

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2015

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

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

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

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

Year Ended December 31, 2015



Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	1	14
Statement of Activities	2	16
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	18
Reconciliation of Fund Balances of Governmental Funds to Net Position - Governmental Activities	4	22
Statement of Revenues, Expenditures, and Changes in Fund Balances	5	23
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities - Governmental Activities	6	25
Proprietary Fund		
Huntley Sewer District Enterprise (Proprietary) Fund		
Statement of Fund Net Position	7	26
Statement of Revenues, Expenses, and Changes in Fund Net Position	8	27
Statement of Cash Flows	9	28
Fiduciary Funds		
Statement of Fiduciary Net Position	10	29
Notes to the Financial Statements		30
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	A-1	82
Public Works Special Revenue Fund	A-2	85
Human Services Special Revenue Fund	A-3	86
Ditch Special Revenue Fund	A-4	87
Schedule of Funding Progress - Other Postemployment Benefits	A-5	88

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
Financial Section		
Required Supplementary Information (Continued)		
PERA General Employees Retirement Fund		
Schedule of Proportionate Share of Net Pension Liability	A-6	89
Schedule of Contributions	A-7	89
PERA Public Employees Police and Fire Fund		
Schedule of Proportionate Share of Net Pension Liability	A-8	90
Schedule of Contributions	A-9	90
PERA Public Employees Correctional Fund		
Schedule of Proportionate Share of Net Pension Liability	A-10	91
Schedule of Contributions	A-11	91
Notes to the Required Supplementary Information		92
Supplementary Information		
Budgetary Comparison Schedule - Debt Service Fund	B-1	93
Fiduciary Funds		
Agency Funds		94
Combining Statement of Changes in Assets and Liabilities	C-1	95
Component Unit		
Economic Development Authority		
Governmental Fund Balance Sheet and Governmental Activities - Statement of Net Position with Adjustments to Convert Modified to Full Accrual	D-1	96
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	D-2	97
Schedule		
Schedule of Intergovernmental Revenue	E-1	98

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

TABLE OF CONTENTS
(Continued)

	<u>Exhibit</u>	<u>Page</u>
Management and Compliance Section		
Faribault County		
Schedule of Findings and Recommendations		99
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		107
Faribault County Economic Development Authority		
Schedule of Findings and Recommendations		110
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		112

This page was left blank intentionally.

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2015

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	John Roper	District 1	January 2017
Board Member	Greg Young	District 2	January 2019
Chair	William Groskreutz, Jr.	District 3	January 2017
Board Member	Tom Loveall	District 4	January 2019
Vice Chair	Tom Warmka	District 5	January 2017
Attorney	Troy Timmerman		January 2019
Auditor/Treasurer	John Thompson		January 2019
Judge	Douglas Richards		January 2019
County Recorder	Sheryl Asmus		January 2019
Registrar of Titles	Sheryl Asmus		January 2019
County Sheriff	Mike Gormley		January 2019
Appointed			
Assessor	Vacant		December 2016
County Engineer	Mark Daly		May 1, 2016
Veterans Service Officer	David Hanson		Indefinite
Medical Examiner	Aaron Johnson, M.D.		December 31, 2017
Economic Development Authority Board			
	John Herman	Wells	December 31, 2020
	Lars Bierly	Blue Earth	December 31, 2019
	Brad Wolf	Winnebago	December 31, 2016
	Jack Heinitz	Blue Earth	December 31, 2017
	Sharon Grunzke	Minnesota Lake	December 31, 2018

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2015, 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 1 percent, 1 percent, and 81 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 report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of December 31, 2015, 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 1 to the financial statements, in 2015 the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. 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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 December 6, 2016, on our consideration of Faribault County's and the Faribault County Economic Development Authority 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 those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 Economic Development Authority 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 6, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

This page was left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015
(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, 2015. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$59,536,475, of which \$52,114,461 is the net investment in capital assets, and \$4,594,978 is restricted to specific purposes.
- Business-type activities' total net position is \$952,423, of which \$855,153 is the net investment in capital assets.
- Faribault County's total net position increased by \$2,367,089, not including the restatement for Governmental Accounting Standards Board (GASB) Statements 68 and 71. Additional information about the implementations of GASB Statements 68 and 71 can be found in Note 1.E.
- The net position of the County's business-type activities decreased by \$58,602.
- The net cost of governmental activities was \$8,342,144 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$10,767,835. The net cost of business-type activities was \$48,668.
- Governmental funds' fund balances decreased by \$7,231,345.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Fund Financial Statements

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

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

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

The County's combined net position increased from \$58,121,509, as restated, to \$60,488,898. 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	
	2015	2014 Restated*	2015	2014	2015	2014 Restated*
Assets						
Current and other assets	\$ 16,484,340	\$ 22,638,514	\$ 112,014	\$ 99,758	\$ 16,596,354	\$ 22,738,272
Capital assets	59,979,218	59,726,445	1,192,153	1,248,267	61,171,371	60,974,712
Total Assets	\$ 76,463,558	\$ 82,364,959	\$ 1,304,167	\$ 1,348,025	\$ 77,767,725	\$ 83,712,984
Deferred Outflows of Resources	\$ 644,472	\$ 172,466	\$ -	\$ -	\$ 644,472	\$ 172,466
Liabilities						
Long-term liabilities	\$ 15,503,005	\$ 23,313,274	\$ 337,000	\$ 337,000	\$ 15,840,005	\$ 23,650,274
Other liabilities	1,086,032	1,445,953	14,744	-	1,100,776	1,445,953
Total Liabilities	\$ 16,589,037	\$ 24,759,227	\$ 351,744	\$ 337,000	\$ 16,940,781	\$ 25,096,227
Deferred Inflows of Resources	\$ 982,518	\$ 667,414	\$ -	\$ -	\$ 982,518	\$ 667,414
Net Position						
Net investment in capital assets	\$ 52,114,461	\$ 51,856,708	\$ 855,153	\$ 911,267	\$ 52,969,614	\$ 52,767,975
Restricted	4,594,978	3,959,703	-	-	4,594,978	3,959,703
Unrestricted	2,827,036	1,294,373	97,270	99,758	2,924,306	1,394,131
Total Net Position, as restated*	\$ 59,536,475	\$ 57,110,784	\$ 952,423	\$ 1,011,025	\$ 60,488,898	\$ 58,121,809

*Restatement for change in accounting principles; see Note 1.E.

The net position of the County's governmental activities increased by 4.2 percent (\$2,425,691). 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 \$1,294,373 at December 31, 2014 (restated), to \$2,827,036 at the end of this year. Net position of the business-type activities decreased by 5.8 percent (\$58,602).

Table 2 - Change in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 4,909,813	\$ 3,294,874	\$ 24,345	\$ 25,748	\$ 4,934,158	\$ 3,320,622
Operating grants and contributions	5,992,105	5,873,454	-	-	5,992,105	5,873,454
Capital grants and contributions	964,352	276,281	-	-	964,352	276,281
General revenues						
Property taxes	9,648,168	9,526,129	-	-	9,648,168	9,526,129
Grants and contributions not restricted to specific programs	699,602	572,059	-	-	699,602	572,059
Unrestricted investment earnings	71,602	61,361	-	-	71,602	61,361
Miscellaneous and other	348,463	370,197	-	-	348,463	370,197
Total Revenues	\$ 22,634,105	\$ 19,974,355	\$ 24,345	\$ 25,748	\$ 22,658,450	\$ 20,000,103

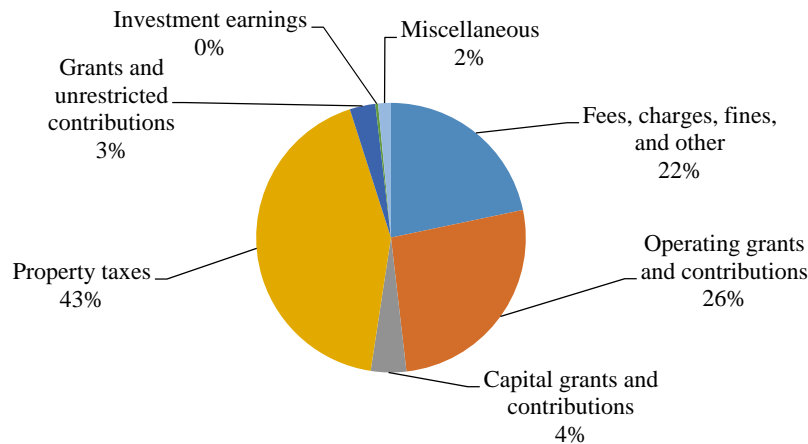
(Unaudited)

Page 8

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Expenses						
General government	\$ 3,852,066	\$ 3,491,419	\$ -	\$ -	\$ 3,852,066	\$ 3,491,419
Public safety	3,351,551	3,258,874	-	-	3,351,551	3,258,874
Highways and streets	6,567,731	6,212,632	-	-	6,567,731	6,212,632
Transit	170,755	183,343	-	-	170,755	183,343
Sanitation	360,842	241,577	73,013	71,749	433,855	313,326
Human services	2,023,955	1,933,234	-	-	2,023,955	1,933,234
Culture and recreation	350,652	338,842	-	-	350,652	338,842
Conservation of natural resources	3,196,925	1,882,703	-	-	3,196,925	1,882,703
Economic development	62,818	65,526	-	-	62,818	65,526
Interest	271,119	604,743	-	-	271,119	604,743
Total Expenses	\$ 20,208,414	\$ 18,212,893	\$ 73,013	\$ 71,749	\$ 20,281,427	\$ 18,284,642
Change in Net Position Before Special Item	\$ 2,425,691	\$ 1,761,462	\$ (48,668)	\$ (46,001)	\$ 2,377,023	\$ 1,715,461
Special Item	-	-	(9,934)	-	(9,934)	-
Change in Net Position	\$ 2,425,691	\$ 1,761,462	\$ (58,602)	\$ (46,001)	\$ 2,367,089	\$ 1,715,461
Net Position, January 1, as restated	57,110,784 *	58,063,907	1,011,025	1,057,026	58,121,809 *	59,120,933
Net Position, December 31, as reported	\$ 59,536,475	\$ 59,825,369	\$ 952,423	\$ 1,011,025	\$ 60,488,898	\$ 60,836,394

*Amount includes a change in accounting principles; see Note 1.E.

