefinite
Medical Examiner	Aaron Johnson, M.D.		December 31, 2017
Economic Development Authority Board			
Commissioner	John Roper		January 2018
Commissioner	William Groskreutz, Jr.		January 2018
Chair	John Herman	Wells	December 31, 2020
Vice Chair	Lars Bierly	Blue Earth	December 31, 2019
Secretary/Treasurer	Brad Wolf	Winnebago	December 31, 2021
Board Member	Jack Heinitz	Blue Earth	December 31, 2022
Board Member	Tony Trussell	Kiester	December 31, 2018

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Financial Section

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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, 2017, 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 is a discretely presented component unit and represents 4.22 percent, 4.22 percent, and 98.86 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 component unit, 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 from 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 audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 7.A. to Faribault County's financial statements, the previously issued 2016 financial statements for the Faribault County Economic Development Authority (EDA) component unit have been restated for a change in accounting principle used for accounting for the revolving loan activity. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the 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 reports dated January 14, 2019, on our consideration of Faribault County's and the Faribault County EDA component unit's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is solely 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 effectiveness of Faribault County's and the Faribault County EDA component unit's internal control over financial reporting or on compliance. The reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Faribault County's and the Faribault County EDA component unit's internal control over financial reporting and compliance. They do not include the Faribault County HRA, which was audited by other auditors.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 14, 2019

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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, 2017
(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, 2017. 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 $63,810,965, of which $56,937,485 is the net investment in capital assets, and $6,845,361 is restricted to specific purposes.

- Business-type activities' total net position is $832,113, of which $751,925 is the net investment in capital assets.

- Faribault County's governmental activities' net position increased by $2,414,154 for the year ended December 31, 2017. The net position of the County's business-type activities decreased by $50,164.

- The net cost of governmental activities was $9,119,479 for the current fiscal year. The net cost was funded by general revenues and other items totaling $11,533,633. The net cost of business-type activities was $50,164.

- Governmental funds' fund balances decreased by $2,394,064.

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 full 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 $62,279,088 to $64,643,078. 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	
	2017	2016	2017	2016	2017	2016
Assets						
Current and other assets	$ 17,375,976	$ 16,441,224	$ 94,538	$ 93,807	$ 17,470,514	$ 16,535,031
Capital assets	63,586,106	61,948,065	1,079,925	1,136,039	64,666,031	63,084,104
Total Assets	$ 80,962,082	$ 78,389,289	$ 1,174,463	$ 1,229,846	$ 82,136,545	$ 79,619,135
Deferred Outflows of Resources	$ 2,907,667	$ 4,888,982	$ -	$ -	$ 2,907,667	$ 4,888,982
Liabilities						
Long-term liabilities	$ 15,750,778	$ 19,667,333	$ 328,000	$ 333,000	$ 16,078,778	$ 20,000,333
Other liabilities	1,603,801	1,212,611	14,350	14,569	1,618,151	1,227,180
Total Liabilities	$ 17,354,579	$ 20,879,944	$ 342,350	$ 347,569	$ 17,696,929	$ 21,227,513
Deferred Inflows of Resources	$ 2,704,205	$ 1,001,516	$ -	$ -	$ 2,704,205	$ 1,001,516
Net Position						
Net investment in capital assets	$ 56,937,485	$ 54,483,143	$ 751,925	$ 803,039	$ 57,689,410	$ 55,286,182
Restricted	6,845,361	5,448,062	-	-	6,845,361	5,448,062
Unrestricted	28,119	1,465,606	80,188	79,238	108,307	1,544,844
Total Net Position	$ 63,810,965	$ 61,396,811	$ 832,113	$ 882,277	$ 64,643,078	$ 62,279,088

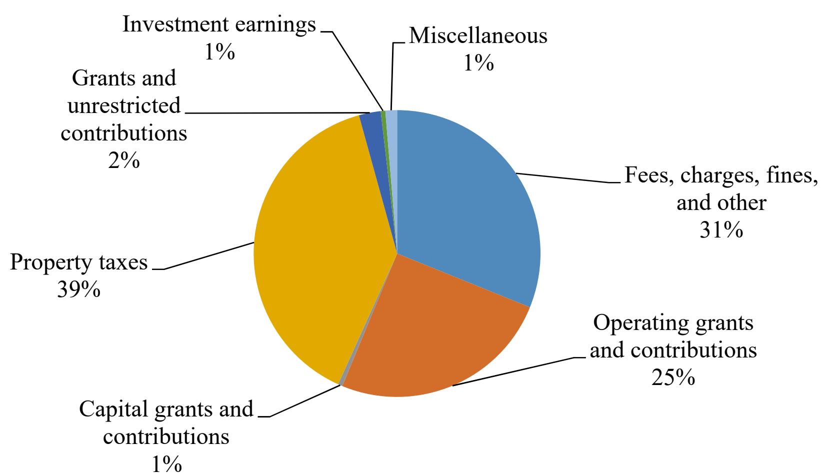
The net position of the County's governmental activities increased by 3.9 percent ($2,414,154). Unrestricted net position--the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from $1,465,606 at December 31, 2016, to $28,119 at the end of this year. Net position of the business-type activities decreased by 5.7 percent ($50,164).

Table 2 - Change in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Fees, charges, fines, and other	$ 8,298,976	$ 4,090,007	$ 21,836	$ 19,636	$ 8,320,812	$ 4,109,643
Operating grants and contributions	6,697,094	6,055,288	-	-	6,697,094	6,055,288
Capital grants and contributions	137,735	2,009,605	-	-	137,735	2,009,605
General revenues						
Property taxes	10,390,845	9,972,372	-	-	10,390,845	9,972,372
Grants and contributions not restricted to specific programs	656,197	658,409	-	-	656,197	658,409
Unrestricted investment earnings	135,975	91,960	-	-	135,975	91,960
Miscellaneous and other	350,616	273,915	-	-	350,616	273,915
Total Revenues	$ 26,667,438	$ 23,151,556	$ 21,836	$ 19,636	$ 26,689,274	$ 23,171,192

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Expenses						
General government	$ 4,154,423	$ 4,310,267	$ -	$ -	$ 4,154,423	$ 4,310,267
Public safety	4,293,897	4,364,970	-	-	4,293,897	4,364,970
Highways and streets	7,101,483	6,344,557	-	-	7,101,483	6,344,557
Transit	3,164	139,248	-	-	3,164	139,248
Sanitation	348,902	252,594	72,000	89,782	420,902	342,376
Human services	2,772,050	2,696,168	-	-	2,772,050	2,696,168
Culture and recreation	373,442	371,703	-	-	373,442	371,703
Conservation of natural resources	4,953,389	2,528,158	-	-	4,953,389	2,528,158
Economic development	61,484	66,556	-	-	61,484	66,556
Interest	191,050	216,999	-	-	191,050	216,999
Total Expenses	$ 24,253,284	$ 21,291,220	$ 72,000	$ 89,782	$ 24,325,284	$ 21,381,002
Change in Net Position	$ 2,414,154	$ 1,860,336	$ (50,164)	$ (70,146)	$ 2,363,990	$ 1,790,190
Net Position, January 1	61,396,811	59,536,475	882,277	952,423	62,279,088	60,488,898
Net Position, December 31	$ 63,810,965	$ 61,396,811	$ 832,113	$ 882,277	$ 64,643,078	$ 62,279,088

Total County Revenues - Percent of Total



Governmental Activities

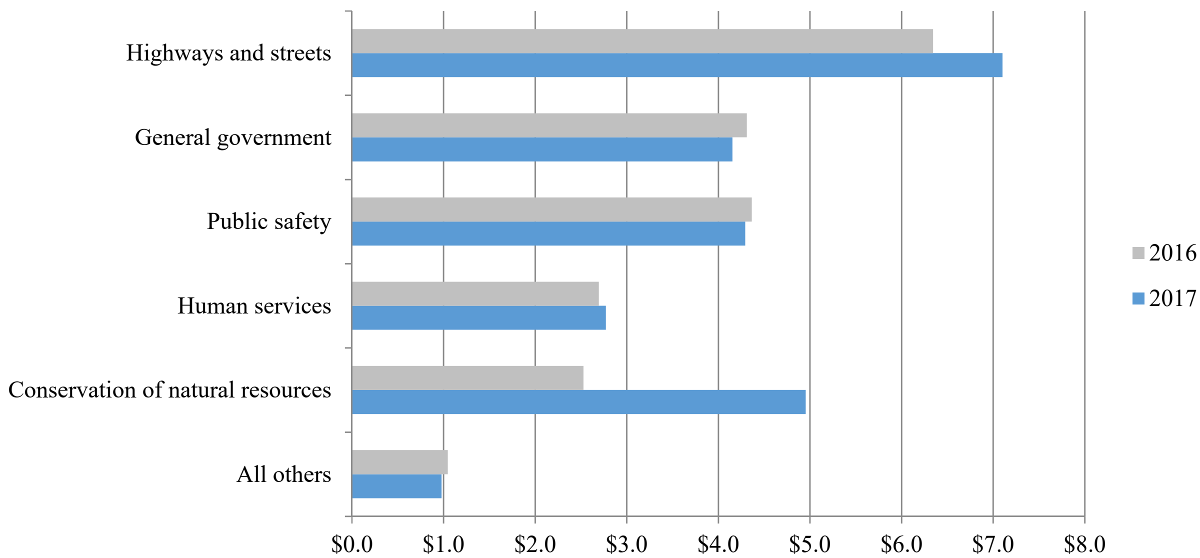
Revenues for the County's governmental activities were $26,667,438, while total expenses were $24,253,284. However, as shown in the Statement of Activities (Exhibit 2), the amount that taxpayers ultimately financed for these activities through County taxes and other general revenues was $9,119,479, because some of the cost was paid by those who directly benefited from the programs ($8,298,976) or by other governments and organizations that subsidized certain programs with grants and contributions ($6,834,829). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, totaled $15,133,805. The County paid for the remaining "public benefit" portion of governmental activities with $11,533,633 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	
	2017	2016	2017	2016
Highways and streets	$ 7,101,483	$ 6,344,557	$ 882,061	$ (1,199,087)
Conservation of natural resources	4,953,389	2,528,158	(1,962,629)	125,384
Public safety	4,293,897	4,364,970	3,396,211	3,442,450
General government	4,154,423	4,310,267	3,475,193	3,502,382
Human services	2,772,050	2,696,168	2,772,050	2,696,168
All others	978,042	1,047,100	556,593	569,023
Total Expenses	$ 24,253,284	$ 21,291,220	$ 9,119,479	$ 9,136,320

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 $6,853,986, which is below last year's total of $9,248,050.

The General Fund showed an increase of $204,243. The increase was due to positive variances in intergovernmental, charges for services, fines and forfeits, gifts and contributions, and investment earnings revenue compared to budgeted amounts. General government expenditures also saw significantly fewer expenditures than budgeted.

The Public Works Special Revenue Fund showed an increase of $382,032. The majority of the positive increase was due to construction projects awarded at less than projected costs.

The Human Services Special Revenue Fund decreased by $508,573 caused by increased out-of-home placements of juveniles.

The Ditch Special Revenue Fund showed a decrease of $2,565,114, as several improvement projects and redetermination costs were expended during the year, and the assessments will be levied in future years.

The Debt Service Fund increased by $93,348. The increase is due to debt service payments being less than the budget amount.

The General Fund's fund balance is 125.8 percent of the total governmental funds, compared to 91.0 percent at the end of 2016.

