

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Year Ended December 31, 2012



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

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2012**

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	John Roper	District 1	January 2013
Vice Chair	Greg Young	District 2	January 2015
Board Member	William Groskreutz, Jr.	District 3	January 2013
Board Member	Tom Loveall	District 4	January 2015
Board Member	Tom Warmka	District 5	January 2013
Attorney	Troy Timmerman		January 2015
Auditor	John Thompson		January 2015
Judge	Douglas Richards		January 2015
County Recorder	Sheryl Asmus		January 2015
Registrar of Titles	Sheryl Asmus		January 2015
County Sheriff	Mike Gormley		January 2015
Appointed			
Assessor	Lynn Krachmer		December 2016
County Engineer	John McDonald		April 30, 2015
Veterans Service Officer	David Hanson		Indefinite
Medical Examiner	William Lee, M.D.		Indefinite
Economic Development			
Authority Board	John Herman	Wells	December 31, 2015
	Colleen Gronewald	Blue Earth	December 31, 2014
	Brad Wolf	Winnebago	December 31, 2016
	Jack Heinitz	Blue Earth	December 31, 2013
	OPEN		December 31, 2013

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Faribault County

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Faribault County Housing and Redevelopment Authority (HRA), which represent 4 percent, 4 percent, and 93 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Faribault County HRA, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Faribault County's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2013, on our consideration of Faribault County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Faribault County's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 7, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(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, 2012. 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 \$56,543,005, of which \$48,625,722 is the net investment in capital assets, and \$4,143,040 is restricted to specific purposes.
- Business-type activities' total net position is \$1,103,662 of which \$1,011,495 is the net investment in capital assets.
- Faribault County's governmental activities' net position increased by \$2,120,172 for the year ended December 31, 2012. The net position of the County's business-type activities decreased by \$50,419.
- The net cost of governmental activities was \$7,627,643 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$9,747,815. The net cost of business-type activities was \$50,419.
- Governmental funds' fund balances increased by \$577,008.

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 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 liabilities--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 \$55,576,914 to \$57,646,667. 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	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	\$ 14,004,022	\$ 13,625,375	\$ 107,436	\$ 105,917	\$ 14,111,458	\$ 13,731,292
Capital assets	57,365,693	56,508,406	1,360,495	1,416,608	58,726,188	57,925,014
Total Assets	\$ 71,369,715	\$ 70,133,781	\$ 1,467,931	\$ 1,522,525	\$ 72,837,646	\$ 71,656,306
Liabilities						
Long-term liabilities	\$ 13,654,577	\$ 14,164,551	\$ 349,000	\$ 353,000	\$ 14,003,577	\$ 14,517,551
Other liabilities	1,172,133	1,546,397	15,269	15,444	1,187,402	1,561,841
Total Liabilities	\$ 14,826,710	\$ 15,710,948	\$ 364,269	\$ 368,444	\$ 15,190,979	\$ 16,079,392
Net Position						
Net investment in capital assets	\$ 48,625,722	\$ 47,575,343	\$ 1,011,495	\$ 1,063,608	\$ 49,637,217	\$ 48,638,951
Restricted	4,143,040	3,643,201	-	-	4,143,040	3,643,201
Unrestricted	3,774,243	3,204,289	92,167	90,473	3,866,410	3,294,762
Total Net Position	\$ 56,543,005	\$ 54,422,833	\$ 1,103,662	\$ 1,154,081	\$ 57,646,667	\$ 55,576,914

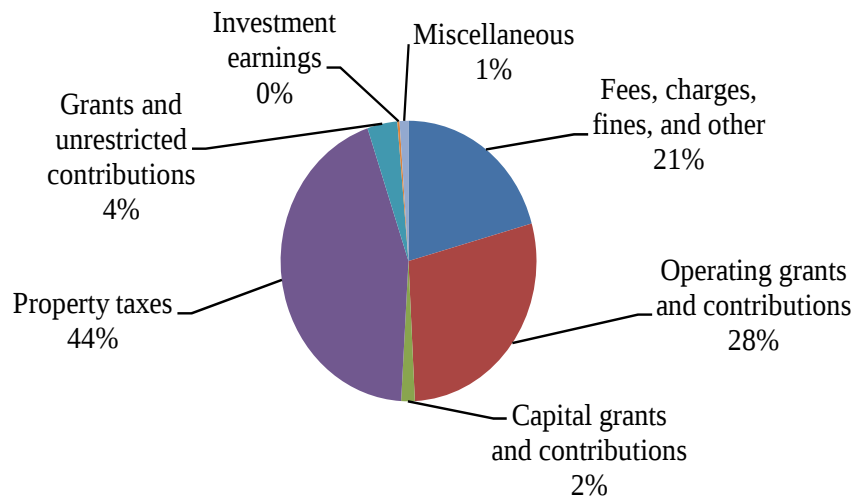
Net position of the County's governmental activities increased by 3.9 percent (\$2,120,172). Unrestricted net position--the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from \$3,204,289 at December 31, 2011, to \$3,774,243 at the end of this year. Net position of the business-type activities decreased by 4.4 percent (\$50,419).

Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 4,106,533	\$ 2,759,086	\$ 25,611	\$ 32,315	\$ 4,132,144	\$ 2,791,401
Operating grants and contributions	5,668,166	5,567,042	-	-	5,668,166	5,567,042
Capital grants and contributions	340,032	2,249,489	-	568	340,032	2,250,057
General revenues						
Property taxes	8,715,283	7,924,503	-	-	8,715,283	7,924,503
Grants and contributions not restricted to specific programs	708,092	1,110,401	-	-	708,092	1,110,401
Unrestricted investment earnings	55,578	66,062	-	-	55,578	66,062
Miscellaneous and other	268,862	266,667	-	-	268,862	266,667
Total Revenues	\$ 19,862,546	\$ 19,943,250	\$ 25,611	\$ 32,883	\$ 19,888,157	\$ 19,976,133