Total County Revenues - Percent of Total



Governmental Activities

Revenues for the County's governmental activities were \$22,634,105, while total expenses were \$20,208,414. However, as shown in the Statement of Activities (Exhibit 2), the amount that taxpayers ultimately financed for these activities through County taxes was \$9,648,168, because some of the cost was paid by those who directly benefited from the programs (\$4,909,813) or by

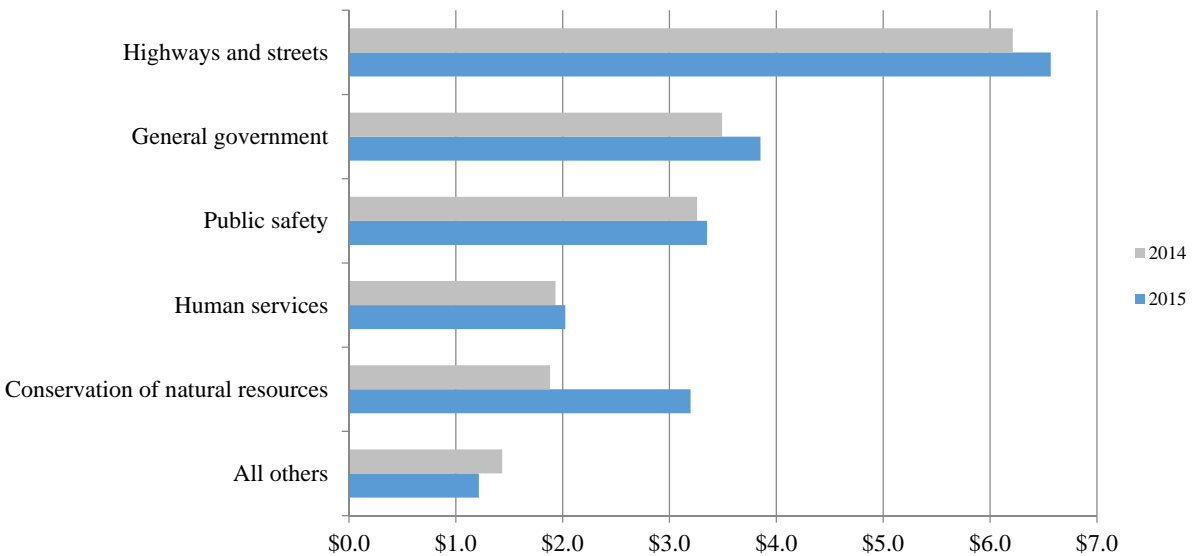
other governments and organizations that subsidized certain programs with grants and contributions (\$6,956,457). Overall, the County’s governmental program revenues, including intergovernmental aid and fees for services, totaled \$11,866,270. The County paid for the remaining “public benefit” portion of governmental activities with \$10,767,835 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	
	2015	2014	2015	2014
Highways and streets	\$ 6,567,731	\$ 6,212,632	\$ 200,109	\$ 250,800
General government	3,852,066	3,491,419	3,201,507	2,781,649
Public safety	3,351,551	3,258,874	2,513,927	2,539,712
Conservation of natural resources	3,196,925	1,882,703	(294,283)	356,664
Human services	2,023,955	1,933,234	2,023,955	1,933,234
All others	1,216,186	1,434,031	696,929	906,225
Total Expenses	\$ 20,208,414	\$ 18,212,893	\$ 8,342,144	\$ 8,768,284

**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 \$9,518,820, which is below last year's total of \$16,750,165.

The General Fund showed an increase of \$872,150. The increase was due to positive variances in taxes, special assessments, intergovernmental, charges for services, fines and forfeits, gifts and contributions, and investment earnings compared to budgeted amounts. General government expenditures also saw significantly fewer expenditures than budgeted.

The Public Works Special Revenue Fund showed an increase of \$300,992 due to gravel crushing and overlay expenditures that did not occur during 2015 as budgeted.

The Human Services Special Revenue Fund increased by \$3,591.

The Ditch Special Revenue Fund showed a decrease of \$835,284, as repair, improvement, and redetermination costs were expended during the year, and the assessments will be levied in future years.

The Debt Service Fund decreased by \$7,572,794, as the County used bond proceeds held by fiscal agent to refund jail bonds.

The General Fund's fund balance is 87.5 percent of the total governmental funds, compared to 44.5 percent at the end of 2014.

General Fund Budgetary Highlights

During the course of 2015, the original revenue budget increased by \$95,106 and the expenditure budget increased by \$435,242. A majority of the adjustment to the revenue budget was for a reimbursement from the school districts that was not included in the original budget. The expenditure budget increase of \$315,100 was for remodeling expenditures for the jail and Ag Center that were not included in the original budget. Budget adjustments to public safety and conservation of natural resources were increased by \$51,442 and \$43,700, respectively, for expenditures that were not included in the original budget.

Revenues exceeded budgeted amounts by \$378,082. Positive variances in revenues include \$174,039 in charges for services, of which a significant amount was for public safety for an increase in board of prisoner fees in 2015, and \$117,048 in special assessments revenue due to septic loan payoffs in 2015. General government expenditures were \$679,639 below budget, primarily due to unspent funds budgeted for retiree insurance premiums and unspent building project funds. Public safety expenditures were \$103,510 under budget, largely due to the Sheriff Department being under budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the County had \$61,171,371 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 \$196,659, or 0.3 percent, more than last year.

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

	<u>2015</u>	<u>2014</u>
Governmental Activities		
Land	\$ 1,869,777	\$ 1,869,777
Construction in progress	2,750,347	680,049
Building and improvements	9,428,640	9,741,634
Other improvements	45,204	54,160
Machinery and equipment	2,778,949	2,893,722
Infrastructure	<u>43,106,301</u>	<u>44,487,103</u>
Total	<u>\$ 59,979,218</u>	<u>\$ 59,726,445</u>
Business-Type Activities		
Land	\$ 27,643	\$ 27,643
Machinery and equipment	32,667	37,334
Infrastructure	<u>1,131,843</u>	<u>1,183,290</u>
Total	<u>\$ 1,192,153</u>	<u>\$ 1,248,267</u>

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

Debt

At year-end, the County had \$8,930,000 in governmental activities bonds outstanding, versus \$17,080,000 for last year. Table 5 shows the outstanding debt.

Table 5
Outstanding Debt at Year-End

	<u>2015</u>	<u>2014</u>
Governmental Activities		
Bonds payable	\$ 8,930,000	\$ 17,080,000
Capital leases	19,620	26,831
Loans payable	<u>-</u>	<u>13,180</u>
Totals	<u>\$ 8,949,620</u>	<u>\$ 17,120,011</u>

	<u>2015</u>	<u>2014</u>
Business-Type Activities		
Bonds payable	<u>\$ 337,000</u>	<u>\$ 337,000</u>

The County's general obligation bond rating was set at an AA- rating by Standard and Poor's as rated in 2014. The state limits the amount of net debt that the County can issue to three percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this state-imposed limit. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2015 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2016 are budgeted to increase 28 percent over 2015. Most of this increase is for a budgeted \$2,000,000 building and maintenance project. This project is expected to be financed with bond proceeds.
- Agricultural land prices have stabilized after several years of significant increases. County assessment values were projected to be down ten percent for 2016 payable taxes and are expected to remain flat in 2017. 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 3.4 percent for 2016. Cost of living adjustments affected the General Fund and the Public Works Special Revenue Fund.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
<u>Assets</u>					
Cash and pooled investments	\$ 9,234,852	\$ 60,829	\$ 9,295,681	\$ 100	\$ 335,116
Petty cash and change funds	2,562	-	2,562	-	-
Cash with fiscal agent	-	-	-	7,973	-
Taxes receivable					
Delinquent	129,725	-	129,725	-	-
Special assessments receivable					
Delinquent	51,438	22,222	73,660	-	-
Noncurrent	3,837,506	29,423	3,866,929	-	-
Accounts receivable	57,850	-	57,850	-	-
Accrued interest receivable	13,007	-	13,007	-	15
Loans receivable	100,000	-	100,000	-	221,828
Due from other governments	1,565,841	5,242	1,571,083	-	-
Advance to other governments	85,000	-	85,000	-	-
Internal balances	5,702	(5,702)	-	-	-
Inventories	1,382,861	-	1,382,861	-	-
Prepaid items	17,996	-	17,996	-	-
Restricted assets					
Investments - temporary	-	-	-	-	10,396
Capital assets					
Non-depreciable	4,620,124	27,643	4,647,767	-	-
Depreciable - net of accumulated depreciation	55,359,094	1,164,510	56,523,604	-	-
Total Assets	\$ 76,463,558	\$ 1,304,167	\$ 77,767,725	\$ 8,073	\$ 567,355
<u>Deferred Outflows of Resources</u>					
Deferred pension outflows	\$ 644,472	\$ -	\$ 644,472	\$ -	\$ -