General Fund Budgetary Highlights

During the course of 2017, the revenue budget increased by $29,605, and the expenditure budget decreased by $98,192. The increase in the revenue budget resulted from a state-paid riparian aid offset, in part, by a decrease in drainage fund fees. Of the expenditure budget decrease, $98,192 was for a reduction in the drainage administration budget.

Revenues exceeded budgeted amounts by $172,821. The majority of the positive variance in revenues is the $285,002 positive variance for intergovernmental revenue and $61,113 positive variance in investment earnings. General government expenditures were $669,827 below budget, primarily due to fewer than expected building improvement expenditures and fewer expenditures for retiree health insurance premiums. Sanitation expenditures also showed a positive variance of $124,786 due to a lower allocation than expected to the Prairieland Solid Waste Joint Powers Board. Public safety expenditures exceeded budgeted amounts due to spending for the aquatic invasive species aid program and jail costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the County had $64,666,031 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of $1,581,927, or 2.5 percent, more than last year.

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

	2017	2016
Governmental Activities		
Land	$ 1,965,315	$ 1,965,315
Construction in progress	1,173,831	2,589,639
Building and improvements	9,529,332	9,871,424
Other improvements	29,116	36,249
Machinery and equipment	2,754,695	2,834,537
Infrastructure	48,133,817	44,650,901
Total	$ 63,586,106	$ 61,948,065
Business-Type Activities		
Land	$ 27,643	$ 27,643
Machinery and equipment	23,333	28,000
Infrastructure	1,028,949	1,080,396
Total	$ 1,079,925	$ 1,136,039

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

Debt

At year-end, the County had $7,370,000 in governmental activities bonds outstanding, versus $8,145,000 for last year. Table 5 shows the outstanding debt.

Table 5
Outstanding Debt at Year-End

	2017	2016
Governmental Activities		
Bonds payable	$ 7,370,000	$ 8,145,000
Capital leases	4,926	12,165
Totals	$ 7,374,926	$ 8,157,165

		2017		2016
Business-Type Activities				
Bonds payable	$	328,000	$	333,000

The County's general obligation bond rating was set at an Aa3 rating by Moody's Investors Service as rated in 2018. 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.

The County issued $7,515,000 of bonds in February of 2018. Of the bonds, $1,370,000 funded courthouse projects and will paid from property tax revenues; $6,145,000 of the bonds were used to fund drainage projects and will be paid from special assessments against affected landowners.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2018 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2018 are budgeted to decrease 4.9 percent from 2017. Most of this decrease is for a lower budget for courthouse improvements in 2018. This project was financed, in part, with bond proceeds received in 2018.

- Agricultural land prices have stabilized after several years of significant increases. County assessment values were projected to be down five percent for 2018 payable taxes and to be steady for taxes payable in 2019. Agricultural land prices are a significant part of the County's tax base and are a reliable source of property tax revenue.

- Property tax levies have increased 4.0 percent for 2018. Significant increases in the Human Services levy and cost of living adjustments affecting the General Fund and the Public Works Special Revenue Fund were the main reasons for the increase.

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, 2017

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
Assets					
Cash and pooled investments	$ 6,080,869	$ 58,784	$ 6,139,653	$ 100	$ 370,768
Petty cash and change funds	2,562	-	2,562	-	-
Cash with fiscal agent	-	-	-	21,112	-
Taxes receivable					
Delinquent	120,064	-	120,064	-	-
Special assessments receivable					
Delinquent	54,174	16,148	70,322	-	-
Noncurrent	7,616,314	3,999	7,620,313	-	-
Accounts receivable	32,601	-	32,601	-	234
Accrued interest receivable	14,871	-	14,871	-	15
Loans receivable	84,430	-	84,430	-	99,868
Due from other governments	1,517,739	15,607	1,533,346	-	-
Advance to other governments	115,000	-	115,000	-	-
Inventories	1,685,299	-	1,685,299	-	-
Prepaid items	52,053	-	52,053	-	-
Restricted assets					
Investments - temporary	-	-	-	-	10,396
Capital assets					
Non-depreciable	3,139,146	27,643	3,166,789	-	-
Depreciable - net of accumulated depreciation	60,446,960	1,052,282	61,499,242	-	-
Total Assets	**$ 80,962,082**	**$ 1,174,463**	**$ 82,136,545**	**$ 21,212**	**$ 481,281**
Deferred Outflows of Resources					
Deferred pension outflows	**$ 2,907,667**	**$ -**	**$ 2,907,667**	**$ -**	**$ -**

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

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
Liabilities					
Accounts payable	$ 319,885	$ -	$ 319,885	$ -	$ -
Salaries payable	214,339	-	214,339	-	-
Contracts payable	680,483	-	680,483	-	-
Due to other governments	195,315	-	195,315	-	-
Accrued interest payable	82,805	14,350	97,155	-	-
Unearned revenue	110,974	-	110,974	-	-
Long-term liabilities					
Due within one year	811,713	5,000	816,713	-	-
Due in more than one year	7,617,438	323,000	7,940,438	-	-
Net pension liability	4,875,878	-	4,875,878	-	-
Other postemployment benefit obligations	2,445,749	-	2,445,749	-	-
Total Liabilities	**$ 17,354,579**	**$ 342,350**	**$ 17,696,929**	**$ -**	**$ -**
Deferred Inflows of Resources					
Advanced allotments	$ 63,424	$ -	$ 63,424	$ -	$ -
Prepaid taxes	57,130	-	57,130	-	-
Deferred pension inflows	2,583,651	-	2,583,651	-	-
Total Deferred Inflows of Resources	**$ 2,704,205**	**$ -**	**$ 2,704,205**	**$ -**	**$ -**
Net Position					
Net investment in capital assets	$ 56,937,485	$ 751,925	$ 57,689,410	$ -	$ -
Restricted for					
General government	612,407	-	612,407	-	-
Public safety	191,473	-	191,473	-	-
Highways and streets	767,632	-	767,632	-	-
Sanitation	1,084,464	-	1,084,464	-	-
Conservation of natural resources	3,096,738	-	3,096,738	-	-
Debt service	1,092,647	-	1,092,647	-	-
Housing assistance payments	-	-	-	21,212	-
Commercial rehabilitation loans	-	-	-	-	132,294
Unrestricted	28,119	80,188	108,307	-	348,987
Total Net Position	**$ 63,810,965**	**$ 832,113**	**$ 64,643,078**	**$ 21,212**	**$ 481,281**

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

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

		Program Revenues		
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government				
Governmental activities				
General government	$ 4,154,423	$ 581,306	$ 97,924	$ -
Public safety	4,293,897	659,309	238,377	-
Highways and streets	7,101,483	188,639	5,893,048	137,735
Transit	3,164	-	12,808	-
Sanitation	348,902	370,866	-	-
Human services	2,772,050	-	-	-
Culture and recreation	373,442	37,775	-	-
Conservation of natural resources	4,953,389	6,461,081	454,937	-
Economic development	61,484	-	-	-
Interest	191,050	-	-	-
Total governmental activities	**$ 24,253,284**	**$ 8,298,976**	**$ 6,697,094**	**$ 137,735**
Business-type activities				
Huntley Sewer District	72,000	21,836	-	-
Total Primary Government	**$ 24,325,284**	**$ 8,320,812**	**$ 6,697,094**	**$ 137,735**
Component units				
Housing and Redevelopment Authority	$ 304,156	$ 11,094	$ 314,232	$ -
Economic Development Authority	1,742	3,685	-	-
Total Component Units	**$ 305,898**	**$ 14,779**	**$ 314,232**	**$ -**

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

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

Net (Expense) Revenue and Changes in Net Position

Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Discretely Presented Component Units: Housing and Redevelopment Authority	Discretely Presented Component Units: Economic Development Authority
$ (3,475,193)	$ -	$ (3,475,193)		
(3,396,211)	-	(3,396,211)		
(882,061)	-	(882,061)		
9,644	-	9,644		
21,964	-	21,964		
(2,772,050)	-	(2,772,050)		
(335,667)	-	(335,667)		
1,962,629	-	1,962,629		
(61,484)	-	(61,484)		
(191,050)	-	(191,050)		
$ (9,119,479)	**$ -**	**$ (9,119,479)**		
-	(50,164)	(50,164)		
$ (9,119,479)	**$ (50,164)**	**$ (9,169,643)**		
			$ 21,170	$ -
			-	1,943
			$ 21,170	**$ 1,943**
$ 10,390,845	$ -	$ 10,390,845	$ -	$ -
12,733	-	12,733	-	-
34,553	-	34,553	-	-
181,086	-	181,086	-	-
656,197	-	656,197	-	-
135,975	-	135,975	-	63
122,244	-	122,244	-	-
$ 11,533,633	**$ -**	**$ 11,533,633**	**$ -**	**$ 63**
$ 2,414,154	**$ (50,164)**	**$ 2,363,990**	**$ 21,170**	**$ 2,006**
61,396,811	**882,277**	**62,279,088**	**42**	**479,275**
$ 63,810,965	**$ 832,113**	**$ 64,643,078**	**$ 21,212**	**$ 481,281**

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General	Public Works
Assets		
Cash and pooled investments	$ 3,545,307	$ 632,756
Petty cash and change funds	2,265	297
Taxes receivable		
Delinquent	70,703	15,151
Special assessments		
Delinquent	46,856	-
Noncurrent	686,670	-
Accounts receivable	29,148	2,343
Accrued interest receivable	14,871	-
Due from other funds	-	1,324
Due from other governments	63,153	1,152,099
Prepaid items	35,963	16,090
Advance to other funds	5,221,884	-
Advance to other governments	115,000	-
Inventories	-	1,685,299
Loans receivable	84,430	-
Total Assets	**$ 9,916,250**	**$ 3,505,359**

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

Human Services	Ditch	Debt Service	Total Governmental Funds
$ 888,915	$ 145,275	$ 868,616	$ 6,080,869
-	-	-	2,562
24,835	-	9,375	120,064
-	7,318	-	54,174
-	6,929,644	-	7,616,314
-	1,110	-	32,601
-	-	-	14,871
-	88,285	-	89,609
-	302,487	-	1,517,739
-	-	-	52,053
-	-	-	5,221,884
-	-	-	115,000
-	-	-	1,685,299
-	-	-	84,430
$ 913,750	**$ 7,474,119**	**$ 877,991**	**$ 22,687,469**

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General	Public Works
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 87,228	$ 123,242
Salaries payable	167,468	46,871
Contracts payable	27,968	175,339
Due to other funds	1,324	88,285
Due to other governments	88,627	10,713
Unearned revenue	110,974	-
Advance from other funds	-	-
Total Liabilities	**$ 483,589**	**$ 444,450**
Deferred Inflows of Resources		
Advanced allotments	$ -	$ 63,424
Unavailable revenue	776,707	752,880
Prepaid taxes	33,504	7,203
Total Deferred Inflows of Resources	**$ 810,211**	**$ 823,507**
Fund Balances		
Nonspendable		
Inventories	$ -	$ 1,685,299
Prepaid items	35,963	16,090
Advances to other funds	5,221,884	-
Advances to other governments	115,000	-
Restricted for		
Debt service	-	-
Law library	24,681	-
Recorder's technology equipment	374,480	-
Recorder's compliance	213,246	-
E-911	139,765	-
Drug abuse resistance education (DARE)	51,708	-
Ditch maintenance and repairs	-	-
Solid waste projects	1,084,464	-
ISTS repayments	81,688	-
Aquatic invasive species	48,469	-
Riparian aid	139,297	-
Committed for		
Human services	-	-
Assigned to		
Public works	-	536,013
Unassigned	1,091,805	-
Total Fund Balances	**$ 8,622,450**	**$ 2,237,402**
Total Liabilities, Deferred Inflows of of Resources, and Fund Balances	**$ 9,916,250**	**$ 3,505,359**