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Expenses						
General government	\$ 3,340,392	\$ 3,485,977	\$ -	\$ -	\$ 3,340,392	\$ 3,485,977
Public safety	3,102,474	2,932,681	-	-	3,102,474	2,932,681
Highways and streets	5,996,955	5,631,517	-	-	5,996,955	5,631,517
Transit	186,395	256,960	-	-	186,395	256,960
Sanitation	392,113	201,058	76,030	78,025	468,143	279,083
Human services	1,959,075	1,814,201	-	-	1,959,075	1,814,201
Culture and recreation	327,900	328,278	-	-	327,900	328,278
Conservation of natural resources	1,895,645	1,327,695	-	-	1,895,645	1,327,695
Economic development	67,527	182,301	-	-	67,527	182,301
Interest	473,898	499,183	-	-	473,898	499,183
Total Expenses	\$ 17,742,374	\$ 16,659,851	\$ 76,030	\$ 78,025	\$ 17,818,404	\$ 16,737,876
Net Change	\$ 2,120,172	\$ 3,283,399	\$ (50,419)	\$ (45,142)	\$ 2,069,753	\$ 3,238,257

Total County Revenues - Percent of Total



Governmental Activities

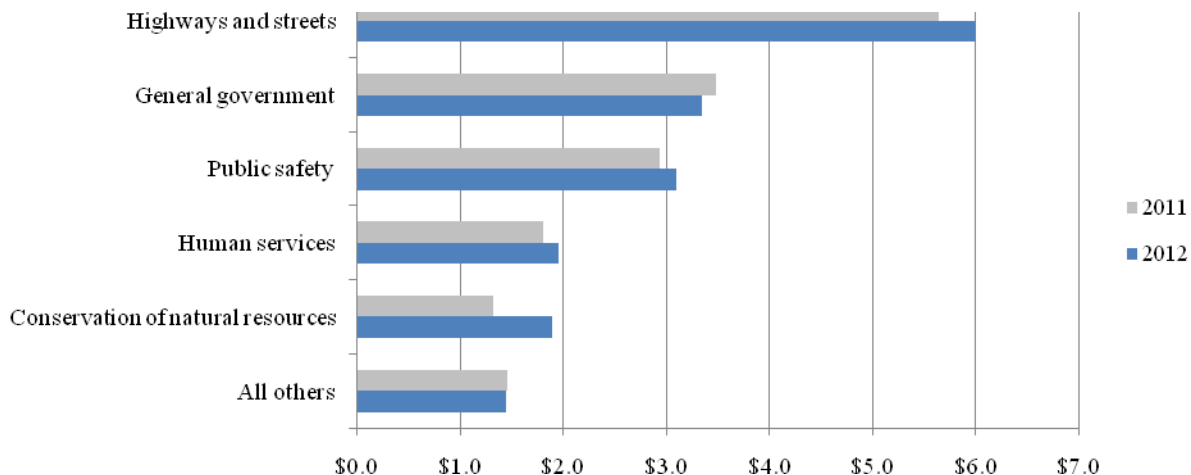
Revenues for the County's governmental activities were \$19,862,546 while total expenses were \$17,742,374. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was \$8,715,283 because some of the cost was paid by those who directly benefited from the programs (\$4,106,533) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6,008,198). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, totaled \$10,114,731. The County paid for the remaining "public benefit" portion of governmental activities with \$9,747,815 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	
	2012	2011	2012	2011
Highways and streets	\$ 5,996,955	\$ 5,631,517	\$ 490,430	\$ (1,623,526)
General government	3,340,392	3,485,977	2,734,783	2,904,970
Public safety	3,102,474	2,932,681	2,161,461	2,135,523
Human services	1,959,075	1,814,201	1,959,075	1,814,201
Conservation of natural resources	1,895,645	1,327,695	(544,285)	229,676
All others	1,447,833	1,467,780	826,179	623,390
Total Expenses	<u>\$ 17,742,374</u>	<u>\$ 16,659,851</u>	<u>\$ 7,627,643</u>	<u>\$ 6,084,234</u>

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 \$8,233,869, which is above last year's total of \$7,656,861. The General Fund showed an increase of \$986,211. The majority of the increase was due to positive variances in charges for services and miscellaneous revenues compared to budgeted amounts. General government expenditures also saw significantly fewer expenditures than budgeted. The Debt Service Fund decreased by \$169,360 as funds restricted for the Subsurface Sewage Treatment Systems projects were expended. The Ditch Special Revenue Fund decreased by \$79,881 as repair and improvement costs were expended, and the assessments

will be levied in future years. The Public Works Special Revenue Fund decreased by \$78,028, and the Human Services Special Revenue Fund decreased by \$81,934. The General Fund's fund balance is 61.9 percent of the total governmental funds, compared to 53.7 percent at the end of 2011.

General Fund Budgetary Highlights

Revenues exceeded budgeted amounts by \$742,518. Positive variances in several areas including \$244,026 in tax revenue, \$205,317 in boarding of prisoners, \$101,188 in insurance dividends, and a \$127,976 grant for public safety radios not in the budget contributed to the variance. General government expenditures were \$733,180 below budget primarily due to recording compliance fees and \$436,547 in unspent funds budgeted for retiree insurance premiums. Sanitation expenditures were \$87,611 under budget as the County is keeping solid waste fees collected by assessments and distributing them to Prairieland Solid Waste Board on an as-needed basis. Public safety expenditures were \$475,092 over budget largely due to the \$460,005 purchase of ARMER radio systems that were not included in the 2012 budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the County had \$58,726,188 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 \$801,174 or 1.4 percent greater than last year.

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

	2012	2011
Governmental Activities		
Land	\$ 1,707,074	\$ 1,707,074
Construction in progress	202,792	710,121
Building and improvements	10,295,917	10,607,340
Other improvements	71,324	80,280
Machinery and equipment	3,237,235	2,972,845
Infrastructure	41,851,351	40,430,746
Total	\$ 57,365,693	\$ 56,508,406

	<u>2012</u>	<u>2011</u>
Business-Type Activities		
Land	\$ 27,643	\$ 27,643
Machinery and equipment	46,667	51,333
Infrastructure	<u>1,286,185</u>	<u>1,337,632</u>
Total	<u>\$ 1,360,495</u>	<u>\$ 1,416,608</u>

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

Debt

At year-end, the County had \$10,955,000 in governmental activities bonds outstanding, versus \$11,645,000 for last year. Table 5 shows the outstanding debt.