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

*EXHIBIT 1
(Continued)*

**STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
<u>Liabilities</u>					
Accounts payable	\$ 225,885	\$ -	\$ 225,885	\$ -	\$ -
Salaries payable	172,116	-	172,116	-	-
Contracts payable	447,037	-	447,037	-	-
Due to other governments	27,359	-	27,359	-	-
Accrued interest payable	102,312	14,744	117,056	-	-
Unearned revenue	111,323	-	111,323	-	-
Long-term liabilities					
Due within one year	805,898	4,000	809,898	-	-
Due in more than one year	9,331,655	333,000	9,664,655	-	-
Net pension liability	3,130,687	-	3,130,687	-	-
Other postemployment benefit obligations	2,234,765	-	2,234,765	-	-
Total Liabilities	\$ 16,589,037	\$ 351,744	\$ 16,940,781	\$ -	\$ -
<u>Deferred Inflows of Resources</u>					
Advanced allotments	\$ 641,850	\$ -	\$ 641,850	\$ -	\$ -
Deferred pension inflows	340,668	-	340,668	-	-
Total Deferred Inflows of Resources	\$ 982,518	\$ -	\$ 982,518	\$ -	\$ -
<u>Net Position</u>					
Net investment in capital assets	\$ 52,114,461	\$ 855,153	\$ 52,969,614	\$ -	\$ -
Restricted for					
General government	559,895	-	559,895	-	-
Public safety	85,811	-	85,811	-	-
Highways and streets	1,303,208	-	1,303,208	-	-
Sanitation	739,416	-	739,416	-	-
Conservation of natural resources	968,707	-	968,707	-	-
Debt service	937,941	-	937,941	-	-
Housing assistance payments	-	-	-	8,073	-
Commercial rehabilitation loans	-	-	-	-	296,963
Unrestricted	2,827,036	97,270	2,924,306	-	270,392
Total Net Position	\$ 59,536,475	\$ 952,423	\$ 60,488,898	\$ 8,073	\$ 567,355

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, 2015**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Primary government				
Governmental activities				
General government	\$ 3,852,066	\$ 624,240	\$ 26,319	\$ -
Public safety	3,351,551	581,869	255,755	-
Highways and streets	6,567,731	123,067	5,280,203	964,352
Transit	170,755	25,966	110,620	-
Sanitation	360,842	347,440	-	-
Human services	2,023,955	-	-	-
Culture and recreation	350,652	35,231	-	-
Conservation of natural resources	3,196,925	3,172,000	319,208	-
Economic development	62,818	-	-	-
Interest	271,119	-	-	-
Total governmental activities	\$ 20,208,414	\$ 4,909,813	\$ 5,992,105	\$ 964,352
Business-type activities				
Huntley Sewer District	73,013	24,345	-	-
Total Primary Government	\$ 20,281,427	\$ 4,934,158	\$ 5,992,105	\$ 964,352
Component units				
Housing and Redevelopment Authority	\$ 297,497	\$ 5,869	\$ 299,701	\$ -
Economic Development Authority	73,073	73,396	-	-
Total Component Units	\$ 370,570	\$ 79,265	\$ 299,701	\$ -

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

Special Item

Cancellation of special assessments due to tax forfeiture

Total general revenues and special item

Change in net position

Net Position - January 1, as previously reported
Restatement (Note 1.E.)

Net Position - January 1

Net Position - December 31

Net (Expense) Revenue and Changes in Net Position

Primary Government			Discretely Presented Component Units	
Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
\$ (3,201,507)	\$ -	\$ (3,201,507)		
(2,513,927)	-	(2,513,927)		
(200,109)	-	(200,109)		
(34,169)	-	(34,169)		
(13,402)	-	(13,402)		
(2,023,955)	-	(2,023,955)		
(315,421)	-	(315,421)		
294,283	-	294,283		
(62,818)	-	(62,818)		
(271,119)	-	(271,119)		
\$ (8,342,144)	\$ -	\$ (8,342,144)		
-	(48,668)	(48,668)		
\$ (8,342,144)	\$ (48,668)	\$ (8,390,812)		
			\$ 8,073	\$ -
			-	323
			\$ 8,073	\$ 323
\$ 9,648,168	\$ -	\$ 9,648,168	\$ -	\$ -
9,145	-	9,145	-	-
42,201	-	42,201	-	-
172,731	-	172,731	-	-
699,602	-	699,602	-	-
71,602	-	71,602	-	15
124,386	-	124,386	-	-
-	(9,934)	(9,934)	-	-
\$ 10,767,835	\$ (9,934)	\$ 10,757,901	\$ -	\$ 15
\$ 2,425,691	\$ (58,602)	\$ 2,367,089	\$ 8,073	\$ 338
\$ 59,825,369	\$ 1,011,025	\$ 60,836,394	\$ -	\$ 567,017
(2,714,585)	-	(2,714,585)	-	-
\$ 57,110,784	\$ 1,011,025	\$ 58,121,809	\$ -	\$ 567,017
\$ 59,536,475	\$ 952,423	\$ 60,488,898	\$ 8,073	\$ 567,355

This page was left blank intentionally.

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Public Works
<u>Assets</u>		
Cash and pooled investments	\$ 5,353,568	\$ 873,881
Petty cash and change funds	2,265	297
Taxes receivable		
Delinquent	76,845	16,192
Special assessments		
Delinquent	47,003	-
Noncurrent	871,049	-
Accounts receivable	46,906	2,232
Accrued interest receivable	13,007	-
Due from other funds	16,952	2,376
Due from other governments	88,030	1,368,690
Prepaid items	4,636	13,360
Advance to other funds	2,986,880	-
Advance to other governments	85,000	-
Inventories	-	1,382,861
Loans receivable	100,000	-
	\$ 9,692,141	\$ 3,659,889
Total Assets	\$ 9,692,141	\$ 3,659,889

EXHIBIT 3

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 1,982,680	\$ 159,629	\$ 865,094	\$ 9,234,852
-	-	-	2,562
26,405	-	10,283	129,725
-	4,435	-	51,438
-	2,966,457	-	3,837,506
-	8,712	-	57,850
-	-	-	13,007
-	-	-	19,328
-	109,121	-	1,565,841
-	-	-	17,996
-	-	-	2,986,880
-	-	-	85,000
-	-	-	1,382,861
-	-	-	100,000
<u>\$ 2,009,085</u>	<u>\$ 3,248,354</u>	<u>\$ 875,377</u>	<u>\$ 19,484,846</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General	Public Works
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 91,204	\$ 40,495
Salaries payable	126,822	45,294
Contracts payable	63,600	157,120
Due to other funds	2,376	-
Due to other governments	9,523	-
Unearned revenue	108,760	821
Advance from other funds	-	-
	\$ 402,285	\$ 243,730
Deferred Inflows of Resources		
Advanced allotments	\$ -	\$ 641,850
Unavailable revenue	960,581	1,376,177
	\$ 960,581	\$ 2,018,027
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 1,382,861
Prepaid items	4,636	13,260
Advances to other funds	2,986,880	-
Advances to other governments	85,000	-
Restricted for		
Debt service	-	-
Law library	21,585	-
Recorder's technology equipment	326,217	-
Recorder's compliance	212,093	-
Individual Sewage Treatment System (ISTS) loans	-	-
E-911	44,828	-
Drug abuse resistance education (DARE)	40,983	-
Ditch maintenance and repairs	-	-
Solid waste projects	739,416	-
ISTS repayments	249,600	-
Committed for		
Human services	-	-
Assigned to		
Public works	-	2,011
Unassigned	3,618,037	-
	\$ 8,329,275	\$ 1,398,132
Total Fund Balances	\$ 8,329,275	\$ 1,398,132
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 9,692,141	\$ 3,659,889

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

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ -	\$ 94,186	\$ -	\$ 225,885
-	-	-	172,116
-	226,317	-	447,037
-	11,250	-	13,626
-	17,836	-	27,359
1,295	-	447	111,323
-	2,986,880	-	2,986,880
<u>\$ 1,295</u>	<u>\$ 3,336,469</u>	<u>\$ 447</u>	<u>\$ 3,984,226</u>
\$ -	\$ -	\$ -	\$ 641,850
17,445	2,978,988	6,759	5,339,950
<u>\$ 17,445</u>	<u>\$ 2,978,988</u>	<u>\$ 6,759</u>	<u>\$ 5,981,800</u>
\$ -	\$ -	\$ -	\$ 1,382,861
-	-	-	17,896
-	-	-	2,986,880
-	-	-	85,000
-	-	738,135	738,135
-	-	-	21,585
-	-	-	326,217
-	-	-	212,093
-	-	130,036	130,036
-	-	-	44,828
-	-	-	40,983
-	419,714	-	419,714
-	-	-	739,416
-	-	-	249,600
1,990,345	-	-	1,990,345
-	-	-	2,011
-	(3,486,817)	-	131,220
<u>\$ 1,990,345</u>	<u>\$ (3,067,103)</u>	<u>\$ 868,171</u>	<u>\$ 9,518,820</u>
<u>\$ 2,009,085</u>	<u>\$ 3,248,354</u>	<u>\$ 875,377</u>	<u>\$ 19,484,846</u>

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS
TO NET POSITION - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2015**

Fund balances - total governmental funds (Exhibit 3)	\$	9,518,820
---	-----------	------------------

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		59,979,218
--	--	------------

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.		5,339,950
--	--	-----------

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	\$ 644,472	
Deferred inflows related to pensions	<u>(340,668)</u>	303,804

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

General obligation bonds	\$ (8,530,000)	
Special assessment bonds	(400,000)	
Bond discount	17,145	
Bond premium	(171,019)	
Net other postemployment benefits liability	(2,234,765)	
Net pension liability	(3,130,687)	
Accrued interest payable	(102,312)	
Compensated absences payable	(1,034,059)	
Capital leases payable	<u>(19,620)</u>	<u>(15,605,317)</u>

Net Position of Governmental Activities (Exhibit 1)	\$	<u>59,536,475</u>
--	-----------	--------------------------

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Public Works
Revenues		
Taxes	\$ 5,863,593	\$ 1,360,927
Special assessments	655,696	-
Licenses and permits	2,100	-
Intergovernmental	1,081,855	6,056,156
Charges for services	1,275,445	120,061
Fines and forfeits	33,829	-
Gifts and contributions	4,615	-
Investment earnings	70,706	-
Miscellaneous	199,957	38,237
	\$ 9,187,796	\$ 7,575,381
Expenditures		
Current		
General government	\$ 3,399,957	\$ -
Public safety	3,259,206	-
Highways and streets	-	6,659,694
Transit	184,015	-
Human services	-	-
Sanitation	360,842	-
Culture and recreation	186,783	153,270
Conservation of natural resources	609,336	-
Economic development	62,818	-
Intergovernmental	-	430,511
Debt service		
Principal	20,391	-
Interest	984	-
Administrative (fiscal) charges	-	-
	\$ 8,084,332	\$ 7,243,475
Excess of Revenues Over (Under) Expenditures	\$ 1,103,464	\$ 331,906
Other Financing Sources (Uses)		
Transfers in	\$ 80,463	\$ -
Transfers out	(311,777)	-
	\$ (231,314)	\$ -
Change in Fund Balances	\$ 872,150	\$ 331,906
Fund Balances - January 1	7,457,125	1,097,140
Increase (decrease) in inventories	-	(30,914)
Fund Balances - December 31	\$ 8,329,275	\$ 1,398,132