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

EXHIBIT 3
(Continued)

Human Services	Ditch	Debt Service	Total Governmental Funds
$ -	$ 109,415	$ -	$ 319,885
-	-	-	214,339
-	477,176	-	680,483
-	-	-	89,609
-	95,975	-	195,315
-	-	-	110,974
-	5,221,884	-	5,221,884
$ -	**$ 5,904,450**	**$ -**	**$ 6,832,489**
$ -	$ -	$ -	$ 63,424
17,095	7,327,312	6,446	8,880,440
11,913	-	4,510	57,130
$ 29,008	**$ 7,327,312**	**$ 10,956**	**$ 9,000,994**
$ -	$ -	$ -	$ 1,685,299
-	-	-	52,053
-	-	-	5,221,884
-	-	-	115,000
-	-	867,035	867,035
-	-	-	24,681
-	-	-	374,480
-	-	-	213,246
-	-	-	139,765
-	-	-	51,708
-	531,347	-	531,347
-	-	-	1,084,464
-	-	-	81,688
-	-	-	48,469
-	-	-	139,297
884,742	-	-	884,742
-	-	-	536,013
-	(6,288,990)	-	(5,197,185)
$ 884,742	**$ (5,757,643)**	**$ 867,035**	**$ 6,853,986**
$ 913,750	**$ 7,474,119**	**$ 877,991**	**$ 22,687,469**

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EXHIBIT 4

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS
TO NET POSITION - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2017**

Fund balances - total governmental funds (Exhibit 3)		**$ 6,853,986**
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.		63,586,106
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.		8,880,440
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions not recognized in the governmental funds.		
Deferred outflows related to pensions	$ 2,907,667	
Deferred inflows related to pensions	(2,583,651)	324,016
Governmental funds do not report a liability for accrued interest on long-term liabilities until due and payable.		(82,805)
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	$ (7,055,000)	
Special assessment bonds	(315,000)	
Bond discount	12,301	
Bond premium	(142,907)	
Net other postemployment benefits liability	(2,445,749)	
Net pension liability	(4,875,878)	
Compensated absences payable	(923,619)	
Capital leases payable	(4,926)	(15,750,778)
Net Position of Governmental Activities (Exhibit 1)		**$ 63,810,965**

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

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	General	Public Works
Revenues		
Taxes	$ 6,189,024	$ 1,465,622
Special assessments	622,681	-
Licenses and permits	2,135	-
Intergovernmental	1,145,594	7,255,966
Charges for services	1,324,729	219,496
Fines and forfeits	86,250	-
Gifts and contributions	2,531	-
Investment earnings	136,113	-
Miscellaneous	196,011	6,918
Total Revenues	**$ 9,705,068**	**$ 8,948,002**
Expenditures		
Current		
General government	$ 4,301,324	$ -
Public safety	3,713,432	-
Highways and streets	-	7,735,041
Human services	-	-
Sanitation	348,902	-
Culture and recreation	186,263	185,115
Conservation of natural resources	679,108	-
Economic development	61,484	-
Intergovernmental	-	443,918
Debt service		
Principal	7,239	-
Interest	293	-
Bond issuance costs	-	-
Administrative (fiscal) charges	-	-
Total Expenditures	**$ 9,298,045**	**$ 8,364,074**
Excess of Revenues Over (Under) Expenditures	**$ 407,023**	**$ 583,928**
Other Financing Sources (Uses)		
Transfers in	$ 69,395	$ -
Transfers out	(272,175)	-
Total Other Financing Sources (Uses)	**$ (202,780)**	**$ -**
Change in Fund Balances	**$ 204,243**	**$ 583,928**
Fund Balances - January 1	**8,418,207**	**1,855,370**
Increase (decrease) in inventories	**-**	**(201,896)**
Fund Balances - December 31	**$ 8,622,450**	**$ 2,237,402**

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

Human Services	Ditch	Debt Service	Total Governmental Funds
$ 2,124,178	$ -	$ 804,053	$ 10,582,877
-	1,752,115	-	2,374,796
-	-	-	2,135
139,299	55,155	23,183	8,619,197
-	-	-	1,544,225
-	-	-	86,250
-	-	-	2,531
-	-	-	136,113
-	-	-	202,929
$ 2,263,477	**$ 1,807,270**	**$ 827,236**	**$ 23,551,053**
$ -	$ -	$ -	$ 4,301,324
-	-	-	3,713,432
-	-	-	7,735,041
2,772,050	-	-	2,772,050
-	-	-	348,902
-	-	-	371,378
-	4,321,666	-	5,000,774
-	-	-	61,484
-	-	-	443,918
-	45,000	730,000	782,239
-	5,293	205,318	210,904
-	-	1,350	1,350
-	425	-	425
$ 2,772,050	**$ 4,372,384**	**$ 936,668**	**$ 25,743,221**
$ (508,573)	**$ (2,565,114)**	**$ (109,432)**	**$ (2,192,168)**
$ -	$ -	$ 272,175	$ 341,570
-	-	(69,395)	(341,570)
$ -	**$ -**	**$ 202,780**	**$ -**
$ (508,573)	**$ (2,565,114)**	**$ 93,348**	**$ (2,192,168)**
1,393,315	**(3,192,529)**	**773,687**	**9,248,050**
-	**-**	**-**	**(201,896)**
$ 884,742	**$ (5,757,643)**	**$ 867,035**	**$ 6,853,986**

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, 2017**

Net change in fund balances - total governmental funds (Exhibit 5)		**$ (2,192,168)**
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	$ 8,880,440	
Unavailable revenue - January 1	(5,771,518)	3,108,922
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the governmental funds, the proceeds from sales increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets disposed.		
Expenditures for general capital assets and infrastructure	$ 5,221,691	
Current year depreciation	(3,555,088)	
Net book value of assets disposed	(28,562)	1,638,041
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.		
Principal repayments		
General obligation bonds	$ 730,000	
Special assessment bonds	45,000	
Capital lease payable	7,239	782,239
Amortization of discount on bonds and issuance costs		(2,325)
Amortization of premium on bonds and issuance costs		14,056
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	$ 9,898	
Change in compensated absences	18,784	
Change in net pension liability	3,206,235	
Change in inventories	(201,896)	
Change in deferred pension outflows	(1,981,315)	
Change in other postemployment benefits liabilities	(102,434)	
Change in deferred pension inflows	(1,883,883)	(934,611)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 2,414,154**

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

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, 2017

		Business-Type Activities
Assets		
Current assets		
Cash and pooled investments	$	58,784
Special assessments		
Delinquent		16,148
Noncurrent		3,999
Due from other governments		15,607
Total current assets	**$**	**94,538**
Noncurrent assets		
Capital assets		
Nondepreciable	$	27,643
Depreciable - net of accumulated depreciation		1,052,282
Total noncurrent assets	**$**	**1,079,925**
Total Assets	**$**	**1,174,463**
Liabilities		
Current liabilities		
Accrued interest payable	$	14,350
General obligation bonds payable - current		5,000
Total current liabilities	**$**	**19,350**
Noncurrent liabilities		
General obligation bonds payable - long-term		323,000
Total Liabilities	**$**	**342,350**
Net Position		
Net investment in capital assets	$	751,925
Unrestricted		80,188
Total Net Position	**$**	**832,113**

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

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Business-Type Activities
Operating Revenues	
Charges for services	$ 15,607
Special assessments	4,931
Total Operating Revenues	**$ 20,538**
Operating Expenses	
Professional services	$ 1,536
Depreciation	56,114
Total Operating Expenses	**$ 57,650**
Operating Income (Loss)	**$ (37,112)**
Nonoperating Revenues (Expenses)	
Special assessments	$ 1,298
Interest expense	(14,350)
Total Nonoperating Revenues (Expenses)	**$ (13,052)**
Change in Net Position	**$ (50,164)**
Net Position - January 1	**882,277**
Net Position - December 31	**$ 832,113**

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

EXHIBIT 9

STATEMENT OF CASH FLOWS
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND
FOR THE YEAR ENDED DECEMBER 31, 2017
Increase (Decrease) in Cash and Cash Equivalents

		Business-Type Activities
Cash Flows from Operating Activities		
Receipts from customers	$	2,819
Payments to suppliers		(1,536)
Net cash provided by (used in) operating activities	**$**	**1,283**
Cash Flows from Capital and Related Financing Activities		
Special assessments	$	12,431
Principal paid on long-term debt		(5,000)
Interest paid on long-term debt		(14,569)
Net cash provided by (used in) capital and related financing activities	**$**	**(7,138)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(5,855)**
Cash and Cash Equivalents at January 1		**64,639**
Cash and Cash Equivalents at December 31	**$**	**58,784**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	**$**	**(37,112)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense	$	56,114
(Increase) decrease in special assessments - delinquent		565
(Increase) decrease in special assessments - noncurrent		(2,677)
(Increase) decrease in due from other governments		(15,607)
Total adjustments	**$**	**38,395**
Net Cash Provided by (Used in) Operating Activities	**$**	**1,283**

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

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FIDUCIARY FUNDS

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EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2017**

	Agency Funds
Assets	
Cash and pooled investments	$ 502,698
Liabilities	
Due to other governments	$ 502,698

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2017. 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:

Component Unit	Included in Reporting Entity Because	Separate Financial Statements
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, must approve debt, and can impose its will.	Faribault County HRA Minnesota Valley Action Council 706 North Victory Drive Mankato, Minnesota 56001

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures and Jointly-Governed Organizations

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.

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.

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 and proprietary fund financial statements are reported using the economic resources measurement focus and the full 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.

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, 2017, based on market prices. A market approach is used to value all investments other than external investment pools, which are measured at the net asset value or fair value per share. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund.

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

Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings in the General Fund for 2017 were $136,113.

1. Summary of Significant Accounting Policies

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

2. Cash and Cash Equivalents

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

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balance outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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 2012 through 2017 and noncurrent special assessments payable in 2018 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments receivable.

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items

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

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

5. 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 acquisition value.

1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

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.

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

Assets	Years
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. The compensated absences liability is liquidated by the General Fund and Public Works Special Revenue Fund.

1. Summary of Significant Accounting Policies

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

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.

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 reports 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 has one item, deferred pension outflows, which qualifies for reporting in this category. This outflow arises only under the full accrual basis of accounting and consists of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions, pension plan changes in proportionate share, differences between expected and actual pension plan economic experience, and differences between projected and actual earnings on pension plan investments and, accordingly, is reported only in the statement of net position.

1. Summary of Significant Accounting Policies

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

9. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports 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 four items, unavailable revenue, advanced allotments, deferred pension inflows, and prepaid property taxes, that qualify for reporting in this category. The County reports unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Unavailable revenues are reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The County reports advanced allotments for state aid received by the County not yet appropriated by the State of Minnesota. Advanced allotments are reported in the governmental funds balance sheet and on the government-wide statement of net position. This amount is deferred and recognized when the timing requirements have been met. Deferred pension inflows arise only under an accrual basis of accounting and, accordingly, are reported only in the statement of net position. This amount consists of changes in actuarial assumptions, pension plan changes in proportionate share, differences between expected and actual pension plan economic experience, and differences between projected and actual earnings on pension plan investments. The governmental funds also report deferred property tax inflows.

10. Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value. The net pension liability is liquidated through the General Fund and the Public Works Special Revenue Fund.

1. Summary of Significant Accounting Policies

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

11. Unearned Revenue

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

12. 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.

13. 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.

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances (Continued)

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.

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 (resolution) of the County Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit these amounts.

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

1. Summary of Significant Accounting Policies

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

13. Classification of Fund Balances (Continued)

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.

14. 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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

Deficit Fund Balance - Ditch Special Revenue Fund

The Ditch Special Revenue Fund has a deficit fund balance of $5,757,643 at December 31, 2017. The deficit will be eliminated with future special assessments against benefited properties. The following is a summary of the individual ditch systems:

70 ditches with positive fund balances	$ 531,347
109 ditches with deficit fund balances	(6,288,990)
Total Fund Balance	$ (5,757,643)

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Governmental activities	
Cash and pooled investments	$ 6,080,869
Petty cash and change funds	2,562
Business-type activities	
Cash and pooled investments	58,784
Component unit - EDA	
Cash and pooled investments	370,768
Restricted temporary investment	10,396
Fiduciary funds	
Cash and pooled investments	502,698
Total Cash and Investments	$ 7,026,077

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 to designate a depository for public funds. 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.

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, 2017, the County's deposits were not exposed to custodial credit risk.

b. Investments

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) time deposits fully insured by the Federal Deposit Insurance Corporation or 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

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by limiting long-term investments. County policy states that approximately 30 percent 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
Negotiable certificates of deposit	$ 400,000	$ 797,000
U.S. government securities (1)	-	150,000
Total Cash and Investments	$ 400,000	$ 947,000

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

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.

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities 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, 2017, the County's investments were not subject to custodial credit risk.

Concentration of Credit Risk

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

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

Issuer	Moody's Rating	Maturity Date	Market Value
Federal Home Loan Bank	Aaa	12/16/2021	$ 150,000
GE Capital Bank	NR	07/13/2018	200,000
GE Capital Retail Bank	NR	07/13/2018	200,000
World's Foremost Bank	NR	08/13/2019	100,000
Capital One Bank	NR	10/07/2019	245,000
Discover Bank	NR	10/08/2019	247,000
Texas Exchange Bank	NR	08/04/2021	205,000

NR - not rated

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Fair Value Measurements

The County measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

At December 31, 2017, the County had the following recurring fair value measurements:

		Fair Value Measurements Using		
	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. agencies	$ 150,000	$ -	$ 150,000	$ -
Negotiable certificates of deposit	1,197,000	-	1,197,000	-
Total Investments Included in the Fair Value Hierarchy	$ 1,347,000	$ -	$ 1,347,000	$ -
Investments measured at the net asset value (NAV)				
MAGIC Portfolio	$ 588			

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Fair Value Measurements (Continued)

Debt securities classified in Level 2 are valued using the following approaches:

- U.S. agencies: a market approach by utilizing quoted prices for identical securities in markets that are not active; and

- Negotiable certificates of deposit: matrix pricing based on the securities' relationship to benchmark quoted prices.

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The County invests in this pool for the purpose of the joint investment of the County's money with those of other counties to enhance the investment earnings accruing to each member.

MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the County has a sufficient number of shares to meet their redemption request. The MAGIC Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2017, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - delinquent	$ 120,064	$ -
Special assessments - delinquent	54,174	-
Special assessments - noncurrent	7,616,314	6,558,198
Accounts receivable	32,601	-
Accrued interest	14,871	-
Loans receivable	84,430	80,242
Due from other governments	1,517,739	-
Advance to other governments	115,000	-
Total Governmental Activities	$ 9,555,193	$ 6,638,440

In July 2015, the County loaned $100,000 to the City of Walters for street overlay. The loan is to be paid back in semi-annual installments of $6,722 until paid in full on July 1, 2025.

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Special assessments - delinquent	$ 16,148	$ -
Special assessments - noncurrent	3,999	-
Due from other governments	15,607	-
Total Business-Type Activities	$ 35,754	$ -

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 1,965,315	$ -	$ -	$ 1,965,315
Construction in progress	2,589,639	907,683	2,323,491	1,173,831
Total capital assets not depreciated	$ 4,554,954	$ 907,683	$ 2,323,491	$ 3,139,146
Capital assets depreciated				
Buildings and improvements	$ 14,274,793	$ -	$ -	$ 14,274,793
Other improvements	161,597	-	-	161,597
Machinery and equipment	9,328,671	499,207	122,438	9,705,440
Infrastructure	95,714,856	6,138,292	-	101,853,148
Total capital assets depreciated	$ 119,479,917	$ 6,637,499	$ 122,438	$ 125,994,978
Less: accumulated depreciation for				
Buildings and improvements	$ 4,403,369	$ 342,092	$ -	$ 4,745,461
Other improvements	125,348	7,133	-	132,481
Machinery and equipment	6,494,134	550,487	93,876	6,950,745
Infrastructure	51,063,955	2,655,376	-	53,719,331
Total accumulated depreciation	$ 62,086,806	$ 3,555,088	$ 93,876	$ 65,548,018
Total capital assets depreciated, net	$ 57,393,111	$ 3,082,411	$ 28,562	$ 60,446,960
Capital Assets, Net	$ 61,948,065	$ 3,990,094	$ 2,352,053	$ 63,586,106

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 27,643	$ -	$ -	$ 27,643
Capital assets depreciated				
Machinery and equipment	$ 70,000	$ -	$ -	$ 70,000
Infrastructure	1,543,420	-	-	1,543,420
Total capital assets depreciated	$ 1,613,420	$ -	$ -	$ 1,613,420
Less: accumulated depreciation for				
Machinery and equipment	$ 42,000	$ 4,667	$ -	$ 46,667
Infrastructure	463,024	51,447	-	514,471
Total accumulated depreciation	$ 505,024	$ 56,114	$ -	$ 561,138
Total capital assets depreciated, net	$ 1,108,396	$ (56,114)	$ -	$ 1,052,282
Capital Assets, Net	$ 1,136,039	$ (56,114)	$ -	$ 1,079,925

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

Governmental Activities	
General government	$ 457,669
Public safety	208,527
Highways and streets, including depreciation of infrastructure assets	2,876,790
Conservation of natural resources	12,102
Total Depreciation Expense - Governmental Activities	$ 3,555,088
Business-Type Activities	
Huntley Sewer District	$ 56,114

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2017, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
Public Works Special Revenue	General	$ 1,324	Fuel and signs
Ditch Special Revenue	Public Works	88,285	Road billings and buffer strips
Total Due To/From Other Funds		$ 89,609	

These interfund receivables and payables are expected to be paid within one year of December 31, 2017.

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	$ 5,221,884

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, 2017.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2017, consisted of a transfer from the General Fund to the Debt Service Fund of $272,175 for debt service payments and from the Debt Service Fund to the General Fund of $69,395 to transfer bond proceeds to reimburse the General Fund for individual sewage treatment systems loans issued.

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 43 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2017, the County expended $200,608 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. For 2017, there were approximately 45 retirees receiving health benefits from the County's health plan. The implicit rate subsidy amount was determined by an actuarial study to be $51,276 for 2017.

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.

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	$ 399,712
Interest on net OPEB obligation	82,016
Adjustment to ARC	(127,410)
Annual OPEB cost (expense)	$ 354,318
Contributions made during the year	(251,884)
Increase in net OPEB obligation	$ 102,434
Net OPEB Obligation - January 1	2,343,315
Net OPEB Obligation - December 31	$ 2,445,749

The County's annual OPEB cost; the percentage of annual OPEB cost contributed to the plan; and the net OPEB obligation for the years ended December 31, 2015, 2016, and 2017, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2015	$ 304,834	$ 151,861	49.8%	$ 2,234,765
December 31, 2016	308,010	199,460	64.8	2,343,315
December 31, 2017	354,318	251,884	71.1	2,445,749

Other postemployment benefits liability is generally liquidated by the General Fund and Public Works Special Revenue Fund.

Funded Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $5,764,888, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $5,764,888. The covered payroll (annual payroll of active employees covered by the plan) was $4,500,000, and the ratio of the UAAL to the covered payroll was 128.1 percent.

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, 2017, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Faribault County's implicit rate of return on the General Fund. The annual health care cost trend is initially 6.8 percent for non-Medicare and 4.3 percent for Medicare, reduced by decrements to an ultimate rate of 4.4 percent over 58 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, 2017, was 20 years.

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, 2017:

Lease	Maturity	Installment	Payment Amount	Original	Balance
Governmental Activities					
2013 machine room copier	2018	Monthly	$ 236	$ 13,300	$ 1,407
2013 County attorney copier	2018	Monthly	127	6,875	728
2014 extension copier	2019	Monthly	219	12,000	2,791
Total Leases					$ 4,926

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, 2017, were as follows:

Year Ended December 31	Amount
2018	$ 4,787
2019	219
Total lease payments	$ 5,006
Less: amount representing interest	(80)
Present Value of Minimum Lease Payments	$ 4,926

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, 2017
General obligation bonds					
2007 G.O. Waste Disposal Bonds	2018	$95,000	6.00	$ 750,000	$ 95,000
2009 G.O. Waste Disposal Bonds	2020	$150,000	4.40 - 4.70	1,500,000	450,000
2014 G.O. Jail Refunding Bonds	2028	$505,000 - $690,000	2.50 - 2.85	7,480,000	6,510,000
Total general obligation bonds				$ 9,730,000	$ 7,055,000
Plus: unamortized premium					142,907
Less: unamortized discount					(12,301)
Total General Obligation Bonds, Net					$ 7,185,606

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Balance December 31, 2017
General obligation special assessment bonds					
2013 G.O. Refunding Ditch Bonds	2024	$40,000 - $50,000	0.90 - 2.00	$ 485,000	$ 315,000

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Business-Type Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2017
2009 G.O. Revenue Bonds	2049	$5,000 - $18,000	4.38	$ 360,000	$ 328,000

4. Debt Service Requirements

Debt service requirements at December 31, 2017, were as follows:

Governmental Activities

Year Ending	General Obligation Bonds		Special Assessment Bonds	
December 31	Principal	Interest	Principal	Interest
2018	$ 750,000	$ 181,180	$ 45,000	$ 4,887
2019	670,000	158,805	40,000	4,395
2020	690,000	138,618	45,000	3,779
2021	555,000	121,405	45,000	3,126
2022	575,000	107,280	45,000	2,350
2023 - 2027	3,125,000	307,984	95,000	1,850
2028	690,000	9,833	-	-
Total	$ 7,055,000	$ 1,025,105	$ 315,000	$ 20,387

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds Principal	General Obligation Bonds Interest
2018	$ 5,000	$ 14,350
2019	5,000	14,131
2020	5,000	13,912
2021	6,000	13,694
2022	6,000	13,431
2023 - 2027	33,000	63,088
2028 - 2032	41,000	55,256
2033 - 2037	51,000	45,413
2038 - 2042	63,000	33,294
2043 - 2047	77,000	18,288
2048 - 2049	36,000	2,362
Total	$ 328,000	$ 287,219

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2017, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	$ 7,785,000	$ -	$ 730,000	$ 7,055,000	$ 750,000
General obligation special assessment bonds	360,000	-	45,000	315,000	45,000
Plus: unamortized premium	156,963	-	14,056	142,907	-
Less: unamortized discount	(14,626)	-	(2,325)	(12,301)	-
Total bonds payable	$ 8,287,337	$ -	$ 786,731	$ 7,500,606	$ 795,000
Capital leases	12,165	-	7,239	4,926	219
Compensated absences	942,403	620,278	639,062	923,619	12,006
Long-Term Liabilities	$ 9,241,905	$ 620,278	$ 1,433,032	$ 8,429,151	$ 807,225

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	$ 333,000	$ -	$ 5,000	$ 328,000	$ 5,000

6. Construction Commitments

The County has active construction projects as of December 31, 2017. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Ditch Projects	$ 3,032,347	$ 1,762,094

D. Deferred Inflows of Resources - Unavailable Revenue

Unavailable revenue as of December 31, 2017, for the County's governmental funds are as follows:

	Unavailable Revenue
Delinquent property taxes	$ 82,923
Special assessments receivable, delinquent and noncurrent	8,052,620
Highway allotments that do not provide current financial resources	732,854
Interest	2,485
Other	9,558
Total Governmental Funds	$ 8,880,440

4. Pension Plans

A. Defined Benefit Pension Plans

1. 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 Plan, the Public Employees Police and Fire Plan, and the Local Government Correctional Service Retirement Plan (the Public Employees Correctional Plan), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. Member employees of Faribault County participate in the Coordinated Plan, in which benefits vest after five years of credited service.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated basis starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50 percent after 10 years and increasing 5 percent for each year of service until fully vested after 20 years.