Table 5
Outstanding Debt at Year-End

	<u>2012</u>	<u>2011</u>
Governmental Activities		
Bonds payable	\$ 10,955,000	\$ 11,645,000
Capital leases	4,004	9,018
Loans payable	38,765	51,181
Other postemployment benefits liability	1,715,610	1,511,778
Compensated absences	<u>970,569</u>	<u>979,889</u>
Totals	<u>\$ 13,683,948</u>	<u>\$ 14,196,866</u>
Business-Type Activities		
Bonds payable	<u>\$ 349,000</u>	<u>\$ 353,000</u>

The County's general obligation bond rating was set at an A+ rating by Standard and Poor's as rated in 2012. 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 2013 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2013 are budgeted to increase 0.2 percent over 2012.
- The County continues to monitor the State of Minnesota's budget deficit situation. Reductions in county program aid amount to \$118,105 in 2013 and will drop \$47,719 in 2014. Significant increases in values of agricultural land cause program aid to decrease due to formulas based in statute.
- Property tax levies have increased 3.9 percent for 2013. This was a result of decreased state aid and an increase of \$160,000 in the Public Works Special Revenue Fund for increased road maintenance.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
Assets					
Cash and pooled investments	\$ 6,174,892	\$ 34,891	\$ 6,209,783	\$ 100	\$ 320,007
Petty cash and change funds	2,562	-	2,562	-	-
Cash with fiscal agent	-	-	-	21,139	-
Taxes receivable					
Prior - net	149,790	-	149,790	-	-
Special assessments receivable					
Current	462,391	-	462,391	-	-
Prior	63,542	11,817	75,359	-	-
Noncurrent	3,041,290	61,283	3,102,573	-	-
Accounts receivable - net	23,644	-	23,644	-	-
Accrued interest receivable	11,009	-	11,009	-	-
Loans receivable	-	-	-	-	174,095
Due from other governments	2,283,513	5,528	2,289,041	-	2,223
Advance to other governments	45,000	-	45,000	-	-
Internal balances	8,364	(8,364)	-	-	-
Inventories	1,662,258	-	1,662,258	-	-
Prepaid items	18,313	-	18,313	-	-
Restricted assets					
Investments - temporary	-	-	-	-	12,400
Deferred charges	57,454	2,281	59,735	-	-
Capital assets					
Non-depreciable	1,909,866	27,643	1,937,509	-	-
Depreciable - net of accumulated depreciation	55,455,827	1,332,852	56,788,679	-	-
Total Assets	\$ 71,369,715	\$ 1,467,931	\$ 72,837,646	\$ 21,239	\$ 508,725

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
<u>Liabilities</u>					
Accounts payable	\$ 245,695	\$ -	\$ 245,695	\$ -	\$ 8
Salaries payable	110,619	-	110,619	-	-
Contracts payable	163,703	-	163,703	-	-
Due to other governments	98,627	-	98,627	-	-
Accrued interest payable	186,852	15,269	202,121	-	-
Unearned revenue	366,637	-	366,637	-	-
Long-term liabilities					
Due within one year	703,823	4,000	707,823	-	-
Due in more than one year	12,950,754	345,000	13,295,754	-	-
Total Liabilities	\$ 14,826,710	\$ 364,269	\$ 15,190,979	\$ -	\$ 8
<u>Net Position</u>					
Net investment in capital assets	\$ 48,625,722	\$ 1,011,495	\$ 49,637,217	\$ -	\$ -
Restricted for					
General government	458,951	-	458,951	-	-
Public safety	25,479	-	25,479	-	-
Highways and streets	1,337,178	-	1,337,178	-	-
Sanitation	391,444	-	391,444	-	-
Conservation of natural resources	1,233,460	-	1,233,460	-	-
Debt service	696,528	-	696,528	-	-
Housing assistance payments	-	-	-	21,239	-
Unrestricted	3,774,243	92,167	3,866,410	-	508,717
Total Net Position	\$ 56,543,005	\$ 1,103,662	\$ 57,646,667	\$ 21,239	\$ 508,717

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

		Program Revenues	
		Fees, Charges, Fines, and Other	Operating Grants and Contributions
	Expenses		
<u>Functions/Programs</u>			
Primary government			
Governmental activities			
General government	\$ 3,340,392	\$ 561,085	\$ 44,524
Public safety	3,102,474	581,997	359,016
Highways and streets	5,996,955	228,125	4,938,368
Transit	186,395	31,308	138,376
Sanitation	392,113	418,233	-
Human services	1,959,075	-	-
Culture and recreation	327,900	33,737	-
Conservation of natural resources	1,895,645	2,252,048	187,882
Economic development	67,527	-	-
Interest	473,898	-	-
Total governmental activities	\$ 17,742,374	\$ 4,106,533	\$ 5,668,166
Business-type activities			
Huntley Sewer District	76,030	25,611	-
Total Primary Government	\$ 17,818,404	\$ 4,132,144	\$ 5,668,166
Component units			
Housing and Redevelopment Authority	\$ 308,370	\$ 7,000	\$ 291,815
Economic Development Authority	20,908	22,490	-
Total Component Units	\$ 329,278	\$ 29,490	\$ 291,815

General Revenues

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

Total general revenues

Change in net position

Net Position - January 1

Net Position - December 31

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Position					
Capital Grants and Contributions	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
\$ -	\$ (2,734,783)	\$ -	\$ (2,734,783)		
-	(2,161,461)	-	(2,161,461)		
340,032	(490,430)	-	(490,430)		
-	(16,711)	-	(16,711)		
-	26,120	-	26,120		
-	(1,959,075)	-	(1,959,075)		
-	(294,163)	-	(294,163)		
-	544,285	-	544,285		
-	(67,527)	-	(67,527)		
-	(473,898)	-	(473,898)		
\$ 340,032	\$ (7,627,643)	\$ -	\$ (7,627,643)		
-	-	(50,419)	(50,419)		
\$ 340,032	\$ (7,627,643)	\$ (50,419)	\$ (7,678,062)		
\$ -				\$ (9,555)	\$ -
-				-	1,582
\$ -				\$ (9,555)	\$ 1,582
	\$ 8,715,283	\$ -	\$ 8,715,283	\$ -	\$ -
	11,106	-	11,106	-	-
	36,260	-	36,260	-	-
	708,092	-	708,092	-	-
	55,578	-	55,578	2	-
	221,496	-	221,496	-	-
	\$ 9,747,815	\$ -	\$ 9,747,815	\$ 2	\$ -
	\$ 2,120,172	\$ (50,419)	\$ 2,069,753	\$ (9,553)	\$ 1,582
	54,422,833	1,154,081	55,576,914	30,792	507,135
	\$ 56,543,005	\$ 1,103,662	\$ 57,646,667	\$ 21,239	\$ 508,717