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

EXHIBIT 5

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 1,892,278	\$ -	\$ 738,756	\$ 9,855,554
-	1,710,856	-	2,366,552
-	-	-	2,100
135,268	82,196	25,215	7,380,690
-	-	-	1,395,506
-	-	-	33,829
-	-	-	4,615
-	-	-	70,706
-	-	-	238,194
<u>\$ 2,027,546</u>	<u>\$ 1,793,052</u>	<u>\$ 763,971</u>	<u>\$ 21,347,746</u>
\$ -	\$ -	\$ -	\$ 3,399,957
-	-	-	3,259,206
-	-	-	6,659,694
-	-	-	184,015
2,023,955	-	-	2,023,955
-	-	-	360,842
-	-	-	340,053
-	2,581,966	-	3,191,302
-	-	-	62,818
-	-	-	430,511
-	40,000	8,110,000	8,170,391
-	5,945	456,729	463,658
-	425	1,350	1,775
<u>\$ 2,023,955</u>	<u>\$ 2,628,336</u>	<u>\$ 8,568,079</u>	<u>\$ 28,548,177</u>
<u>\$ 3,591</u>	<u>\$ (835,284)</u>	<u>\$ (7,804,108)</u>	<u>\$ (7,200,431)</u>
\$ -	\$ -	\$ 311,777	\$ 392,240
-	-	(80,463)	(392,240)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,314</u>	<u>\$ -</u>
\$ 3,591	\$ (835,284)	\$ (7,572,794)	\$ (7,200,431)
1,986,754	(2,231,819)	8,440,965	16,750,165
-	-	-	(30,914)
<u>\$ 1,990,345</u>	<u>\$ (3,067,103)</u>	<u>\$ 868,171</u>	<u>\$ 9,518,820</u>

**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, 2015**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (7,200,431)

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	\$ 5,339,950	
Unavailable revenue - January 1	<u>(4,060,071)</u>	1,279,879

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets and infrastructure	\$ 3,693,539	
Net book value of assets sold	(1,281)	
Current year depreciation	<u>(3,439,485)</u>	252,773

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	\$ 8,110,000	
Special assessment bonds	40,000	
Capital lease payable	7,211	
Loans payable	<u>13,180</u>	8,170,391

Amortization of discount on bonds and issuance costs		(2,519)
Amortization of premium on bonds and issuance costs		<u>14,056</u>

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	\$ 182,777	
Change in compensated absences	24,950	
Change in other postemployment benefits liabilities	(152,973)	
Change in net deferred pension outflows, as restated	472,006	
Change in net pension liability, as restated	(243,636)	
Change in net deferred pension inflows	(340,668)	
Change in inventories	<u>(30,914)</u>	<u>(88,458)</u>

Change in Net Position of Governmental Activities (Exhibit 2) \$ 2,425,691

PROPRIETARY FUND

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND
DECEMBER 31, 2015**

	Business-Type Activities
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 60,829
Special assessments	
Delinquent	22,222
Noncurrent	29,423
Due from other governments	5,242
Total current assets	\$ 117,716
Noncurrent assets	
Capital assets	
Nondepreciable	\$ 27,643
Depreciable - net of accumulated depreciation	1,164,510
Total noncurrent assets	\$ 1,192,153
Total Assets	\$ 1,309,869
<u>Liabilities</u>	
Current liabilities	
Due to other funds	\$ 5,702
Accrued interest payable	14,744
General obligation bonds payable - current	4,000
Total current liabilities	\$ 24,446
Noncurrent liabilities	
General obligation bonds payable - long-term	333,000
Total Liabilities	\$ 357,446
<u>Net Position</u>	
Net investment in capital assets	\$ 855,153
Unrestricted	97,270
Total Net Position	\$ 952,423

**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, 2015**

	Business-Type Activities
Operating Revenues	
Charges for services	\$ 16,445
Special assessments	7,900
	\$ 24,345
Operating Expenses	
Professional services	\$ 2,155
Depreciation	56,114
	\$ 58,269
Operating Income (Loss)	\$ (33,924)
Nonoperating Revenues (Expenses)	
Interest expense	(14,744)
	\$ (48,668)
Special Item	
Cancelation of assessments due to tax forfeiture	(9,934)
	\$ (58,602)
Change in Net Position	\$ (58,602)
Net Position - January 1	1,011,025
Net Position - December 31	\$ 952,423

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities
Cash Flows from Operating Activities	
Receipts from customers	\$ 21,841
Payments to suppliers	(2,155)
Net cash provided by (used in) operating activities	\$ 19,686
Cash Flows from Capital and Related Financing Activities	
Special assessments	12,238
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 31,924
Cash and Cash Equivalents at January 1	28,905
Cash and Cash Equivalents at December 31	\$ 60,829
 Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (33,924)
 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	(4,564)
(Increase) decrease in special assessments - noncurrent	942
(Increase) decrease in due from other governments	1,118
Total adjustments	\$ 53,610
Net Cash Provided by (Used in) Operating Activities	\$ 19,686

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2015**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u>309,273</u>
<u>Liabilities</u>	
Due to other governments	\$ <u>309,273</u>

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Discretely Presented Component Units

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

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Faribault County Economic Development Authority (EDA) provides services pursuant to Minn. Stat. §§ 469.090-469.1081.	County appoints all members, and there is a financial benefit or burden relationship with the County.	Separate financial statements are not prepared.
Faribault County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints the Board members, must approve debt, and can impose it will.	Faribault County HRA Minnesota Valley Action Council 706 North Victory Drive Mankato, Minnesota 56001

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental, 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.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

The County considers all governmental funds to be major.

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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, 2015, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings in the General Fund for 2015 were \$70,706.

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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

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

Investments of the County are reported at fair value.

2. Cash and Cash Equivalents

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Receivables and Payables

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

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

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

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

Special assessments receivable consist of delinquent special assessments payable in the years 2010 through 2015 and noncurrent special assessments payable in 2016 and after. Unpaid special assessments at December 31 are classified in the financial statements as delinquent special assessments receivable.

4. Inventories and Prepaid Items

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Inventories and Prepaid Items (Continued)

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Capital Assets (Continued)

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

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

7. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The current portion is calculated as 1.3 percent of the total liability.

8. Long-Term Obligations

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Long-Term Obligations (Continued)

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

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position 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, pension plan changes in proportionate share, and differences between projected and actual earnings on pension plan investments and, accordingly, is reported only in the statement of net position.

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 three items, unavailable revenue, advance allotments, and deferred pension inflows, 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 advance allotments for state aid received by the County not yet appropriated by the State of Minnesota. Advance allotments are reported in the governmental funds balance sheet and on the

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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)

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 differences between expected and actual pension plan economic experience and also pension plan changes in proportionate share.

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.

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Classification of Net Position (Continued)

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.

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.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

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)

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.

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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Change in Accounting Principles

During the year ended December 31, 2015, the County adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the County to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the County's net pension liability and related deferred outflows of resources.

	<u>Governmental Activities</u>
Net Position, January 1, 2015, as previously reported	\$ 59,825,369
Change in accounting principles	<u>(2,714,585)</u>
Net Position, January 1, 2015, as restated	<u>\$ 57,110,784</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Ditch Special Revenue Fund Equity

On the full accrual basis of accounting, 70 of the 189 drainage systems have incurred expenses in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund equity as of December 31, 2015, using the full accrual basis of accounting.

Account balances	\$ 968,707
Account balance deficit	<u>(1,456,822)</u>
Fund Equity - Full Accrual Basis	<u>\$ (488,115)</u>

Using the modified accrual basis of accounting, noncurrent receivables and bonds payable do not affect fund balance. Noncurrent receivables are deferred inflows of resources, and bonds payable are not reported. Using this basis of accounting, 107 ditches had fund deficits.

Account balances	\$ 419,714
Account balance deficit	<u>(3,486,817)</u>
Fund Equity - Modified Accrual Basis	<u>\$ (3,067,103)</u>

B. Deficit Fund Balance

The Ditch Special Revenue Fund has a deficit fund balance of \$3,067,103 at December 31, 2015, which will be eliminated by special assessments.