Local government employees of a county-administered facility who are responsible for the direct security, custody, and control of the county correctional facility and its inmates are covered by the Public Employees Correctional Plan (accounted for in the Correctional Fund). For members hired after June 30, 2010, benefits vest on a prorated basis starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

4. Pension Plans

   A. Defined Benefit Pension Plans (Continued)

      2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Retirement Plan and Public Employees Police and Fire Plan benefit recipients receive a future annual 1.0 percent for the post-retirement benefit increase, while Public Employees Correctional Plan benefit recipients receive 2.5 percent. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, if the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Plan members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Plan and Public Employees Correctional Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Retirement Plan Coordinated members were required to contribute 6.50 percent of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.80 percent of their annual covered salary in 2017. Public Employees Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in 2017.

In 2017, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan - Coordinated Plan	7.50%
Public Employees Police and Fire Plan	16.20
Public Employees Correctional Plan	8.75

The employee and employer contribution rates did not change from the previous year.

4. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2017, to the pension plans were:

General Employees Retirement Plan	$	208,199
Public Employees Police and Fire Plan		124,564
Public Employees Correctional Plan		71,947

The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

General Employees Retirement Plan

At December 31, 2017, the County reported a liability of $2,706,788 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.0424 percent. It was 0.0460 percent measured as of June 30, 2016. The County recognized pension expense of $369,424 for its proportionate share of the General Employees Retirement Plan's pension expense.

The County also recognized $983 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute $6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The County's proportionate share of the net pension liability	$ 2,706,788
State of Minnesota's proportionate share of the net pension liability associated with the County	34,048
Total	$ 2,740,836

The County reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 89,207	$ 186,655
Changes in actuarial assumptions	487,541	271,356
Difference between projected and actual investment earnings	51,610	-
Changes in proportion	67,373	241,540
Contributions paid to PERA subsequent to the measurement date	102,463	-
Total	$ 798,194	$ 699,551

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Plan (Continued)

The $102,463 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	$ 82,371
2019	142,484
2020	(113,776)
2021	(114,899)

Public Employees Police and Fire Plan

At December 31, 2017, the County reported a liability of $972,086 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.072 percent. It was 0.071 percent measured as of June 30, 2016. The County recognized pension expense of $249,589 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

The County also recognized $6,480 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute $9 million to the Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90 percent funded.

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Plan (Continued)

The County reported its proportionate share of the Public Employees Police and Fire Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 22,375	$ 257,373
Changes in actuarial assumptions	1,254,499	1,380,120
Difference between projected and actual investment earnings	9,870	-
Changes in proportion	60,445	7,575
Contributions paid to PERA subsequent to the measurement date	62,500	-
Total	$ 1,409,689	$ 1,645,068

The $62,500 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	$ 25,768
2019	25,768
2020	(9,867)
2021	(74,687)
2022	(264,861)

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Correctional Plan

At December 31, 2017, the County reported a liability of $1,197,004 for its proportionate share of the Public Employees Correctional Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the County's proportion was 0.42 percent. It was 0.41 percent measured as of June 30, 2016. The County recognized pension expense of $452,124 for its proportionate share of the Public Employees Correctional Plan's pension expense.

The County reported its proportionate share of the Public Employees Correctional Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 782	$ 19,165
Changes in actuarial assumptions	636,181	208,362
Difference between projected and actual investment earnings	-	10,374
Changes in proportion	27,399	1,131
Contributions paid to PERA subsequent to the measurement date	35,422	-
Total	$ 699,784	$ 239,032

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Plan (Continued)

The $35,422 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	$ 257,300
2019	266,521
2020	(65,170)
2021	(33,321)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2017, was $1,071,137.

5. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

4. Pension Plans

   A. Defined Benefit Pension Plans

      5. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044 and 2064, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for the Public Employees Correctional Plan.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Retirement Plan was dated June 30, 2015. The experience study for the Public Employees Police and Fire Plan was dated August 30, 2016. The experience study for the Public Employees Correctional Plan was dated February 2012.

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39%	5.10%
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan and the Public Employees Police and Fire Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Public Employees Correctional Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56 percent based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.96 percent for the Public Employees Correctional Plan was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50 percent applied to all years of projected benefits to the point of asset depletion and 3.56 percent thereafter.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

General Employees Retirement Plan (Continued)

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

Public Employees Police and Fire Plan

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- The assumed rates of retirement were changed, resulting in fewer retirements.

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Police and Fire Plan (Continued)

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

- The assumed percentage of female members electing joint and survivor annuities was increased.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

Public Employees Correctional Plan

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

4. Pension Plans

A. Defined Benefit Pension Plans

7. Changes in Actuarial Assumptions

Public Employees Correctional Plan (Continued)

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

8. Pension Liability Sensitivity

The following presents the County's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the					
	General Employees Retirement Plan		Public Employees Police and Fire Plan		Public Employees Correctional Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 4,198,429	6.50%	$ 1,830,721	4.96%	$ 1,972,513
Current	7.50	2,706,788	7.50	972,086	5.96	1,197,004
1% Increase	8.50	1,485,609	8.50	263,235	6.96	591,709

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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. 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 Faribault County during the year ended December 31, 2017, were:

	Employee	Employer
Contribution amount	$ 9,646	$ 9,646
Percentage of covered payroll	5%	5%

5. Risk Management

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

5. Risk Management (Continued)

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 $500,000 per claim in 2017 and 2018. 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.

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

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Human Services of Faribault and Martin Counties (Continued)

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, 5 County Commissioners and 1 citizen member from each of the two counties. Each county collects its share of local tax revenues and transfers these funds to the Board to fulfill its ongoing financial responsibility.

Complete financial information can be obtained from Human Services of Faribault and Martin Counties, 115 West First Street, Fairmont, Minnesota 56031.

Faribault - Martin County Transit Board

In January 2015, Faribault and Martin Counties entered into a joint powers agreement (Minn. Stat. § 471.59) to provide a coordinated service delivery and funding source for public transportation. The Board has ten members, five from each county. The Transit Board receives funding primarily from grants and revenues generated from passengers and contracts.

During 2017, Faribault County made no contributions to the Transit Board.

Financial information can be obtained by contacting Faribault-Martin Transit Board, 201 Lake Avenue, Room 104, 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.

Prairieland reported a change in net position of $287,368 in 2017. 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.

6. Summary of Significant Contingencies and Other Items

   B. Joint Ventures

      Prairieland Solid Waste Board (Prairieland) (Continued)

      Complete financial statements for the Prairieland Solid Waste Board can be obtained at 801 East Fifth Street North, P. O. Box 100, Truman, Minnesota 56088.

      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 2017, Faribault County contributed $1,000 to the Board.

      Separate audited financial information can be obtained from the 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, Faribault County paid $6,500 to the Task Force.

      South Central Minnesota Emergency Communications Board

      The South Central Minnesota Emergency Communications Board (formerly 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,

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

South Central Minnesota Emergency Communications Board (Continued)

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 2017, Faribault County contributed $808 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 Service Area Joint Powers Board. The agreement is authorized by Minn. Stat. § 471.59. The Board comprises 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 2017.

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

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

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, Faribault County made $7,838 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 $1,358 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, Faribault County made $2,160 in payments to the joint powers.

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 to 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

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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, Faribault 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. Faribault County made no payments to the Community-Based Initiative in 2017.

The Region One - Southeast Minnesota Homeland Security Emergency Management 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 region. There are 16 counties participating, with one member from each entity being represented on the Joint Powers Board. During the year, Faribault County contributed $1,000 to the Joint Powers Board.

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, Faribault County made no payments to the SW-MIIC.

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 RC&D. During the year, Faribault County made no payments to the RC&D.

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

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.

E. Subsequent Event

On February 8, 2018, the County issued $7,515,000 of General Obligation Bonds, Series 2018. The proceeds will be used to finance renovations to the County's Courthouse and construct ditch repairs and improvements throughout the County.

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 in 2002 and began operations in 2003 to take over the operations of the Local Redevelopment Agency. The EDA is governed by a seven-member board. A minimum of two of the members are members of the Faribault County Board of Commissioners. All members are appointed by the Chair of the County Board of Commissioners, with approval of the Board.

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.

7. Faribault County Economic Development Authority (EDA)

A. Summary of Significant Accounting Policies (Continued)

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.

Change in Accounting Principle

As of January 1, 2017, the EDA changed the accounting principle used for accounting for the revolving loan activity. This was a change from one generally accepted accounting principle to another generally accepted accounting principle.

	General Fund
Fund Balance - January 1, 2017, as previously stated	$ 362,933
Change in accounting principle	116,342
Fund Balance - January 1, 2017, as restated	$ 479,275

B. Detailed Notes

Assets

Receivables as of December 31, 2017, consist of $234 accounts receivable, $15 accrued interest receivable, and $99,868 in loans made to individuals and businesses for development.

C. Summary of Significant Contingencies

Nonexchange Financial Guarantees

The EDA has entered into nonexchange financial guarantees with lenders to guarantee payments if the guarantee 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 guarantee's portion from the guarantor.

7. Faribault County Economic Development Authority (EDA)

C. Summary of Significant Contingencies

Nonexchange Financial Guarantees (Continued)

Nonexchange financial guarantees at December 31, 2017, were as follows:

Guarantee	Lender	Year of Guarantee	Outstanding Balance at December 31, 2017
Hardware Store	First National Bank	2008	$ 10,396
Everwood Log to Home, LLC	Paragon Bank	2011	1,261
Kiester Market	First State Bank of Kiester	2013	7,424
Scotty Biggs BBQ Company, LLC	First National Bank	2017	10,802
A4 Septic, LLC	CCF Bank of Wells	2017	6,000

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.

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.