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<u>General</u>	<u>Public Works</u>
<u>Assets</u>		
Cash and pooled investments	\$ 3,099,121	\$ 724
Petty cash and change funds	2,265	297
Taxes receivable		
Prior	87,845	18,232
Special assessments		
Current	-	-
Prior	60,110	-
Noncurrent	1,512,063	-
Accounts receivable	17,006	5,096
Accrued interest receivable	11,009	-
Due from other funds	8,364	7,889
Due from other governments	214,070	1,728,766
Prepaid expense	5,988	12,325
Advance to other funds	2,140,128	-
Advance to other governments	45,000	-
Inventories	-	1,662,258
	<u> </u>	<u> </u>
Total Assets	<u>\$ 7,202,969</u>	<u>\$ 3,435,587</u>

EXHIBIT 3

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ 1,950,992	\$ 70,831	\$ 1,053,224	\$ 6,174,892
-	-	-	2,562
31,376	-	12,337	149,790
-	462,391	-	462,391
-	3,432	-	63,542
-	1,529,227	-	3,041,290
-	1,542	-	23,644
-	-	-	11,009
-	32,752	-	49,005
-	340,677	-	2,283,513
-	-	-	18,313
-	-	-	2,140,128
-	-	-	45,000
-	-	-	1,662,258
\$ 1,982,368	\$ 2,440,852	\$ 1,065,561	\$ 16,127,337

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<u>General</u>	<u>Public Works</u>
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 135,566	\$ 45,153
Salaries payable	82,954	27,665
Contracts payable	129,818	-
Due to other funds	2,537	32,752
Due to other governments	7,000	-
Deferred revenue - unavailable	1,386,427	1,743,024
Deferred revenue - unearned	364,281	724
Advance from other funds	-	152,440
Total Liabilities	<u>\$ 2,108,583</u>	<u>\$ 2,001,758</u>
Fund Balances		
Nonspendable		
Inventories	\$ -	\$ 1,662,258
Prepaid items	5,988	12,325
Advances to other funds	2,140,128	-
Advances to other governments	45,000	-
Restricted for		
Debt service	-	-
Law library	24,209	-
Recorder's technology equipment	241,877	-
Recorder's compliance	179,206	-
Individual Sewage Treatment System (ISTS) loans	-	-
Drug abuse resistance education (DARE)	25,479	-
Ditch maintenance and repairs	-	-
Helping America Vote Act (HAVA)	13,659	-
Solid waste projects	391,444	-
ISTS repayments	240,615	-
Committed for		
Software purchases	22,000	-
Human services	-	-
Assigned to		
Environmental trust	20,000	-
Unassigned	1,744,781	(240,754)
Total Fund Balances	<u>\$ 5,094,386</u>	<u>\$ 1,433,829</u>
Total Liabilities and Fund Balances	<u><u>\$ 7,202,969</u></u>	<u><u>\$ 3,435,587</u></u>

EXHIBIT 3
(Continued)

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ -	\$ 64,976	\$ -	\$ 245,695
-	-	-	110,619
-	33,885	-	163,703
-	5,352	-	40,641
-	91,627	-	98,627
26,332	1,561,361	10,274	4,727,418
1,166	-	466	366,637
-	1,987,688	-	2,140,128
\$ 27,498	\$ 3,744,889	\$ 10,740	\$ 7,893,468
\$ -	\$ -	\$ -	\$ 1,662,258
-	-	-	18,313
-	-	-	2,140,128
-	-	-	45,000
-	-	551,131	551,131
-	-	-	24,209
-	-	-	241,877
-	-	-	179,206
-	-	503,690	503,690
-	-	-	25,479
-	745,983	-	745,983
-	-	-	13,659
-	-	-	391,444
-	-	-	240,615
-	-	-	22,000
1,954,870	-	-	1,954,870
-	-	-	20,000
-	(2,050,020)	-	(545,993)
\$ 1,954,870	\$ (1,304,037)	\$ 1,054,821	\$ 8,233,869
\$ 1,982,368	\$ 2,440,852	\$ 1,065,561	\$ 16,127,337

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS
TO NET POSITION - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)	\$	8,233,869
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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.		57,365,693
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,727,418
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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	\$ (10,430,000)	
Special assessment bonds	(525,000)	
Loans payable	(38,765)	
Bond discount	29,371	
Net other postemployment benefits liability	(1,715,610)	
Deferred debt issuance charges	57,454	
Accrued interest payable	(186,852)	
Compensated absences payable	(970,569)	
Capital leases payable	(4,004)	
	<u> </u>	<u>(13,783,975)</u>

Net Position of Governmental Activities (Exhibit 1)	\$	<u>56,543,005</u>
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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Public Works</u>
Revenues		
Taxes	\$ 5,293,425	\$ 969,846
Special assessments	784,432	-
Licenses and permits	730	-
Intergovernmental	1,179,758	5,748,083
Charges for services	1,152,253	177,727
Fines and forfeits	26,816	-
Gifts and contributions	1,340	-
Investment earnings	57,210	-
Miscellaneous	282,857	84,135
Total Revenues	\$ 8,778,821	\$ 6,979,791
Expenditures		
Current		
General government	\$ 2,738,268	\$ -
Public safety	3,450,142	-
Highways and streets	-	7,168,199
Transit	186,408	-
Human services	-	-
Sanitation	392,113	-
Culture and recreation	186,859	141,041
Conservation of natural resources	594,906	-
Economic development	67,527	-
Debt service		
Principal	17,430	-
Interest	1,331	-
Administrative (fiscal) charges	-	-
Total Expenditures	\$ 7,634,984	\$ 7,309,240
Excess of Revenues Over (Under) Expenditures	\$ 1,143,837	\$ (329,449)
Other Financing Sources (Uses)		
Transfers in	\$ 210,155	\$ -
Transfers out	(367,781)	-
Total Other Financing Sources (Uses)	\$ (157,626)	\$ -
Change in Fund Balances	\$ 986,211	\$ (329,449)
Fund Balances - January 1	4,108,175	1,511,857
Increase (decrease) in inventories	-	251,421
Fund Balances - December 31	\$ 5,094,386	\$ 1,433,829