C. Excess of Expenditures Over Budget

The Debt Service Fund had expenditures in excess of budget for the year ended December 31, 2015, of \$7,523,493. The excess of expenditures over budget was funded by cash with fiscal agent to pay off the General Obligation Jail Bonds, Series 2007A.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Governmental activities	
Cash and pooled investments	\$ 9,234,852
Petty cash and change funds	2,562
Business-type activities	
Cash and pooled investments	60,829
Component unit - EDA	
Cash and pooled investments	335,116
Restricted temporary investment	10,396
Fiduciary funds	
Cash and pooled investments	<u>309,273</u>
 Total Cash and Investments	 <u>\$ 9,953,028</u>

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

a. Deposits

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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, 2015, the County's deposits were not exposed to custodial credit risk.

b. Investments

Interest Rate Risk

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

	Maturity Dates	
	0 - 1 Year	Over 1 Year
Deposits	\$ 8,602,886	\$ -
Petty cash and change funds	2,562	-
MAGIC Fund	580	-
Negotiable certificates of deposit	-	1,347,000
Total Cash and Investments	\$ 8,606,028	\$ 1,347,000

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

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, 2015, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

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

<u>Issuer</u>	<u>Moody's Rating</u>	<u>Maturity Date</u>	<u>Market Value</u>
Goldman Sachs Bank	NR	08/01/2017	\$ 205,000
GE Capital Bank	NR	07/13/2018	200,000
GE Capital Retail Bank	NR	07/13/2018	200,000
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
CIT Bank	NR	01/22/2020	150,000

NR - not rated

2. Receivables

Receivables as of December 31, 2015, for the County are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes - delinquent	\$ 129,725	\$ -
Special assessments - delinquent	51,438	-
Special assessments - noncurrent	3,837,506	2,678,782
Accounts	57,850	-
Accrued interest	13,007	-
Loans	100,000	96,278
Due from other governments	1,565,841	-
Advance to other governments	85,000	-
Total Governmental Activities	<u>\$ 5,840,367</u>	<u>\$ 2,775,060</u>

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 \$6,721.57 until paid in full on July 1, 2025.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Business-Type Activities		
Special assessments - delinquent	\$ 22,222	\$ -
Special assessments - noncurrent	29,423	11,579
Due from other governments	5,242	-
Total Business-Type Activities	\$ 56,887	\$ 11,579

3. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,869,777	\$ -	\$ -	\$ 1,869,777
Construction in progress	680,049	3,305,294	1,234,996	2,750,347
Total capital assets not depreciated	\$ 2,549,826	\$ 3,305,294	\$ 1,234,996	\$ 4,620,124
Capital assets depreciated				
Buildings and improvements	\$ 13,501,390	\$ -	\$ -	\$ 13,501,390
Other improvements	161,597	-	-	161,597
Machinery and equipment	8,977,587	388,245	93,579	9,272,253
Infrastructure	90,332,266	1,234,996	-	91,567,262
Total capital assets depreciated	\$ 112,972,840	\$ 1,623,241	\$ 93,579	\$ 114,502,502
Less: accumulated depreciation for				
Buildings and improvements	\$ 3,759,756	\$ 312,994	\$ -	\$ 4,072,750
Other improvements	107,437	8,956	-	116,393
Machinery and equipment	6,083,865	501,737	92,298	6,493,304
Infrastructure	45,845,163	2,615,798	-	48,460,961
Total accumulated depreciation	\$ 55,796,221	\$ 3,439,485	\$ 92,298	\$ 59,143,408
Total capital assets depreciated, net	\$ 57,176,619	\$ (1,816,244)	\$ 1,281	\$ 55,359,094
Capital Assets, Net	\$ 59,726,445	\$ 1,489,050	\$ 1,236,277	\$ 59,979,218

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 27,643	\$ -	\$ -	\$ 27,643
Capital assets depreciated				
Machinery and equipment	\$ 70,000	\$ -	\$ -	\$ 70,000
Infrastructure	1,543,420	-	-	1,543,420
Total capital assets depreciated	\$ 1,613,420	\$ -	\$ -	\$ 1,613,420
Less: accumulated depreciation for				
Machinery and equipment	\$ 32,666	\$ 4,667	\$ -	\$ 37,333
Infrastructure	360,130	51,447	-	411,577
Total accumulated depreciation	\$ 392,796	\$ 56,114	\$ -	\$ 448,910
Total capital assets depreciated, net	\$ 1,220,624	\$ (56,114)	\$ -	\$ 1,164,510
Capital Assets, Net	\$ 1,248,267	\$ (56,114)	\$ -	\$ 1,192,153

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

Governmental Activities	
General government	\$ 424,507
Public safety	182,748
Highways and streets, including depreciation of infrastructure assets	2,829,030
Conservation of natural resources	3,200
	<hr/>
Total Depreciation Expense - Governmental Activities	\$ 3,439,485
	<hr/>
Business-Type Activities	
Huntley Sewer District	\$ 56,114
	<hr/>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2015, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Huntley Sewer District Enterprise	\$ 5,702	Interest on loans
	Ditch Special Revenue	<u>11,250</u>	Debt issuance costs
Total due to General Fund		\$ 16,952	
Public Works Special Revenue	General	<u>2,376</u>	Fuel
Total		<u>\$ 19,328</u>	

These interfund receivables and payables are expected to be paid within one year of December 31, 2015.

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch Special Revenue	<u>\$ 2,986,880</u>

The advance from the General Fund to the Ditch Special Revenue Fund was to cover individual negative ditch balances. This advance is not expected to be eliminated within one year of December 31, 2015.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2015, consisted of a transfer from the General Fund to the Debt Service Fund of \$311,777 for debt service payments and from the Debt Service Fund to the General Fund of \$80,463 to transfer bond proceeds to reimburse the General Fund for Individual Sewage Treatment Systems loans issued.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

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 35 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2015, the County expended \$136,498 for these benefits.

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer, self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis. As of January 1, 2014, the date of the last valuation, there were approximately 40 retirees receiving health benefits from the County's health plan. The implicit rate subsidy amount was determined by an actuarial study to be \$15,363 for 2015.

Annual OPEB Cost and Net OPEB Obligation

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

ARC	\$	341,952
Interest on net OPEB obligation		83,272
Adjustment to ARC		(120,390)
		\$ 304,834
Annual OPEB cost (expense)	\$	304,834
Contributions made		(151,861)
		\$ 152,973
Increase in net OPEB obligation	\$	152,973
Net OPEB Obligation - January 1		2,081,792
		\$ 2,234,765
Net OPEB Obligation - December 31	\$	2,234,765

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, 2013, 2014, and 2015, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
December 31, 2013	\$ 388,883	\$ 151,292	38.9%	\$ 1,953,201
December 31, 2014	302,118	173,527	57.4	2,081,792
December 31, 2015	304,834	151,861	49.8	2,234,765

Funded Status and Funding Progress

As of January 1, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$4,112,581, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,112,581. The covered payroll (annual payroll of active employees covered by the plan) was \$4,782,966, and the ratio of the UAAL to the covered payroll was 86.0 percent.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

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

Actuarial Methods and Assumptions

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

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Faribault County's implicit rate of return on the General Fund. The annual health care cost trend is initially 7.5 percent for non-Medicare and 6.5 percent for Medicare, reduced by decrements to an ultimate rate of 5.0 percent over 8 years. Both rates included a 2.75 percent inflation assumption. The UAAL is being amortized over 30 years on a level dollar amount. The remaining amortization period at December 31, 2015, was 22 years.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

The County has entered into capital lease agreements as lessee for financing the acquisition of copiers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases consist of the following at December 31, 2015:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2013 machine room copier	2018	Monthly	\$ 236	\$ 13,300	\$ 6,858
2013 County attorney copier	2018	Monthly	127	6,875	3,597
2013 veteran services copier	2017	Monthly	84	3,700	1,505
2014 extension copier	2019	Monthly	219	12,000	7,660
Total Leases					<u>\$ 19,620</u>

Lease payments are made from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2015, were as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2016	\$ 7,997
2017	7,532
2018	4,786
2019	219
Total lease payments	\$ 20,534
Less: amount representing interest	<u>(914)</u>
Present Value of Minimum Lease Payments	<u>\$ 19,620</u>

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Governmental Activities

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2015</u>
General obligation bonds					
2001 G.O. Taxable Refunding Waste Disposal Bonds	2016	\$30,000	6.70	\$ 300,000	\$ 30,000
2007 G.O. Waste Disposal Bonds	2018	\$85,000 - \$95,000	5.50 - 6.00	750,000	270,000
2009 G.O. Waste Disposal Bonds	2020	\$150,000	3.25 - 4.70	1,500,000	750,000
2014 G.O. Jail Refunding Bonds	2028	\$480,000 - \$690,000	2.50 - 2.85	<u>7,480,000</u>	<u>7,480,000</u>
Total general obligation bonds				<u>\$ 10,030,000</u>	\$ 8,530,000
Plus: unamortized premium					171,019
Less: unamortized discount					<u>(17,145)</u>
Total General Obligation Bonds, Net					<u>\$ 8,683,874</u>
<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Balance December 31, 2015</u>
General obligation special assessment bonds					
2013 G.O. Refunding Ditch Bonds	2024	\$40,000 - \$50,000	0.90 - 2.00	<u>\$ 485,000</u>	<u>\$ 400,000</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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, 2015
2009 G.O. Revenue Bonds	2049	\$4,000 - \$18,000	4.38	\$ 360,000	\$ 337,000

4. Debt Service Requirements

Debt service requirements at December 31, 2015, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 745,000	\$ 230,152	\$ 40,000	\$ 5,675
2017	730,000	205,317	45,000	5,293
2018	750,000	181,180	45,000	4,887
2019	670,000	158,805	40,000	4,395
2020	690,000	138,617	45,000	3,779
2021 - 2025	2,950,000	461,588	185,000	7,326
2026 - 2028	1,995,000	84,914	-	-
Total	\$ 8,530,000	\$ 1,460,573	\$ 400,000	\$ 31,355

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Business-Type Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2016	\$ 4,000	\$ 14,744
2017	5,000	14,569
2018	5,000	14,350
2019	5,000	14,131
2020	5,000	13,912
2021 - 2025	31,000	65,844
2026 - 2030	37,000	58,581
2031 - 2035	47,000	49,613
2036 - 2040	58,000	38,456
2041 - 2045	71,000	24,631
2046 - 2049	69,000	7,700
Total	\$ 337,000	\$ 316,531

5. Debt Refunding

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

6. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2015, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 16,640,000	\$ -	\$ 8,110,000	\$ 8,530,000	\$ 745,000
General obligation special assessment bonds	440,000	-	40,000	400,000	40,000
Plus: unamortized premium	185,075	-	14,056	171,019	-
Less: unamortized discount	(19,664)	-	(2,519)	(17,145)	-
Total bonds payable	<u>\$ 17,245,411</u>	<u>\$ -</u>	<u>\$ 8,161,537</u>	<u>\$ 9,083,874</u>	<u>\$ 785,000</u>
Capital leases	26,831	-	7,211	19,620	7,455
Loans payable	13,180	-	13,180	-	-
Compensated absences	<u>1,059,009</u>	<u>2,268,157</u>	<u>2,293,107</u>	<u>1,034,059</u>	<u>13,443</u>
Long-Term Liabilities	<u>\$ 18,344,431</u>	<u>\$ 2,268,157</u>	<u>\$ 10,475,035</u>	<u>\$ 10,137,553</u>	<u>\$ 805,898</u>

Compensated absences liability, other postemployment benefit liability, and pension liabilities are generally liquidated by the General Fund and Public Works Special Revenue Fund.