8. Housing and Redevelopment Authority (HRA)

Summary of Significant Accounting Policies (Continued)

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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FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 6,384,763	$ 6,373,263	$ 6,189,024	$ (184,239)
Special assessments	668,837	668,837	622,681	(46,156)
Licenses and permits	2,100	2,100	2,135	35
Intergovernmental	721,295	860,592	1,145,594	285,002
Charges for services	1,383,721	1,285,529	1,324,729	39,200
Fines and forfeits	18,500	18,500	86,250	67,750
Gifts and contributions	-	-	2,531	2,531
Investment earnings	75,000	75,000	136,113	61,113
Miscellaneous	248,426	248,426	196,011	(52,415)
Total Revenues	**$ 9,502,642**	**$ 9,532,247**	**$ 9,705,068**	**$ 172,821**
Expenditures				
Current				
General government				
Commissioners	$ 305,520	$ 305,520	$ 296,485	$ 9,035
Courts	49,500	49,500	53,060	(3,560)
County Auditor/Treasurer	515,624	515,624	453,388	62,236
Motor vehicle/license bureau	172,155	172,155	160,096	12,059
County assessor	398,392	398,392	376,830	21,562
Elections	15,000	15,000	12,082	2,918
Data processing	219,300	219,300	201,713	17,587
Central administration	179,763	179,763	178,081	1,682
Machine room	10,500	10,500	4,627	5,873
Attorney	394,891	394,891	349,007	45,884
Law library	15,000	15,000	13,325	1,675
Recorder	292,032	292,032	246,855	45,177
Vital statistics	19,925	19,925	16,047	3,878
Planning and zoning	99,914	99,914	100,913	(999)
Buildings and plant	1,371,188	1,371,188	1,142,684	228,504
Veterans service officer	260,610	260,610	204,239	56,371
Other general government	651,837	651,837	491,892	159,945
Total general government	**$ 4,971,151**	**$ 4,971,151**	**$ 4,301,324**	**$ 669,827**

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

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	$ 1,551,226	$ 1,551,226	$ 1,482,478	$ 68,748
Public safety grants	4,500	4,500	5,172	(672)
Task force	6,500	6,500	6,610	(110)
Aquatic invasive species	-	-	69,693	(69,693)
Boat and water safety	2,200	2,200	3,111	(911)
County jail	1,560,754	1,560,754	1,625,324	(64,570)
Sentence to serve	40,000	40,000	62,153	(22,153)
Fraud investigator	86,089	86,089	108,867	(22,778)
Animal control	10,000	10,000	5,542	4,458
Probation and parole	192,739	192,739	216,281	(23,542)
Sheriff's contingency	1,000	1,000	-	1,000
Emergency management	42,030	42,030	43,291	(1,261)
Enhanced 911	91,000	91,000	53,503	37,497
Radio project	5,500	5,500	5,464	36
Medical examiner	18,000	18,000	25,943	(7,943)
Total public safety	**$ 3,611,538**	**$ 3,611,538**	**$ 3,713,432**	**$ (101,894)**
Transit				
Transit	**$ 25,000**	**$ 25,000**	**$ -**	**$ 25,000**
Sanitation				
Recycling/education	$ 405,958	$ 405,958	$ 317,569	$ 88,389
SCORE funds	67,730	67,730	31,333	36,397
Total sanitation	**$ 473,688**	**$ 473,688**	**$ 348,902**	**$ 124,786**
Culture and recreation				
Historical society	$ 10,000	$ 10,000	$ 10,000	$ -
County library	181,649	181,649	176,263	5,386
Total culture and recreation	**$ 191,649**	**$ 191,649**	**$ 186,263**	**$ 5,386**

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-1
(Continued)

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
Cooperative extension	$ 128,689	$ 128,689	$ 123,339	$ 5,350
Soil conservation	63,191	63,191	58,000	5,191
County agricultural society	15,000	15,000	15,000	-
Predator control	500	500	234	266
Water planning	95,193	95,193	110,362	(15,169)
Drainage/septic inspection	69,897	69,897	47,147	22,750
Drainage administration	363,921	265,729	235,749	29,980
Septic loan program	50,000	50,000	89,277	(39,277)
Total conservation of natural resources	**$ 786,391**	**$ 688,199**	**$ 679,108**	**$ 9,091**
Economic development				
Community development	$ 16,000	$ 16,000	$ 15,651	$ 349
Economic development	54,000	54,000	45,833	8,167
Total economic development	**$ 70,000**	**$ 70,000**	**$ 61,484**	**$ 8,516**
Debt service				
Principal	$ -	$ -	$ 7,239	$ (7,239)
Interest	-	-	293	(293)
Total debt service	**$ -**	**$ -**	**$ 7,532**	**$ (7,532)**
Total Expenditures	**$ 10,129,417**	**$ 10,031,225**	**$ 9,298,045**	**$ 733,180**
Excess of Revenues Over (Under) Expenditures	**$ (626,775)**	**$ (498,978)**	**$ 407,023**	**$ 906,001**
Other Financing Sources (Uses)				
Transfers in	$ -	$ -	$ 69,395	$ 69,395
Transfers out	(273,225)	(273,225)	(272,175)	1,050
Sale of bonds	2,000,000	2,000,000	-	(2,000,000)
Total Other Financing Sources (Uses)	**$ 1,726,775**	**$ 1,726,775**	**$ (202,780)**	**$ (1,929,555)**
Change in Fund Balance	**$ 1,100,000**	**$ 1,227,797**	**$ 204,243**	**$ (1,023,554)**
Fund Balance - January 1	**8,418,207**	**8,418,207**	**8,418,207**	**-**
Fund Balance - December 31	**$ 9,518,207**	**$ 9,646,004**	**$ 8,622,450**	**$ (1,023,554)**

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

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 1,458,777	$ 1,458,777	$ 1,465,622	$ 6,845
Intergovernmental	7,637,437	7,637,437	7,255,966	(381,471)
Charges for services	314,000	314,000	219,496	(94,504)
Miscellaneous	120,000	120,000	6,918	(113,082)
Total Revenues	**$ 9,530,214**	**$ 9,530,214**	**$ 8,948,002**	**$ (582,212)**
Expenditures				
Current				
Highways and streets				
Administration	$ 237,759	$ 237,759	$ 306,107	$ (68,348)
Maintenance	1,941,842	1,941,842	1,785,523	156,319
Construction	4,844,820	4,844,820	4,330,071	514,749
Equipment maintenance and shop	1,270,394	1,270,394	1,048,773	221,621
Material and services for resale	66,310	66,310	4,530	61,780
Other - highways and streets	559,949	559,949	260,037	299,912
Total highways and streets	**$ 8,921,074**	**$ 8,921,074**	**$ 7,735,041**	**$ 1,186,033**
Culture and recreation				
Parks	185,214	185,214	185,115	99
Intergovernmental				
Highways and streets	454,789	454,789	443,918	10,871
Total Expenditures	**$ 9,561,077**	**$ 9,561,077**	**$ 8,364,074**	**$ 1,197,003**
Change in Fund Balance	**$ (30,863)**	**$ (30,863)**	**$ 583,928**	**$ 614,791**
Fund Balance - January 1	**1,855,370**	**1,855,370**	**1,855,370**	**-**
Increase (decrease) in inventories	**-**	**-**	**(201,896)**	**(201,896)**
Fund Balance - December 31	**$ 1,824,507**	**$ 1,824,507**	**$ 2,237,402**	**$ 412,895**

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

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 2,126,561	$ 2,126,561	$ 2,124,178	$ (2,383)
Intergovernmental	139,298	139,298	139,299	1
Total Revenues	**$ 2,265,859**	**$ 2,265,859**	**$ 2,263,477**	**$ (2,382)**
Expenditures				
Current				
Human services	2,315,859	2,315,859	2,772,050	(456,191)
Change in Fund Balance	**$ (50,000)**	**$ (50,000)**	**$ (508,573)**	**$ (458,573)**
Fund Balance - January 1	**1,393,315**	**1,393,315**	**1,393,315**	**-**
Fund Balance - December 31	**$ 1,343,315**	**$ 1,343,315**	**$ 884,742**	**$ (458,573)**

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

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-4

BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	$ 645,600	$ 670,000	$ 1,752,115	$ 1,082,115
Intergovernmental	-	-	55,155	55,155
Total Revenues	**$ 645,600**	**$ 670,000**	**$ 1,807,270**	**$ 1,137,270**
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	$ 600,000	$ 4,300,000	$ 4,321,666	$ (21,666)
Debt service				
Principal	40,000	40,000	45,000	(5,000)
Interest	5,600	5,600	5,293	307
Administrative (fiscal) charges	-	-	425	(425)
Total Expenditures	**$ 645,600**	**$ 4,345,600**	**$ 4,372,384**	**$ (26,784)**
Change in Fund Balance	**$ -**	**$ (3,675,600)**	**$ (2,565,114)**	**$ 1,110,486**
Fund Balance - January 1	**(3,192,529)**	**(3,192,529)**	**(3,192,529)**	**-**
Fund Balance - December 31	**$ (3,192,529)**	**$ (6,868,129)**	**$ (5,757,643)**	**$ 1,110,486**

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

EXHIBIT A-5

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
January 1, 2011	$ -	$ 4,382,116	$ 4,382,116	0.00%	$ 3,238,049	135.3%
January 1, 2014	-	4,112,581	4,112,581	0.00	4,782,966	86.0
January 1, 2017	-	5,764,888	5,764,888	0.00	4,500,000	128.1

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

EXHIBIT A-6

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Faribault County (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.0424%	$ 2,706,788	$ 34,048	$ 2,740,836	$ 2,727,947	99.22%	75.90%
2016	0.0460	3,734,972	48,779	3,783,751	2,821,172	132.39	68.91
2015	0.0434	2,249,213	N/A	2,249,213	2,550,829	88.18	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-7

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	$ 208,199	$ 208,199	$ -	$ 2,775,987	7.50%
2016	198,024	198,024	-	2,640,314	7.50
2015	199,411	199,411	-	2,658,652	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-8

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2017

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.072%	$ 972,086	$ 739,972	131.37%	85.43%
2016	0.071	2,849,354	687,150	414.66	63.88
2015	0.072	818,088	658,795	124.18	86.61

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-9

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER 31, 2017

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	$ 124,564	$ 124,564	$ -	$ 768,911	16.20%
2016	114,227	114,227	-	705,105	16.20
2015	108,984	108,984	-	672,736	16.20

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-10

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2017

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.42%	$ 1,197,004	$ 833,757	143.57%	67.89%
2016	0.41	1,497,787	781,088	191.76	58.16
2015	0.41	63,386	741,402	8.55	96.95

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT A-11

SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES CORRECTIONAL PLAN
DECEMBER 31, 2017

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2017	$ 71,947	$ 71,947	$ -	$ 822,244	8.75%
2016	70,257	70,257	-	802,935	8.75
2015	67,177	67,177	-	767,720	8.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The County's year-end is December 31.

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017

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 were amended as follows:

	Original Budget	Increase (Decrease)	Final Budget
General Fund			
Revenues	$ 9,502,642	$ 29,605	$ 9,532,247
Expenditures	10,129,417	(98,192)	10,031,225
Ditch Special Revenue Fund			
Revenues	645,600	24,400	670,000
Expenditures	645,600	3,700,000	4,345,600

3. Excess of Expenditures Over Appropriations

For the year ended December 31, 2017, the Human Services Special Revenue Fund's expenditures exceeded appropriations by $456,191. The expenditures in excess of budget were funded by fund balance.

3. Excess of Expenditures Over Appropriations (Continued)

The Ditch Special Revenue Fund's expenditures exceeded appropriations by $26,784. 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.

5. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

5. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan (Continued)

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Public Employees Police and Fire Plan

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.