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

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EXHIBIT 5

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ 1,737,376	\$ -	\$ 711,730	\$ 8,712,377
-	1,285,429	-	2,069,861
-	-	-	730
139,765	-	57,273	7,124,879
-	-	-	1,329,980
-	-	-	26,816
-	-	-	1,340
-	-	-	57,210
-	-	-	366,992
\$ 1,877,141	\$ 1,285,429	\$ 769,003	\$ 19,690,185
\$ -	\$ -	\$ -	\$ 2,738,268
-	-	-	3,450,142
-	-	-	7,168,199
-	-	-	186,408
1,959,075	-	-	1,959,075
-	-	-	392,113
-	-	-	327,900
-	1,298,134	-	1,893,040
-	-	-	67,527
-	45,000	645,000	707,430
-	21,745	448,576	471,652
-	431	2,413	2,844
\$ 1,959,075	\$ 1,365,310	\$ 1,095,989	\$ 19,364,598
\$ (81,934)	\$ (79,881)	\$ (326,986)	\$ 325,587
\$ -	\$ -	\$ 367,781	\$ 577,936
-	-	(210,155)	(577,936)
\$ -	\$ -	\$ 157,626	\$ -
\$ (81,934)	\$ (79,881)	\$ (169,360)	\$ 325,587
2,036,804	(1,224,156)	1,224,181	7,656,861
-	-	-	251,421
\$ 1,954,870	\$ (1,304,037)	\$ 1,054,821	\$ 8,233,869

**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, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 325,587**

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

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

Deferred revenue - December 31	\$ 4,727,418	
Deferred revenue - January 1	<u>(4,555,057)</u>	172,361

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

Expenditures for general capital assets and infrastructure	\$ 4,178,076	
Net book value of assets sold	(3,200)	
Current year depreciation	<u>(3,317,589)</u>	857,287

The repayment of debt consumes current financial resources but has no effect on net position. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position.

Principal repayments		
General obligation bonds	\$ 645,000	
Special assessment bonds	45,000	
Capital lease payable	5,014	
Loans payable	<u>12,416</u>	707,430
Amortization of discount on bonds and issuance costs		(8,586)

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

Change in accrued interest payable	\$ 9,184	
Change in compensated absences	9,320	
Change in other postemployment benefits liabilities	(203,832)	
Change in inventories	<u>251,421</u>	<u>66,093</u>

Change in Net Position of Governmental Activities (Exhibit 2) **\$ 2,120,172**

PROPRIETARY FUND

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET POSITION
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND
DECEMBER 31, 2012**

	<u>Business-Type Activities</u>
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 34,891
Special assessments	
Prior	11,817
Noncurrent	61,283
Due from other governments	<u>5,528</u>
Total current assets	<u>\$ 113,519</u>
Noncurrent assets	
Deferred charges	\$ 2,281
Capital assets	
Nondepreciable	27,643
Depreciable - net of accumulated depreciation	<u>1,332,852</u>
Total noncurrent assets	<u>\$ 1,362,776</u>
Total Assets	<u>\$ 1,476,295</u>
<u>Liabilities</u>	
Current liabilities	
Due to other funds	\$ 8,364
Accrued interest payable	15,269
General obligation bonds payable - current	<u>4,000</u>
Total current liabilities	<u>\$ 27,633</u>
Noncurrent liabilities	
General obligation bonds payable - long-term	<u>345,000</u>
Total Liabilities	<u>\$ 372,633</u>
<u>Net Position</u>	
Net investment in capital assets	\$ 1,011,495
Unrestricted	<u>92,167</u>
Total Net Position	<u>\$ 1,103,662</u>

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

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**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, 2012**

	<u>Business-Type Activities</u>
Operating Revenues	
Charges for services	<u>\$ 16,487</u>
Operating Expenses	
Professional services	\$ 660
Miscellaneous	3,925
Depreciation	<u>56,113</u>
Total Operating Expenses	<u>\$ 60,698</u>
Operating Income (Loss)	<u>\$ (44,211)</u>
Nonoperating Revenues (Expenses)	
Special assessments	\$ 9,124
Interest expense	(15,269)
Amortization of deferred charges	<u>(63)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (6,208)</u>
Change in Net Position	<u>\$ (50,419)</u>
Net Position - January 1	<u>1,154,081</u>
Net Position - December 31	<u><u>\$ 1,103,662</u></u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities
Cash Flows from Operating Activities	
Receipts from customers	\$ 10,959
Payments to suppliers	(660)
Net cash provided by (used in) operating activities	\$ 10,299
Cash Flows from Capital and Related Financing Activities	
Special assessments	\$ 13,721
Principal paid on long-term debt	(4,000)
Interest paid on long-term debt	(15,444)
Net cash provided by (used in) capital and related financing activities	\$ (5,723)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 4,576
Cash and Cash Equivalents at January 1	30,315
Cash and Cash Equivalents at December 31	<u>\$ 34,891</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (44,211)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 56,113
(Increase) decrease in due from other governments	(5,528)
Increase (decrease) in due to other funds	3,925
Total adjustments	<u>\$ 54,510</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 10,299</u>

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FIDUCIARY FUNDS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u><u>\$ 348,049</u></u>
<u>Liabilities</u>	
Due to other governments	<u><u>\$ 348,049</u></u>

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012. 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 is able to impose its will on the EDA.	Separate financial statements are not prepared.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Faribault County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints the Board members and must approve debt.	Faribault County HRA Minnesota Valley Action Council 706 North Victory Drive Mankato, Minnesota 56001

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net 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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

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

The County considers all governmental funds to be major.

The County reports the following major enterprise fund:

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

Additionally, the County reports the following fund type:

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net 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, 2012, 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 2012 were \$57,210.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments (Continued)

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

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Cash and Cash Equivalents

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

3. Receivables and Payables

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

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

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

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

4. Inventories

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements 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.

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

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

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

6. Compensated Absences

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

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

9. Classification of Net 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, and Net Position or Equity

9. Classification of Net Position (Continued)

Restricted - the portion 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 portion of net position that is not included in the net investment in capital assets or restricted components.