Business-Type Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Bonds payable					
General obligation bonds	<u>\$ 337,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 337,000</u>	<u>\$ 4,000</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Construction Commitments

The County has active construction projects as of December 31, 2015. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Ditch Projects	\$ 386,310	\$ 556,854

D. Unearned Revenue/Deferred Inflows of Resources

Unearned revenue and deferred inflows of resources as of December 31, 2015, for the County's governmental funds are as follows:

	Unearned Revenue	Deferred Inflows of Resources
Advanced allotments		
Highway allotments that were received in advance	\$ -	\$ 641,850
Unavailable revenue		
Delinquent property taxes	-	85,492
Special assessments receivable, delinquent and noncurrent	-	3,876,303
Highway allotments that do not provide current financial resources	-	1,365,442
Grants	104,868	-
Interest	-	2,391
Other	6,455	10,322
Total Governmental Funds	\$ 111,323	\$ 5,981,800

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for 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 Fund. For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a graduated schedule 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 Fund. For members hired after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after 5 years and increasing 10 percent for each year of service until fully vested after 10 years.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. 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 Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member 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 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

2. Benefits Provided (Continued)

For General Employees Retirement Fund 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 Fund and Public Employees Correctional Fund members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 55. 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 Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015. Public Employees Police and Fire Fund members were required to contribute 10.80 percent of their annual covered salary in 2015. Public Employees Correctional Fund members were required to contribute 5.83 percent of their annual covered salary in 2015.

In 2015, the County was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50
Public Employees Police and Fire Fund	16.20
Public Employees Correctional Fund	8.75

The General Employees Retirement Fund Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014. The Public Employees Police and Fire Fund member and employer contribution rates increased 0.60 percent and 0.90 percent, respectively, from 2014.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

3. Contributions (Continued)

The County's contributions for the year ended December 31, 2015, to the pension plans were:

General Employees Retirement Fund	\$	199,411
Public Employees Police and Fire Fund		108,984
Public Employees Correctional Fund		67,177

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

4. Pension Costs

General Employees Retirement Fund

At December 31, 2015, the County reported a liability of \$2,249,213 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.0434 percent. It was 0.0453 percent measured as of June 30, 2014. The County recognized pension expense of \$276,855 for its proportionate share of the General Employees Retirement Fund's pension expense.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

General Employees Retirement Fund (Continued)

The County reported its proportionate share of the General Employees Retirement Fund'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	\$ -	\$ 113,399
Difference between projected and actual investment earnings	212,923	-
Changes in proportion	-	66,939
Contributions paid to PERA subsequent to the measurement date	101,756	-
Total	\$ 314,679	\$ 180,338

The \$101,756 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, 2016. 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
2016	\$ (6,882)
2017	(6,882)
2018	(6,882)
2019	53,231

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Public Employees Police and Fire Fund

At December 31, 2015, the County reported a liability of \$818,088 for its proportionate share of the Public Employees Police and Fire Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.072 percent. It was 0.067 percent measured as of June 30, 2014. The County recognized pension expense of \$149,868 for its proportionate share of the Public Employees Police and Fire Fund'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 Fund. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Fund each year, starting in fiscal year 2014, until the plan is 90 percent funded.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 132,667
Difference between projected and actual investment earnings	142,538	-
Changes in proportion	45,002	-
Contributions paid to PERA subsequent to the measurement date	<u>54,902</u>	<u>-</u>
Total	<u>\$ 242,442</u>	<u>\$ 132,667</u>

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Police and Fire Fund (Continued)

The \$54,902 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, 2016. 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
2016	\$ 18,102
2017	18,102
2018	18,102
2019	18,102
2020	(17,535)

Public Employees Correctional Fund

At December 31, 2015, the County reported a liability of \$63,386 for its proportionate share of the Public Employees Correctional Fund's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the County's proportion was 0.41 percent. It was 0.47 percent measured as of June 30, 2014. The County recognized pension expense of \$67,627 for its proportionate share of the Public Employees Correctional Fund's pension expense.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs

Public Employees Correctional Fund (Continued)

The County reported its proportionate share of the Public Employees Correctional Fund'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	\$ -	\$ 24,268
Difference between projected and actual investment earnings	52,837	-
Changes in proportion	-	3,395
Contributions paid to PERA subsequent to the measurement date	34,514	-
Total	\$ 87,351	\$ 27,663

The \$34,514 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, 2016. 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
2016	\$ 3,988
2017	3,988
2018	3,988
2019	13,210

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

4. Pension Costs (Continued)

Total Pension Expense

The total pension expense for all plans recognized by the County for the year ended December 31, 2015, was \$494,350.

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund and the Public Employees Police and Fire Fund, cost of living benefit increases for retirees are assumed to be 1.0 percent effective every January 1 through 2035 and 2037, respectively, and 2.5 percent thereafter. Cost of living benefit increases for retirees are assumed to be 2.5 percent for all years for the Public Employees Correctional Fund.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. The experience study for the Public Employees Police and Fire Fund was for the period July 1, 2004, through June 30, 2009. The experience study for the Public Employees Correctional Fund was for the period July 1, 2006, through June 30, 2011.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans

5. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. 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, each of the pension plan's fiduciary net position was 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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

The following presents the County’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, 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:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 3,536,563	\$ 2,249,213	\$ 1,186,060
Public Employees Police and Fire Fund net pension liability	1,594,463	818,088	176,668
Public Employees Correctional Fund net pension liability	441,431	63,386	(239,202)

8. 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.

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minn. Stat. § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00 percent of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2015, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 9,372	\$ 9,372
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.

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 \$490,000 per claim

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

5. Risk Management (Continued)

in 2015 and \$500,000 per claim in 2016. 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 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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Human Services of Faribault and Martin Counties (Continued)

Powers Agreement. The Board has 12 members, six from each county. Each county collects its share of local tax revenues and transfers these funds to the Board to fulfill its ongoing financial responsibility.

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

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 2015, Faribault County contributed \$40,162 to the Board.

Financial information can be obtained by contacting the Martin County Auditor/Treasurer's Office.

Prairieland Solid Waste Board (Prairieland)

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

The Prairieland Solid Waste Board reported a change in net position of \$141,284 in 2015. The full faith and credit and taxing power of Faribault and Martin Counties is pledged to the payment of each county's proportional share of the principal and interest when due.

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rural Minnesota Energy Board

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

Control of the Rural Minnesota Energy Board is vested in a Joint Powers Board. Faribault County appoints one voting member and one alternate member to this Board who shall both be County Commissioners. During 2015, Faribault County contributed \$1,000 to the Board.

Separate audited financial information can be obtained from Southwest Regional Development Commission, 2401 Broadway Avenue, Suite #1, Slayton, Minnesota 56172.

South Central Drug Investigation Unit (Drug Task Force)

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

South Central Minnesota Emergency Communications Board

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

South Central Minnesota Emergency Communications Board (Continued)

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 2015, Faribault County made no contributions to the Joint Powers Board. The Chair of the Board is Kip Bruender, and the address is: P. O. Box 8608, Mankato, Minnesota 56002-8608.

South Central Workforce Service Area Joint Powers Board

In June 2012, the County entered into a joint powers agreement with Blue Earth, Brown, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan Counties, creating the South Central Workforce 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 2015.

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

C. Jointly-Governed Organizations

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

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The Board consists of County Commissioners and members of the Soil and Water Conservation Districts. During the year, Faribault County made \$7,838 in contributions to the GBERBA.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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 \$5,154 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 no 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 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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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 2015.

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. Faribault County's responsibility does not extend beyond making this appointment.

The Southwest Minnesota Immunization Information Connection (SW-MIIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, 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.

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

7. Faribault County Economic Development Authority (EDA)

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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

B. Detailed Notes

Assets

Receivables as of December 31, 2015, consist of \$15 accrued interest receivable and \$221,828 in loans made to individuals and businesses for development.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

C. Summary of Significant Contingencies

Nonexchange Financial Guarantees

The EDA has entered into nonexchange financial guarantees with lenders to guarantee payments if the 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.

Nonexchange financial guarantees at December 31, 2015, were as follows:

<u>Guarantee</u>	<u>Lender</u>	<u>Year of Guarantee</u>	<u>Outstanding Balance at December 31, 2015</u>
Hardware Store	First National Bank	2008	\$ 10,396
Everwood Log to Home, LLC	Paragon Bank	2011	9,000
Kiester Market	First State Bank of Kiester	2013	15,000

8. Housing and Redevelopment Authority (HRA)

Summary of Significant Accounting Policies

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

Reporting Entity

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

8. Housing and Redevelopment Authority (HRA) (Continued)

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,844,227	\$ 5,844,227	\$ 5,863,593	\$ 19,366
Special assessments	538,648	538,648	655,696	117,048
Licenses and permits	3,400	3,400	2,100	(1,300)
Intergovernmental	993,753	993,753	1,081,855	88,102
Charges for services	1,006,300	1,101,406	1,275,445	174,039
Fines and forfeits	16,000	16,000	33,829	17,829
Gifts and contributions	-	-	4,615	4,615
Investment earnings	65,000	65,000	70,706	5,706
Miscellaneous	247,280	247,280	199,957	(47,323)
Total Revenues	\$ 8,714,608	\$ 8,809,714	\$ 9,187,796	\$ 378,082
Expenditures				
Current				
General government				
Commissioners	\$ 292,620	\$ 292,620	\$ 274,695	\$ 17,925
Courts	39,750	64,750	70,445	(5,695)
County Auditor/Treasurer	486,898	486,898	500,158	(13,260)
Motor vehicle/license bureau	152,320	152,320	150,698	1,622
County assessor	332,755	332,755	298,231	34,524
Elections	30,000	30,000	11,623	18,377
Data processing	212,800	212,800	168,743	44,057
Central administration	148,267	148,267	159,137	(10,870)
Machine room	10,500	10,500	6,277	4,223
Attorney	261,532	261,532	262,348	(816)
Law library	12,000	12,000	18,103	(6,103)
Recorder	269,961	269,961	218,683	51,278
Vital statistics	20,075	20,075	11,166	8,909
Planning and zoning	128,970	128,970	124,152	4,818
Buildings and plant	385,161	700,261	472,188	228,073
Veterans service officer	248,508	248,508	238,205	10,303
Other general government	707,379	707,379	415,105	292,274
Total general government	\$ 3,739,496	\$ 4,079,596	\$ 3,399,957	\$ 679,639