- The assumed rates of retirement were changed, resulting in fewer retirements.

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 33 percent for vested members and 2.0 percent for non-vested members.

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

5. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

Public Employees Police and Fire Plan

2017 (Continued)

- The assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.

- The assumed percentage of married female members was decreased from 65 percent to 60 percent.

- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.

- The assumed percentage of female members electing joint and survivor annuities was increased.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent for all years to 1.0 percent per year through 2064 and 2.5 percent thereafter.

- The single discount rate was changed from 5.60 percent per annum to 7.50 percent per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2037 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.60 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

5. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions (Continued)

Public Employees Correctional Plan

2017

- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to Scale MP-2016).

- The CSA load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1.0 percent for non-vested members.

- The single discount rate was changed from 5.31 percent per annum to 5.96 percent per annum.

2016

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 5.31 percent.

- The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

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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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	$ 805,854	$ 805,854	$ 804,053	$ (1,801)
Intergovernmental	27,349	27,349	23,183	(4,166)
Total Revenues	**$ 833,203**	**$ 833,203**	**$ 827,236**	**$ (5,967)**
Expenditures				
Debt service				
Principal	$ 730,000	$ 730,000	$ 730,000	$ -
Interest	335,318	335,318	205,318	130,000
Bond issuance costs	-	-	1,350	(1,350)
Administrative (fiscal) charges	2,500	2,500	-	2,500
Total Expenditures	**$ 1,067,818**	**$ 1,067,818**	**$ 936,668**	**$ 131,150**
Excess of Revenues Over (Under) Expenditures	**$ (234,615)**	**$ (234,615)**	**$ (109,432)**	**$ 125,183**
Other Financing Sources (Uses)				
Transfers in	$ 273,225	$ 273,225	$ 272,175	$ (1,050)
Transfers out	-	-	(69,395)	(69,395)
Total Other Financing Sources (Uses)	**$ 273,225**	**$ 273,225**	**$ 202,780**	**$ (70,445)**
Change in Fund Balance	**$ 38,610**	**$ 38,610**	**$ 93,348**	**$ 54,738**
Fund Balance - January 1	**773,687**	**773,687**	**773,687**	**-**
Fund Balance - December 31	**$ 812,297**	**$ 812,297**	**$ 867,035**	**$ 54,738**

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FIDUCIARY FUNDS

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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, 2017

	Balance January 1	Additions	Deductions	Balance December 31
MORTGAGE REGISTRATION				
Assets				
Cash and pooled investments	$ 7,512	$ 127,059	$ 126,774	$ 7,797
Liabilities				
Due to other governments	$ 7,512	$ 127,059	$ 126,774	$ 7,797
DEED TAX				
Assets				
Cash and pooled investments	$ 28,386	$ 265,745	$ 246,705	$ 47,426
Liabilities				
Due to other governments	$ 28,386	$ 265,745	$ 246,705	$ 47,426
TAX AND PENALTY				
Assets				
Cash and pooled investments	$ 213,573	$ 25,990,033	$ 25,756,131	$ 447,475
Liabilities				
Due to other governments	$ 213,573	$ 25,990,033	$ 25,756,131	$ 447,475
TOTAL ALL AGENCY FUNDS				
Assets				
Cash and pooled investments	$ 249,471	$ 26,382,837	$ 26,129,610	$ 502,698
Liabilities				
Due to other governments	$ 249,471	$ 26,382,837	$ 26,129,610	$ 502,698

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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, 2017**

	General Fund	Adjustments	Statement of Net Position
Assets			
Current assets			
Cash and pooled investments	$ 370,768	$ -	$ 370,768
Accounts receivable	234	-	234
Accrued interest receivable	15	-	15
Loans receivable	99,868	-	99,868
Restricted assets			
Investments - temporary	10,396	-	10,396
Total Assets	**$ 481,281**	**$ -**	**$ 481,281**
Fund Balance/Net Position			
Fund Balance			
Nonspendable - loan guarantee security	$ 10,396	$ (10,396)	
Restricted for commercial rehabilitation loans	92,755	(92,755)	
Assigned for loan guarantees	25,487	(25,487)	
Unassigned	352,643	(352,643)	
Total Fund Balance	**$ 481,281**	**$ (481,281)**	
Net Position			
Restricted for commercial rehabilitation loans		$ 132,294	$ 132,294
Unrestricted		348,987	348,987
Total Net Position		**$ 481,281**	**$ 481,281**

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, 2017

	General Fund	Adjustments	Statement of Activities
Revenues			
Charges for services	$ 3,685	$ -	$ 3,685
Investment earnings	63	-	63
Total Revenues	**$ 3,748**	**$ -**	**$ 3,748**
Expenditures/Expenses			
Current			
Economic development	1,742	-	1,742
Net Change in Fund Balance/Net Position	**$ 2,006**	**$ -**	**$ 2,006**
Fund Balance/Net Position - January 1, as restated (See Note 7.A.)	**479,275**	**-**	**479,275**
Fund Balance/Net Position - December 31	**$ 481,281**	**$ -**	**$ 481,281**

SCHEDULE

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FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

EXHIBIT E-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017

	Total Primary Government
Appropriations and Shared Revenue	
State	
Highway users tax	$ 6,971,356
PERA rate reimbursement	13,448
Disparity reduction aid	71,874
Police aid	79,774
County program aid	285,327
Market value credit	285,548
Enhanced 911	87,066
SCORE	68,711
Aquatic invasive species prevention aid	33,555
Riparian protection aid	139,297
Total appropriations and shared revenue	**$ 8,035,956**
Reimbursement for Services	
State	
Minnesota Department of Human Services	**$ 34,656**
Payments	
Local	
Other contributions	$ 55,155
Payments in lieu of taxes	34,553
Total payments	**$ 89,708**
Grants	
State	
Minnesota Department/Board of	
Public Safety	$ 24,889
Natural Resources	47,966
Veterans Affairs	10,000
Corrections	43,553
Transportation	12,808
Water and Soil Resources	84,171
Pollution Control Agency	36,700
Total state	**$ 260,087**
Federal	
Department of	
Transportation	$ 163,039
Justice	35,751
Total federal	**$ 198,790**
Total state and federal grants	**$ 458,877**
Total Intergovernmental Revenue	**$ 8,619,197**

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Management and Compliance Section

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FARIBAULT COUNTY

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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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 14, 2019. Our report includes a reference to other auditors who audited the financial statements of the Faribault County Housing and Redevelopment Authority component unit 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. The results of our testing of the Faribault County Economic Development Authority component unit's internal control over financial reporting and on compliance and other matters are reported on separately within the Management and Compliance Section.

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. 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 deficiency described in the accompanying Schedule of Findings and Recommendations as item 2017-001 to be a material weakness and items 1996-005, 2006-002, and 2017-002 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 Counties*, 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 Faribault County administers no tax increment financing districts.

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 Counties*, except as described in the Schedule of Findings and Recommendations as items 1996-001, 2013-002, and 2017-003. 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

Included in the Schedule of Findings and Recommendations is a management practices comment and an other matter. We believe these recommendations 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 and to the other matter identified in our audit are described in the Corrective Action Plan. 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 Counties* 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/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

January 14, 2019

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 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 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.

View of Responsible Official: Acknowledged

Finding Number 2006-002

<u>Budgeting</u>

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: 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 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.

View of Responsible Official: Acknowledged

ITEMS ARISING THIS YEAR

Finding Number 2017-001

Audit Adjustment

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: A material audit adjustment was identified that resulted in significant changes to the County's financial statements. This adjustment was reviewed and approved by the appropriate County staff and is properly reflected in the financial statements.

Context: The inability to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. This adjustment was found in the audit; however, independent external auditors cannot be considered part of the County's internal control.

Effect: The Debt Service Fund transfer out and tax revenue increased by $69,395 for tax revenue that was levied for the Debt Service Fund but settled directly to the General Fund.

Cause: Lack of sufficient review of the balances for financial statement presentation.

Recommendation: We recommend the County continue to review procedures over financial reporting to ensure financial statements are materially stated.

View of Responsible Official: Acknowledged

Finding Number 2017-002

Inventory

Criteria: Recorded inventory amounts should reflect the actual amount of inventory on hand. Inventory records should be reconciled to an annual physical count to ensure accuracy for financial statement presentation. During the fiscal period, the inventory records should be regularly updated for additions and withdrawals to maintain accuracy. Additionally, controls should be in place to ensure that information provided by the inventory system is accurate and that County assets are adequately safeguarded.

Condition: Significant year-end inventory system adjustments were made by the County to the fuel balances based on the actual year-end measurements. Based on the year-end fuel measurements, there were 8,161 fewer gallons of diesel fuel and 3,866 fewer gallons of unleaded fuel than had been accounted for in the inventory system. Public Works accounting staff could not provide an explanation for the adjustments. The adjustments were made by accounting staff without investigation for cause and without review by a supervisor or department head.

Context: The Public Works Department maintains an inventory system to monitor the movement of various County assets, including fuel. Additions to the system are recorded based on vendor invoices, and withdrawals are recorded based on logs completed by employees documenting quantities withdrawn and the unit/department using the fuel. Annually, the County performs a year-end inventory count and makes the necessary adjustments in the inventory system to agree the inventory system to the actual measurements or counts.

Effect: The inventory system did not reflect an accurate account of the inventory on hand during the year. Without adequate controls over inventory, County assets are exposed to misuse and theft. If there were unrecorded withdrawals for fuel used by other departments, billings to those departments would be inaccurate, resulting in additional costs to the Public Works department.

Cause: The County's procedures do not ensure that fuel is being accurately accounted for.

Recommendation: We recommend the County implement controls to ensure fuel is accurately accounted for throughout the year. Additionally, year-end inventory adjustments should be reviewed and approved by an appropriate supervisor or department head.

View of Responsible Official: Acknowledged

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 1996-001

Ditch System Cash Deficits

Criteria: Pursuant to Minn. Stat. § 103E.655, drainage system costs must 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, Minn. Stat. § 103E.655, subd. 2, 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 computed for the time the money is actually needed at the same rate charged on drainage liens and assessments.

Condition: In 2017, interest charged to ditch systems receiving loans from the General Fund and other ditch systems was not calculated in accordance with Minn. Stat. § 103E.655, subd. 2.

Context: Throughout the year, an average of approximately $4.4 million was loaned to ditch systems requiring additional funds. At the County's interest rate for drainage liens and assessments (four percent), this calculates to approximately $176,000 in interest. Interest charged to ditch systems for loans during the year was $40,300.

Effect: The General Fund and ditch systems loaning funds are receiving less interest than required according to Minnesota statutes.

Cause: Controls were not in place to ensure that interest charges for such loans was in compliance with Minnesota statutes.

Recommendation: We recommend the County develop policies and procedures that ensure loans to ditch systems are in accordance with Minn. Stat. § 103E.655.

View of Responsible Official: Acknowledged

Finding Number 2013-002

Delegation to Pay Claims

Criteria: Minnesota Statutes § 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 authorized 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: Because the County Board is 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 the 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 to ensure that compliance with Minn. Stat. § 375.18, subd. 1b, is documented.

View of Responsible Official: Acknowledged

ITEM ARISING THIS YEAR

Finding Number 2017-003

Publication of Financial Statements

Criteria: The County is required by Minn. Stat. § 375.17 to annually publish its financial statements.

Condition: During 2017, Faribault County did not publish the 2016 financial statements in a duly qualified legal newspaper in the County.