10. 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.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

10. Classification of Fund Balances (Continued)

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

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

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

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

11. Use of Estimates

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance as of December 31, 2012, as follows:

Fund Balance - modified accrual basis	\$ (1,304,037)
Bonds payable	(525,000)
Deferred revenue - unavailable	<u>1,561,361</u>
Net Position - full accrual basis	<u><u>\$ (267,676)</u></u>

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

122 ditches with positive net position balances	\$ 1,233,460
66 ditches with deficit net position balances	<u>(1,501,136)</u>
Net Position - full accrual basis	<u><u>\$ (267,676)</u></u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Governmental activities	
Cash and pooled investments	\$ 6,174,892
Petty cash and change funds	2,562
Business-type activities	
Cash and pooled investments	34,891
Component unit - EDA	
Cash and pooled investments	320,007
Restricted temporary investment	12,400
Fiduciary funds	
Cash and pooled investments	<u>348,049</u>
Total Cash and Investments	<u><u>\$ 6,892,801</u></u>

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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.

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, 2012, the County's deposits were not exposed to custodial credit risk.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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	\$ 5,589,660	\$ -
Petty cash	2,562	-
MAGIC Fund	579	-
Federal Home Loan Bank (1)	-	450,000
Negotiable certificates of deposit (1)	-	850,000
Total Cash and Investments	<u>\$ 5,592,801</u>	<u>\$ 1,300,000</u>

(1) These notes and one negotiable certificate of deposit have step provisions, which could result in being called prior to maturity.

Credit Risk

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities 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, 2012, 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.

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

<u>Issuer</u>	
Federal Home Loan Bank	\$ 450,000
Goldman Sachs Bank	205,000
GE Capital Bank	200,000
GE Capital Retail Bank	200,000
Cit Bank	245,000

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, for the County are as follows:

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes - prior	\$ 149,790	\$ -
Special assessments - current	462,391	-
Special assessments - prior	63,542	-
Special assessments - noncurrent	3,041,290	2,014,226
Accounts	23,644	-
Accrued interest	11,009	-
Due from other governments	2,283,513	-
Advance to other governments	<u>45,000</u>	<u>-</u>
Total Governmental Activities	<u>\$ 6,080,179</u>	<u>\$ 2,014,226</u>
Business-Type Activities		
Special assessments		
Prior	\$ 11,817	\$ -
Noncurrent	61,283	46,154
Due from other governments	<u>5,528</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 78,628</u>	<u>\$ 46,154</u>

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,707,074	\$ -	\$ -	\$ 1,707,074
Construction in progress	710,121	3,419,162	3,926,491	202,792
Total capital assets not depreciated	<u>\$ 2,417,195</u>	<u>\$ 3,419,162</u>	<u>\$ 3,926,491</u>	<u>\$ 1,909,866</u>
Capital assets depreciated				
Buildings and improvements	\$ 13,454,264	\$ -	\$ -	\$ 13,454,264
Other improvements	161,597	-	-	161,597
Machinery and equipment	7,778,305	788,496	171,837	8,394,964
Infrastructure	78,969,242	3,896,909	-	82,866,151
Total capital assets depreciated	<u>\$ 100,363,408</u>	<u>\$ 4,685,405</u>	<u>\$ 171,837</u>	<u>\$ 104,876,976</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 2,846,924	\$ 311,423	\$ -	\$ 3,158,347
Other improvements	81,317	8,956	-	90,273
Machinery and equipment	4,805,460	520,906	168,637	5,157,729
Infrastructure	38,538,496	2,476,304	-	41,014,800
Total accumulated depreciation	<u>\$ 46,272,197</u>	<u>\$ 3,317,589</u>	<u>\$ 168,637</u>	<u>\$ 49,421,149</u>
Total capital assets depreciated, net	<u>\$ 54,091,211</u>	<u>\$ 1,367,816</u>	<u>\$ 3,200</u>	<u>\$ 55,455,827</u>
Capital Assets, Net	<u>\$ 56,508,406</u>	<u>\$ 4,786,978</u>	<u>\$ 3,929,691</u>	<u>\$ 57,365,693</u>

**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	\$ 18,667	\$ 4,666	\$ -	\$ 23,333
Infrastructure	205,788	51,447	-	257,235
Total accumulated depreciation	\$ 224,455	\$ 56,113	\$ -	\$ 280,568
Total capital assets depreciated, net	\$ 1,388,965	\$ (56,113)	\$ -	\$ 1,332,852
Capital Assets, Net	\$ 1,416,608	\$ (56,113)	\$ -	\$ 1,360,495

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

Governmental Activities	
General government	\$ 445,458
Public safety	138,490
Highways and streets, including depreciation of infrastructure assets	2,728,682
Conservation of natural resources	4,959
Total Depreciation Expense - Governmental Activities	<u>\$ 3,317,589</u>
Business-Type Activities	
Huntley Sewer District	<u>\$ 56,113</u>

**FARIBAUT 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, 2012, 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	\$ 8,364	Charges for services
Public Works	General	2,537	Fuel and maintenance
	Ditch	5,352	Ditch repairs
Ditch	Public Works	<u>32,752</u>	Ditch benefits to roads
		<u>\$ 49,005</u>	

These interfund receivables and payables are expected to be paid within one year of December 31, 2012.

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Public Works	\$ 152,440
	Ditch	<u>1,987,688</u>
		<u>\$ 2,140,128</u>

The advance from the General Fund to the Public Works Special Revenue Fund was to cover a negative cash balance. This advance is expected to be eliminated within one year of December 31, 2012. 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, 2012.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2012, consisted of a transfer from the General Fund to the Debt Service Fund of \$367,781 for debt service payments and from the Debt Service Fund to the General Fund of \$210,155 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 post-retirement health care benefits for certain retirees and their dependents. For employees and officers employed before January 1, 2002, the County pays 100 percent of the single premium and 50 percent of the family premium for life. The County's contribution depends on which bargaining unit the employee was a member of and the plan chosen at retirement. As of year-end, the County has 34 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2012, the County expended \$165,297 for these benefits.

The County also provides health insurance benefits for eligible retired employees and their spouses under a single-employer self-insured plan. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. This postemployment benefit is funded on a pay-as-you-go basis. As of January 1, 2011, the date of the last valuation, there were approximately 37 retirees receiving health benefits from the County's health plan. The implicit rate subsidy amount was determined by an actuarial study to be \$12,817 for 2012.

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.