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,418,169	\$ 1,458,311	\$ 1,348,617	\$ 109,694
Public safety grants	-	-	5,615	(5,615)
Task force	6,500	6,500	6,500	-
Boat and water safety	1,541	1,541	3,185	(1,644)
SWAT	-	-	500	(500)
County jail	1,427,928	1,427,928	1,478,524	(50,596)
Sentence to serve	57,875	57,875	59,211	(1,336)
Fraud investigator	78,083	78,083	87,905	(9,822)
Animal control	10,000	10,000	7,508	2,492
Probation and parole	169,378	169,378	135,294	34,084
Sheriff's contingency	1,000	1,000	-	1,000
Emergency management	29,800	41,100	42,564	(1,464)
Enhanced 911	91,000	91,000	54,759	36,241
Radio project	5,000	5,000	4,514	486
Medical examiner	15,000	15,000	22,985	(7,985)
DARE	-	-	1,525	(1,525)
Total public safety	\$ 3,311,274	\$ 3,362,716	\$ 3,259,206	\$ 103,510
Transit				
Transit	\$ 210,189	\$ 210,189	\$ 184,015	\$ 26,174
Sanitation				
Recycling/education	\$ 309,043	\$ 309,043	\$ 328,699	\$ (19,656)
SCORE funds	55,950	55,950	32,143	23,807
Total sanitation	\$ 364,993	\$ 364,993	\$ 360,842	\$ 4,151
Culture and recreation				
Historical society	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
County library	181,649	181,649	176,783	4,866
Total culture and recreation	\$ 191,649	\$ 191,649	\$ 186,783	\$ 4,866

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

*EXHIBIT A-1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Cooperative extension	\$ 132,810	\$ 132,810	\$ 137,005	\$ (4,195)
Soil conservation	58,000	58,000	58,000	-
County agricultural society	10,000	10,000	10,000	-
Predator control	500	500	391	109
Water planning	112,000	112,000	123,060	(11,060)
Drainage/septic inspection	156,047	156,047	158,211	(2,164)
Drainage administration	-	43,700	42,206	1,494
Septic loan program	125,000	125,000	80,463	44,537
Total conservation of natural resources	\$ 594,357	\$ 638,057	\$ 609,336	\$ 28,721
Economic development				
Community development	\$ 14,050	\$ 14,050	\$ 12,818	\$ 1,232
Economic development	52,000	52,000	50,000	2,000
Total economic development	\$ 66,050	\$ 66,050	\$ 62,818	\$ 3,232
Debt service				
Principal	\$ 11,750	\$ 11,750	\$ 20,391	\$ (8,641)
Interest	650	650	984	(334)
Total debt service	\$ 12,400	\$ 12,400	\$ 21,375	\$ (8,975)
Total Expenditures	\$ 8,490,408	\$ 8,925,650	\$ 8,084,332	\$ 841,318
Excess of Revenues Over (Under) Expenditures	\$ 224,200	\$ (115,936)	\$ 1,103,464	\$ 1,219,400
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 80,463	\$ 80,463
Transfers out	(312,378)	(312,378)	(311,777)	601
Total Other Financing Sources (Uses)	\$ (312,378)	\$ (312,378)	\$ (231,314)	\$ 81,064
Change in Fund Balance	\$ (88,178)	\$ (428,314)	\$ 872,150	\$ 1,300,464
Fund Balance - January 1	7,457,125	7,457,125	7,457,125	-
Fund Balance - December 31	\$ 7,368,947	\$ 7,028,811	\$ 8,329,275	\$ 1,300,464

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,355,160	\$ 1,355,160	\$ 1,360,927	\$ 5,767
Intergovernmental	6,159,380	6,159,380	6,056,156	(103,224)
Charges for services	434,000	434,000	120,061	(313,939)
Miscellaneous	-	-	38,237	38,237
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 7,948,540	\$ 7,948,540	\$ 7,575,381	\$ (373,159)
Expenditures				
Current				
Highways and streets				
Administration	\$ 197,809	\$ 197,809	\$ 208,044	\$ (10,235)
Maintenance	1,841,852	1,841,852	1,236,456	605,396
Construction	2,994,210	2,994,210	3,876,396	(882,186)
Equipment maintenance and shop	1,011,117	1,011,117	819,508	191,609
Material and services for resale	100,700	100,700	21,360	79,340
Other - highways and streets	527,306	527,306	497,930	29,376
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total highways and streets	\$ 6,672,994	\$ 6,672,994	\$ 6,659,694	\$ 13,300
Culture and recreation				
Parks	180,983	180,983	153,270	27,713
Intergovernmental				
Highways and streets	390,000	390,000	430,511	(40,511)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 7,243,977	\$ 7,243,977	\$ 7,243,475	\$ 502
Change in Fund Balance	\$ 704,563	\$ 704,563	\$ 331,906	\$ (372,657)
Fund Balance - January 1	1,097,140	1,097,140	1,097,140	-
Increase (decrease) in inventories	-	-	(30,914)	(30,914)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance - December 31	\$ 1,801,703	\$ 1,801,703	\$ 1,398,132	\$ (403,571)

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,890,429	\$ 1,890,429	\$ 1,892,278	\$ 1,849
Intergovernmental	135,178	135,178	135,268	90
Total Revenues	\$ 2,025,607	\$ 2,025,607	\$ 2,027,546	\$ 1,939
Expenditures				
Current				
Human services	2,025,607	2,025,607	2,023,955	1,652
Change in Fund Balance	\$ -	\$ -	\$ 3,591	\$ 3,591
Fund Balance - January 1	1,986,754	1,986,754	1,986,754	-
Fund Balance - December 31	\$ 1,986,754	\$ 1,986,754	\$ 1,990,345	\$ 3,591

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 645,600	\$ 645,600	\$ 1,710,856	\$ 1,065,256
Intergovernmental	-	-	82,196	82,196
Total Revenues	\$ 645,600	\$ 645,600	\$ 1,793,052	\$ 1,147,452
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 600,000	\$ 600,000	\$ 2,581,966	\$ (1,981,966)
Debt service				
Principal	40,000	40,000	40,000	-
Interest	5,600	5,600	5,945	(345)
Administrative (fiscal) charges	-	-	425	(425)
Total Expenditures	\$ 645,600	\$ 645,600	\$ 2,628,336	\$ (1,982,736)
Change in Fund Balance	\$ -	\$ -	\$ (835,284)	\$ (835,284)
Fund Balance - January 1	(2,231,819)	(2,231,819)	(2,231,819)	-
Fund Balance - December 31	\$ (2,231,819)	\$ (2,231,819)	\$ (3,067,103)	\$ (835,284)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 5,646,666	\$ 5,646,666	0.00%	\$ 3,196,823	176.6%
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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-6

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

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
2015	0.0434%	\$ 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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-7

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

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)
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 FUND
DECEMBER 31, 2015**

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
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 FUND
DECEMBER 31, 2015**

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)
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 FUND
DECEMBER 31, 2015**

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
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 FUND
DECEMBER 31, 2015**

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)
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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015

1. Budgetary Information

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

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

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

2. Budget Amendments

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

	Original Budget	Increase (Decrease)	Final Budget
General Fund			
Revenues	\$ 8,714,608	\$ 95,106	\$ 8,809,714
Expenditures	8,490,408	435,242	8,925,650

3. Excess of Expenditures Over Appropriations

The Ditch Special Revenue Fund's expenditures exceeded appropriations by \$1,982,736. 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.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 741,085	\$ 741,085	\$ 738,756	\$ (2,329)
Intergovernmental	25,215	25,215	25,215	-
Total Revenues	\$ 766,300	\$ 766,300	\$ 763,971	\$ (2,329)
Expenditures				
Debt service				
Principal	\$ 670,000	\$ 670,000	\$ 8,110,000	\$ (7,440,000)
Interest	372,086	372,086	456,729	(84,643)
Administrative (fiscal) charges	2,500	2,500	1,350	1,150
Total Expenditures	\$ 1,044,586	\$ 1,044,586	\$ 8,568,079	\$ (7,523,493)
Excess of Revenues Over (Under) Expenditures	\$ (278,286)	\$ (278,286)	\$ (7,804,108)	\$ (7,525,822)
Other Financing Sources (Uses)				
Transfers in	\$ 312,378	\$ 312,378	\$ 311,777	\$ (601)
Transfers out	-	-	(80,463)	(80,463)
Total Other Financing Sources (Uses)	\$ 312,378	\$ 312,378	\$ 231,314	\$ (81,064)
Change in Fund Balance	\$ 34,092	\$ 34,092	\$ (7,572,794)	\$ (7,606,886)
Fund Balance - January 1	8,440,965	8,440,965	8,440,965	-
Fund Balance - December 31	\$ 8,475,057	\$ 8,475,057	\$ 868,171	\$ (7,606,886)

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

AGENCY FUNDS

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

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

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

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

This page was left blank intentionally.

**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, 2015**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MORTGAGE REGISTRATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,013	\$ 120,798	\$ 117,847	\$ 7,964
<u>Liabilities</u>				
Due to other governments	\$ 5,013	\$ 120,798	\$ 117,847	\$ 7,964
 <u>DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 16,251	\$ 206,627	\$ 186,972	\$ 35,906
<u>Liabilities</u>				
Due to other governments	\$ 16,251	\$ 206,627	\$ 186,972	\$ 35,906
 <u>TAX AND PENALTY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 319,495	\$ 23,660,410	\$ 23,714,502	\$ 265,403
<u>Liabilities</u>				
Due to other governments	\$ 319,495	\$ 23,660,410	\$ 23,714,502	\$ 265,403
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 340,759	\$ 23,987,835	\$ 24,019,321	\$ 309,273
<u>Liabilities</u>				
Due to other governments	\$ 340,759	\$ 23,987,835	\$ 24,019,321	\$ 309,273

This page was left blank intentionally.