Context: The financial statements should include a statement of assets and liabilities and a summary of receipts, disbursements, and balances of all County funds together with a detailed statement of each fund account, and should be in the form and style prescribed by and on file with the Office of the State Auditor.

Effect: The County is not in compliance with Minn. Stat. § 375.17.

Cause: The County noted that the publication of the financial statements was overlooked.

Recommendation: We recommend the County publish the County's financial statements annually as required by Minn. Stat. § 375.17.

View of Responsible Official: Acknowledged

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2014-001

County Ditch Fund Deficits

Criteria: Each individual ditch system within the Ditch Special Revenue Fund should be maintained with a positive fund balance to meet its financial obligations.

Condition: At December 31, 2017, the County had individual ditch systems where liabilities and deferred inflows of resources exceeded assets, resulting in deficit fund balances.

Context: At December 31, 2017, 109 of 179 ditch systems had deficit fund balances totaling $6,288,990. Taking into consideration long-term items that do not contribute to reported ditch system fund balances, including assessments that have been levied for collection in future years, deficit balances are reduced to 69 ditch systems with a total deficit of $1,654,303.

Effect: Ditch systems with deficit fund balances indicate that measures may need to be taken to ensure that it can meet financial obligations.

Cause: The County indicated that a large portion of the deficits are a result of ongoing projects which are planned to be levied for once completed. In other cases, however, prior assessments on systems have been insufficient to cover costs, and additional assessments need to be approved.

Recommendation: We recommend the County continue to monitor the balances of the ditch systems and eliminate deficit fund balances by approving necessary special assessments as soon as practical for each system.

View of Responsible Official: Acknowledged

C. OTHER MATTER

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2016-001

Uniform Guidance Written Procurement Policies and Procedures

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205), Award No. 00022, 2016

Pass-Through Agency: Minnesota Department of Transportation

Criteria: Title 2 U.S. *Code of Federal Regulations* § 200.318 states that the non-federal entity must use its own documented procurement procedures which reflect applicable state, local, and tribal laws and regulations, provided that the procurements conform with applicable federal law and the standards identified in this regulation.

Condition: The County adopted a procurement policy in December 2017; however, the policy did not include all the required components in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318.

Questioned Costs: Not applicable.

Context: This issue was discovered during the audit of the major federal program; however, it impacts federal programs County-wide. Written policies that reflect the specific components of federal regulations improve controls to help ensure compliance with federal award requirements.

Effect: Written policies and procedures that are not updated to reflect the Uniform Guidance procurement requirements could increase the risk of noncompliance with federal program requirements.

Cause: The County was not aware that its procurement policies did not include all of the required components.

Recommendation: We recommend the County include the specific components of the Uniform Guidance requirements in written procurement policies and procedures.

View of Responsible Official: Acknowledged

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County of Faribault

BLUE EARTH, MINNESOTA

REPRESENTATION OF FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 1996-001
Finding Title: Ditch System Cash Deficits

Name of Contact Person Responsible for Corrective Action:

John Thompson, County Auditor/Treasurer/Coordinator

Corrective Action Planned:

Faribault County will continue to monitor the individual ditch deficit balances and continue to advance funds to the individual ditches with deficits. A drainage database program is currently being used by County staff. This program tracks ditch projects, including approved expenditures, and will allow a more current assessment of the ditch project costs. The Drainage Authority Board meets monthly and approves all projects. These actions should assist in improving the deficit balances.

Anticipated Completion Date:

Ongoing

Finding Number: 1996-005
Finding Title: Capital Assets Records

Name of Contact Person Responsible for Corrective Action:

John Thompson, County Auditor/Treasurer/Coordinator

Corrective Action Planned:

An accounting policy will be adopted that will establish consistent useful lives, set guidance on when to use salvage values in computing depreciation, and define capitalization thresholds.

Anticipated Completion Date:

March 1, 2019

Finding Number: 2006-002
Finding Title: Budgeting

Name of Contact Person Responsible for Corrective Action:

John Thompson, County Auditor/Treasurer/Coordinator

Corrective Action Planned:

An accounting policy will be adopted that will address procedures for adopting the budget, the legal level of control, when budgets can be modified, and procedures for monitoring budgets.

Anticipated Completion Date:

March 1, 2019

Finding Number: 2013-002
Finding Title: Delegation to Pay Claims

Name of Contact Person Responsible for Corrective Action:

John Thompson, County Auditor/Treasurer/Coordinator

Corrective Action Planned:

On a monthly basis, the Auditor/Treasurer/Coordinator will provide reports to the County Board for review and approval. The reports will detail the vendor payments that have been delegated, by the County Board, to be paid by the County Auditor/Treasurer/Coordinator.

Anticipated Completion Date:

January 1, 2019

Finding Number: 2014-001
Finding Title: County Ditch Fund Deficits

Name of Contact Person Responsible for Corrective Action:

John Thompson, County Auditor/Treasurer/Coordinator

Corrective Action Planned:

The County continues to monitor the deficit fund balance in the Ditch Special Revenue Fund. A drainage database program is being used to track approved repairs and improvements that will assist in reducing the delay between project expenditures and approvals and the assessments for the cost, which will improve the Ditch Special Revenue Fund deficit.

Anticipated Completion Date:

Ongoing

Finding Number: 2016-001
Finding Title: Uniform Guidance Written Procurement Policies and Procedures
Program: Highway Planning and Construction (CFDA No. 20.205)

Name of Contact Person Responsible for Corrective Action:

John Thompson, County Auditor/Treasurer/Coordinator

Corrective Action Planned:

The County will approve written policies and procedures that include the specific components of the Uniform Guidance requirements over procurement.

Anticipated Completion Date:

March 1, 2019

Finding Number: 2017-001
Finding Title: Audit Adjustment

Name of Contact Person Responsible for Corrective Action:

John Thompson, County Auditor/Treasurer/Coordinator

Corrective Action Planned:

The County will monitor the levy and the accounts that are used in settlements.

Anticipated Completion Date:

January 1, 2019

Finding Number: 2017-003
Finding Title: Publication of Financial Statements

Name of Contact Person Responsible for Corrective Action:

John Thompson, County Auditor/Treasurer/Coordinator

Corrective Action Planned:

The County will publish the financial statements at the appropriate times.

Anticipated Completion Date:

January 1, 2019

County of Faribault

BLUE EARTH, MINNESOTA

REPRESENTATION OF FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 1996-001
Finding Title: Individual Ditch System Deficits

Summary of Condition: The County had individual ditch systems with deficit cash balances and deficit fund balances at December 31, 2016.

Summary of Corrective Action Previously Reported: Faribault County will continue to monitor the individual ditch deficit balances and continue to advance funds to the individual ditches with deficits. A drainage database program is currently being used by County staff. This program tracks ditch projects, included approved expenditures, and will allow a more current assessment of the ditch project costs. The Faribault County Drainage Authority Board meets monthly and approves all projects. These action should assist in improving the deficit balances.

Status: Not Corrected. The County monitored ditch account balances but was not able to eliminate the deficits in the current year. A database program is being used to estimate the cost of approved repairs and assist in approving assessments in a timely manner.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 1996-005
Finding Title: Capital Assets Records

Summary of 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.

Summary of Corrective Action Previously Reported: Faribault County will adopt an accounting policy that will establish consistent useful lives, set guidance on when to use salvage values in computing depreciation, and define capitalization thresholds.

Status: Not Corrected. Due to time constraints, the accounting policies were not completed in the audit year. County staff will continue to work towards completing this task before the end of 2019.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2006-002
Finding Title: Budgeting

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

Summary of Corrective Action Previously Reported: Faribault County will adopt an accounting policy that will address procedures for adopting the budget, the legal level of control, when budgets can be modified, and procedures for monitoring budgets.

Status: Not Corrected. Due to time constraints the accounting policies were not completed in the audit year. County staff will continue to work towards completing this task before the end of 2019.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2013-002
Finding Title: Delegation to Pay Claims

Summary of 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.

Summary of Corrective Action Previously Reported: The County Auditor/Treasurer/Coordinator will begin to give the County Board a list of all auditor warrants on a monthly basis. The list will detail the vendor payments that have been delegated, by the County Board, to be paid by the County Auditor/Treasurer/Coordinator.

Status: Not Corrected. Due to time constraints, these procedures were not implemented in the audit year. County staff will implement review procedures in 2019.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2014-001
Finding Title: Ditch Special Revenue Fund Deficit Fund Balance

Summary of Condition: At December 31, 2016, the assets and deferred outflows of resources in the County's Ditch Special Revenue Fund did not exceed liabilities and deferred inflows of resources, resulting in a deficit fund balance.

Summary of Corrective Action Previously Reported: Faribault County will continue to monitor the deficit fund balance in the Ditch Special Revenue Fund. A drainage database program is being used to track approved repairs and improvements that will assist in reducing the delay between project expenditures and approvals and the assessments for the cost, which will improve the ditch special revenue fund deficit.

Status: Not Corrected. Faribault County monitored the fund balance of the Ditch Special Revenue Fund, but was not able to eliminate the deficit in the current year. The County is currently looking into ditch bonding options as a way to eliminate the deficit.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2016-001
Finding Title: Uniform Guidance Written Procurement Policies and Procedures
Program: Highway Planning and Construction (CFDA No. 20.205)

Summary of Condition: The County has written procurement policies; however, these policies do not include all the required components in accordance with Title 2 U.S. *Code of Federal Regulations* § 200.318.

Summary of Corrective Action Previously Reported: Faribault County will approve written policies and procedures that include the specific components of the Uniform Guidance requirements over procurement.

Status: Not Corrected. The County thought the updated policy included the specific elements that were identified. The County will review the policy and implement suggested changes.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

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FARIBAULT COUNTY ECONOMIC DEVELOPMENT AUTHORITY

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OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Economic Development Authority Board
Faribault County Economic Development Authority
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 Faribault County, Minnesota, which include as supplementary information, the financial statements of the Faribault County Economic Development Authority (EDA), a discretely presented component unit of Faribault County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Faribault County EDA'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 EDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the EDA's internal control over financial reporting.

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Faribault County EDA'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 Counties*, 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 EDA'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 contracting and bidding because the EDA did not enter into any contracts, public indebtedness because the EDA has no long-term debt, and tax increment financing because the EDA administers no tax increment financing districts. The applicable categories described above were tested in conjunction with the audit of the financial statements of Faribault County.

In connection with our audit, nothing came to our attention that caused us to believe that the Faribault County EDA failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. 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 EDA's noncompliance with the above referenced provisions.

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 Counties* and the results of that testing, and not to provide an opinion on the effectiveness of the EDA'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 EDA's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

January 14, 2019

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FARIBAULT COUNTY ECONOMIC DEVELOPMENT AUTHORITY
BLUE EARTH, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

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

PREVIOUSLY REPORTED ITEM RESOLVED

2015-001 Audit Adjustment

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County of Faribault

BLUE EARTH, MINNESOTA

REPRESENTATION OF
FARIBAULT COUNTY ECONOMIC DEVELOPMENT AUTHORITY
BLUE EARTH, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 2015-001
Finding Title: Audit Adjustment

Summary of Condition: During 2016, an audit adjustment was reflected in the financial statements.

Summary of Corrective Action Previously Reported: Faribault County will implement more extensive review of transactions and adjusting entries, including review of the Economic Development Authority (EDA) Board minutes, to ensure the financial statements are accurate, complete, and fairly presented in accordance with generally accepted accounting principles.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___