**FARIBAUT 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	\$ 408,901
Interest on net OPEB obligation	60,471
Adjustment to ARC	<u>(87,426)</u>
Annual OPEB cost (expense)	\$ 381,946
Contributions made	<u>(178,114)</u>
Increase in net OPEB obligation	\$ 203,832
Net OPEB Obligation - January 1	<u>1,511,778</u>
Net OPEB Obligation - December 31	<u>\$ 1,715,610</u>

The County's annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligation for the years ended December 31, 2010, 2011, and 2012, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 610,003	\$ 148,765	24.4%	\$ 1,321,873
December 31, 2011	376,393	186,488	49.5	1,511,778
December 31, 2012	381,946	178,114	46.6	1,715,610

Funded Status and Funding Progress

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress - Other Postemployment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the January 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return (net of investment expenses), which is Faribault County's implicit rate of return on the General Fund. The annual health care cost trend is 9.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 10 years. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years on a level dollar amount. The remaining amortization period at December 31, 2012, was 25 years.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

The County has entered into two capital lease agreements as lessee for financing the acquisition of copiers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases consist of the following at December 31, 2012:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2010 extension copier	2014	Monthly	\$ 233	\$ 9,990	\$ 3,152
2008 general copier	2013	Monthly	216	11,407	852
Total Leases					<u>\$ 4,004</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, 2012, were as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2013	\$ 3,660
2014	467
Total lease payments	\$ 4,127
Less: amount representing interest	<u>(123)</u>
Present Value of Minimum Lease Payments	<u>\$ 4,004</u>

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Governmental Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
2001 G.O. Bonds Taxable Refunding Waste Disposal Bonds	2016	\$ 25,000 - \$ 30,000	6.60 - 6.70	\$ 300,000	\$ 105,000
2007 G.O. Jail Bonds	2028	\$ 380,000 - \$ 745,000	4.00 - 4.25	10,000,000	8,630,000
2007 G.O. Waste Disposal Bonds	2018	\$ 70,000 - \$ 95,000	5.30 - 6.00	750,000	495,000
2009 G.O. Waste Disposal Bonds	2020	\$ 150,000	2.25 - 4.70	1,500,000	1,200,000
Total general obligation bonds				<u>\$ 12,550,000</u>	\$ 10,430,000
Less: unamortized discount					<u>(24,703)</u>
Total General Obligation Bonds, Net					<u>\$ 10,405,297</u>

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation special assessment bonds					
1999 G.O. Ditch Bonds	2014	\$ 15,000	4.95	\$ 280,000	\$ 30,000
2003 G.O. Ditch Bonds	2024	\$ 35,000 - \$ 50,000	3.10 - 4.25	725,000	495,000
Total general obligation special assessment bonds				<u>\$ 1,005,000</u>	\$ 525,000
Less: unamortized discount					<u>(4,668)</u>
Total General Obligation Special Assessment Bonds, Net					<u>\$ 520,332</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Governmental Activities (Continued)

Loans Payable

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

Type of Indebtedness	Final Maturity	Installments Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
2005 Minnesota Pollution Control Agency Loan	2015	\$ 13,378	2.00	\$ 120,704	\$ 38,765

Business-Type Activities

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
2009 G.O. Revenue Bonds	2049	\$4,000 - \$18,000	4.38	\$ 360,000	\$ 349,000

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

Debt service requirements at December 31, 2012, were as follows:

Governmental Activities

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 625,000	\$ 423,483	\$ 50,000	\$ 19,995
2014	645,000	398,684	50,000	18,106
2015	670,000	372,085	35,000	16,157
2016	695,000	343,742	35,000	14,949
2017	690,000	313,433	40,000	13,585
2018 - 2022	3,125,000	1,146,770	215,000	43,662
2023 - 2027	3,235,000	512,185	100,000	4,250
2028	745,000	15,831	-	-
Total	<u>\$ 10,430,000</u>	<u>\$ 3,526,213</u>	<u>\$ 525,000</u>	<u>\$ 130,704</u>

Year Ending December 31	Loan Payable	
	Principal	Interest
2013	\$ 12,665	\$ 712
2014	12,920	458
2015	13,180	198
Total	<u>\$ 38,765</u>	<u>\$ 1,368</u>

Business-Type Activities

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2013	\$ 4,000	\$ 15,269
2014	4,000	15,094
2015	4,000	14,919
2016	4,000	14,744
2017	5,000	14,569
2018 - 2022	27,000	69,519
2023 - 2027	33,000	63,087
2028 - 2032	41,000	55,256
2033 - 2037	51,000	45,412
2038 - 2042	63,000	33,294
2043 - 2047	77,000	18,287
2048 - 2049	36,000	2,362
Total	<u>\$ 349,000</u>	<u>\$ 361,812</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 11,075,000	\$ -	\$ 645,000	\$ 10,430,000	\$ 625,000
General obligation special assessment bonds	570,000	-	45,000	525,000	50,000
Less: unamortized discount	(32,315)	-	(2,944)	(29,371)	-
Total bonds payable	\$ 11,612,685	\$ -	\$ 687,056	\$ 10,925,629	\$ 675,000
Capital leases	9,018	-	5,014	4,004	3,541
Loans payable	51,181	-	12,416	38,765	12,665
Net OPEB payable	1,511,778	381,946	178,114	1,715,610	-
Compensated absences	979,889	-	9,320	970,569	12,617
Long-Term Liabilities	<u>\$ 14,164,551</u>	<u>\$ 381,946</u>	<u>\$ 891,920</u>	<u>\$ 13,654,577</u>	<u>\$ 703,823</u>

Business-Type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 353,000	\$ -	\$ 4,000	\$ 349,000	\$ 4,000

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailer/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50 percent after five years and increasing 10 percent for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans (Continued)

Funding Policy

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

The County is required to contribute the following percentages of annual covered payroll in 2012:

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

The County's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Employees Retirement Fund	\$ 174,195	\$ 175,747	\$ 167,031
Public Employees Police and Fire Fund	82,114	77,280	76,095
Public Employees Correctional Fund	57,951	57,402	54,322

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ending December 31, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 9,095	\$ 9,095
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

5. Risk Management (Continued)

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$460,000 per claim in 2012 and \$470,000 per claim in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

B. Joint Ventures

Human Services of Faribault and Martin Counties

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

Complete financial information can be obtained from:

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

Prairieland Solid Waste Board (Prairieland)

Faribault and Martin Counties entered into a joint venture in 1990 to build and operate a solid waste composting plant - Prairieland. Prairieland is composed of ten members, the County Commissioners from both Faribault and Martin Counties. Faribault County's proportionate interest in Prairieland is 43 percent. Prairieland reported a net loss of \$186,024 in 2012.