COMPONENT UNIT

This page was left blank intentionally.

**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, 2015**

	General Fund	Adjustments*	Statement of Net Position
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 335,116	\$ -	\$ 335,116
Accrued interest receivable	15	-	15
Loans receivable	221,828	-	221,828
Restricted assets			
Investments - temporary	10,396	-	10,396
Total Assets	\$ 567,355	\$ -	\$ 567,355
 <u>Deferred Inflows of Resources</u>			
Unavailable revenue	\$ 221,828	\$ (221,828)	
 <u>Fund Balance/Net Position</u>			
Fund Balance			
Nonspendable - loan guarantee security	\$ 10,396	\$ (10,396)	
Restricted for commercial rehabilitation loans	75,135	(75,135)	
Assigned for loan guarantees	24,000	(24,000)	
Unassigned	235,996	(235,996)	
Total Fund Balance	\$ 345,527	\$ (345,527)	
Net Position			
Restricted for commercial rehabilitation loans		\$ 296,963	\$ 296,963
Unrestricted		270,392	270,392
Total Net Position		\$ 567,355	\$ 567,355
 Total Deferred Inflows of Resources and Fund Balance	 \$ 567,355		

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT D-2

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
Revenues			
Charges for services	\$ 24,765	\$ 48,571	\$ 73,336
Investment earnings	15	-	15
Miscellaneous	60	-	60
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 24,840	\$ 48,571	\$ 73,411
Expenditures/Expenses			
Current			
Economic development	73,073	-	73,073
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance/Net Position	\$ (48,233)	\$ 48,571	\$ 338
Fund Balance/Net Position - January 1	393,760	173,257	567,017
	<hr/>	<hr/>	<hr/>
Fund Balance/Net Position - December 31	\$ 345,527	\$ 221,828	\$ 567,355
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

SCHEDULE

This page was left blank intentionally.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT E-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Total Primary Government
Appropriations and Shared Revenue	
State	
Highway users tax	\$ 5,035,962
PERA rate reimbursement	13,448
Disparity reduction aid	71,725
Police aid	71,780
County program aid	290,051
Market value credit	289,166
Enhanced 911	87,067
SCORE	69,692
Aquatic invasive species prevention aid	35,212
	\$ 5,964,103
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 14,229
	\$ 14,229
Payments	
Local	
Other contributions	\$ 82,196
Payments in lieu of taxes	42,201
	\$ 124,397
Grants	
State	
Minnesota Department/Board of	
Public Safety	\$ 10,336
Natural Resources	35,601
Veterans Affairs	10,000
Corrections	40,524
Transportation	961,061
Water and Soil Resources	134,190
	\$ 1,191,712
Federal	
Department of	
Transportation	\$ 52,726
Homeland Security	33,523
	\$ 86,249
Total state and federal grants	\$ 1,277,961
Total Intergovernmental Revenue	\$ 7,380,690

This page was left blank intentionally.

This page was left blank intentionally.

FARIBAULT COUNTY

This page was left blank intentionally.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-005

Capital Assets Records

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

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

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

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

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

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

Client's Response:

The County will continue to work on revising the Capital Asset Policy, which will address estimated useful lives and salvage values. It will be included in a comprehensive accounting policy.

Finding 2006-002

Budgeting

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

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

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

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

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

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

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

Client's Response:

A formal budget policy will be included in the accounting policy to address the items mentioned.

Finding 2013-001

Audit Adjustments

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

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

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

Effect: The following audit adjustments were necessary to be recorded for December 31, 2015:

- Adjustments of \$132,310, \$276,654, and \$80,463 were required in the Debt Service Fund to record, respectively, a correction to the cash balance for an adjustment that was made backwards, a transfer in for cash owed from the General Fund, and a transfer out for unspent bond proceeds for loans paid from the General Fund.
- The Huntley Sewer District Enterprise Fund was adjusted by \$13,220, \$14,744, and \$56,114 to record, respectively, the 2015 special assessments receivable, a correction to an accrual entry that had been recorded incorrectly, and to adjust net investment in capital assets for the change in the current year that had not been recorded.

- An adjustment of \$70,457 was made in the Agency Fund to account for a cash adjustment that was recognized in prior year statements.

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

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

Client's Response:

The County agrees with the finding listed above and will include a policy statement that audit adjustments be made upon completion of the audit.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-001

Individual Ditch System Deficits

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

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

Condition: The County had individual ditch systems with deficit cash balances and deficit fund balances at December 31, 2015.

Context: At December 31, 2015, 32 of 189 ditch systems had negative cash balances totaling \$739,033, and 70 ditches had deficit fund balances totaling \$1,456,822.

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

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

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

Client's Response:

The County will continue to monitor ditch balances. Ditch repair has increased over the past several years. The County is monitoring approved repairs and will attempt to levy assessments even for those projects where an invoice has not been received from contractors.

Finding 2013-002

Delegation to Pay Claims

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

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

its authority to pay certain claims made against the county must adopt a resolution authorizing a specified county administrative official to pay the claims that meet the standards and procedures established by the board.

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

Context: As 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 delegated authority.

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

Client's Response:

The County Auditor-Treasurer will begin to give the County Board a list of all auditor warrants on a monthly basis.

ITEM ARISING THIS YEAR

Finding 2015-001

Cooperative Project Revolving Loan Fund

Criteria: The County is a political subdivision of the state and has only those explicit powers given to it by the legislature and powers implied as necessary to carry out expressly granted powers.

The County cannot invest in municipal obligations unless they are rated. Minnesota Statute § 118A.04, subd. 3. Small cities and towns cannot create "obligations" as defined by Minn. Stat. § 475.51, subd. 3, unless they comply with the requirements

of Minn. Stat. ch. 475 which include an election prior to issuance requirement (unless an exception applies), and “levy by resolution” of a direct general ad valorem tax. *See* Minn. Stat. §§ 475.58, 475.61.

Condition: The County established a Cooperative Project Revolving Loan Fund on May 5, 2015, for the purpose of loaning County funds to small cities and towns within the County for certain capital projects. Among the stated reasons for the program were the high costs of borrowing for the small cities and towns and the opportunity for the County to earn an interest rate in excess of “other county investments.”

Context: Under the Cooperative Project Revolving Loan Fund, small cities and towns apply for a loan of County funds for certain capital projects. If accepted, the small city or town and the County execute a “Joint Powers” agreement which states that the County and “the Borrower” are exercising common or similar powers. Attached to the agreement is the loan application, project proposals received by the small city or town, and the schedule of payments due to the County from the small city or town which include principal repayment and interest.

The agreement authorizes and directs the County Auditor to retain ad valorem property taxes otherwise due to the small city or town if full scheduled payments have not been made.

Effect: The County lacks statutory authority to operate a small city and town capital project revolving loan program. Operating a revolving loan program is not the exercise of a “power common” to counties, cities and towns or any similar powers, and is, therefore, inconsistent with Minn. Stat. § 471.59 (Joint Powers Act). Operation of the program results in County investments that violate Minn. Stat. § 118A.04 and the issuance of small city or town obligations in violation of Minn. Stat. ch. 475.

The only provision in the Joint Powers Act that permits the issuance of bonds or “obligations” requires a joint powers board, the issuance of bonds or obligations by the joint powers entity itself (not individual entities to the agreement), and only permits revenue bonds. *See* Minn. Stat. § 471.59, subd. 11. Creation of small city or town debt under these “Joint Powers” agreements is not authorized by this subdivision of the Joint Powers Act or Minn. Stat. ch. 475.

Cause: The County informed us it believed the Cooperative Project Revolving Loan Fund was allowable.

Recommendation: We recommend that the County discontinue the Cooperative Project Revolving Loan Fund.

Client's Response:

The County will no longer loan funds under this program.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2014-001

Ditch Special Revenue Fund Deficit Fund Balance

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

Condition: At December 31, 2015, the assets in the County's Ditch Special Revenue Fund did not exceed liabilities, resulting in a deficit fund balance amount.

Context: At December 31, 2015, the Ditch Special Revenue Fund has a deficit fund balance of \$3,067,103.

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

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

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

Client's Response:

The County will continue to assess drainage systems to eliminate deficit balances.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 6, 2016. Our report includes a reference to other auditors who audited the financial statements of the Faribault County Housing and Redevelopment Authority as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal controls 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 this Management and Compliance Report.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for 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 2015-001. 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. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

Faribault County's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 6, 2016

This page was left blank intentionally.

FARIBAULT COUNTY ECONOMIC DEVELOPMENT AUTHORITY

This page was left blank intentionally.

**FARIBAULT COUNTY ECONOMIC DEVELOPMENT AUTHORITY
BLUE EARTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

Finding 2015-001

Audit Adjustments

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

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

Context: The Faribault County Economic Development Authority (EDA) is a component unit of Faribault County, and the financial information is included in Faribault County's financial statements, which are prepared by County staff. Faribault County's inability to detect material misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: The following audit adjustments were necessary to be recorded for December 31, 2015:

- An adjustment of \$70,819 was made in the EDA General Fund to increase economic development expenditures and unavailable revenue for new loans issued in 2015.
- Charges for services and unavailable revenue were reduced by \$22,439 in the EDA General Fund for principal payments received in 2015.

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

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

Client's Response:

The County will look at updating internal controls to better monitor the situation.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 6, 2016.

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.

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.

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. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2015-001 to be a material weakness.

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 Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the 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 in conjunction with the audit of the financial statements of Faribault County, except that we did not test for compliance with the provisions for tax increment financing because the EDA administers no tax increment financing districts.

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 Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the EDA's noncompliance with the above referenced provisions.

Faribault County EDA's Response to Finding

Faribault County EDA's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. The EDA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Other Political Subdivisions* 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 6, 2016