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

Separate financial information can be obtained from:

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

**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 eighteen-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 2012, Faribault County contributed \$2,000 to the Board made payable to the Southwest Regional Development Commission. The Board shall prepare an annual budget to cover the administrative and planning costs of and agree that they shall continue to do so for each year of its existence. These costs will be paid equally by each member county of the Board up to a ceiling of \$3,500 per county per year, and further costs shall be based on per capita.

Separate audited financial information can be obtained from:

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

C. Jointly-Governed Organizations

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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

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

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

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

The South Central Community Based Initiative was formed with nine other counties to provide mental health services to residents. Contributions to the group are made by the Human Services of Faribault and Martin Counties. The County made no payments to the Community Based Initiative in 2012.

The South Central Minnesota Regional Radio Board was formed for the planning, financing, development, design, construction, operation, management, control, and administration of the regional enhancement to the Statewide Public Safety Radio and Communications System for the Allied Radio Matrix for Emergency Response (ARMER) in accordance with the Statewide Public Safety Radio Plan and the operational standards of the Statewide Radio Board. The Regional Radio Board consists of one County Commissioner or City Council member of member organizations. The County paid \$808 in Radio Board dues in 2012.

The South Central Workforce Council Joint Powers Board is comprised of one representative from each of the participating County Boards. The Board is the local governmental body that appoints the Workforce Council members and is a full partner with them in overseeing area employment and training programs. The County made no payments to the Board in 2012.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Southeast Minnesota Homeland Security/Emergency Management Joint Powers Board was established to provide for regional coordination of planning, training, purchasing equipment, and allocating emergency services and staff in the event of a disaster within the region. There are 16 counties participating, with one member from each entity being represented on the Joint Powers Board. The County made no payments to the Board in 2012.

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

D. Subsequent Events

In February 2013, the County Board authorized the sale of \$485,000 General Obligation Drainage Ditch Refunding Bonds, Series 2013A. The bonds were issued for the purpose of effecting a current refunding for the outstanding maturities of the County's \$725,000 General Obligation Drainage Ditch Bonds, Series 2003, dated July 1, 2003, and paying the costs associated with the issuance of the bonds. The bonds are payable in 11 annual installments, with interest payable on a semi-annual basis with the interest rate ranging from 0.45 to 2.00 percent. The bonds maturing on February 1, 2021, and thereafter are subject to redemption and prepayment at the option of the County, in whole or in part, on February 1, 2020, and any date thereafter at a price of par plus accrued interest to the redemption date. The bonds will be paid with special assessments on the drainage systems' landowners' properties.

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the program. The County has met those responsibilities for 2012.

**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, 2012, consist of \$174,095 in loans made to individuals and businesses for development and \$2,223 due from the City of Winnebago.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

8. Housing and Redevelopment Authority (HRA)

Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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

REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 5,049,399	\$ 5,049,399	\$ 5,293,425	\$ 244,026
Special assessments	712,000	712,000	784,432	72,432
Licenses and permits	3,670	3,670	730	(2,940)
Intergovernmental	1,181,310	1,181,310	1,179,758	(1,552)
Charges for services	819,600	819,600	1,152,253	332,653
Fines and forfeits	19,000	19,000	26,816	7,816
Gifts and contributions	-	-	1,340	1,340
Investment earnings	70,000	70,000	57,210	(12,790)
Miscellaneous	181,324	181,324	282,857	101,533
Total Revenues	\$ 8,036,303	\$ 8,036,303	\$ 8,778,821	\$ 742,518
Expenditures				
Current				
General government				
Commissioners	\$ 272,150	\$ 272,150	\$ 268,100	\$ 4,050
Courts	38,925	38,925	40,748	(1,823)
County auditor/treasurer	425,455	425,455	403,834	21,621
Motor vehicle/license bureau	145,270	145,270	131,888	13,382
County assessor	284,820	284,820	242,081	42,739
Elections	52,500	52,500	53,928	(1,428)
Data processing	136,550	136,550	130,748	5,802
Central administration	140,585	140,585	143,603	(3,018)
Machine room	12,417	12,417	9,633	2,784
Attorney	229,439	229,439	237,172	(7,733)
Law library	12,000	12,000	13,195	(1,195)
Recorder	245,825	245,825	114,583	131,242
Vital statistics	19,605	19,605	10,636	8,969
Planning and zoning	97,690	97,690	125,470	(27,780)
Buildings and plant	398,992	398,992	326,224	72,768
Veterans service officer	186,725	186,725	150,472	36,253
Other general government	772,500	772,500	335,953	436,547
Total general government	\$ 3,471,448	\$ 3,471,448	\$ 2,738,268	\$ 733,180

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,212,090	\$ 1,212,090	\$ 1,181,278	\$ 30,812
Public safety grants	3,000	3,000	1,272	1,728
Task force	8,000	8,000	6,500	1,500
Boat and water safety	1,000	1,000	1,740	(740)
County jail	1,297,445	1,297,445	1,392,115	(94,670)
Sentence to serve	57,300	57,300	57,834	(534)
Fraud investigator	72,520	72,520	75,573	(3,053)
Animal control	4,000	4,000	1,805	2,195
Probation and parole	160,685	160,685	165,364	(4,679)
Sheriff's contingency	1,000	1,000	-	1,000
MRCI reimbursement	28,340	28,340	21,330	7,010
Emergency management	29,670	29,670	28,006	1,664
Enhanced 911	91,000	91,000	27,840	63,160
Radio project	-	-	460,005	(460,005)
Medical examiner	9,000	9,000	27,114	(18,114)
DARE	-	-	815	(815)
Other public safety	-	-	1,551	(1,551)
Total public safety	\$ 2,975,050	\$ 2,975,050	\$ 3,450,142	\$ (475,092)
Transit				
Transit	\$ 172,000	\$ 172,000	\$ 186,408	\$ (14,408)
Sanitation				
Recycling/education	\$ 423,774	\$ 423,774	\$ 350,453	\$ 73,321
SCORE funds	55,950	55,950	41,660	14,290
Total sanitation	\$ 479,724	\$ 479,724	\$ 392,113	\$ 87,611
Culture and recreation				
Historical society	\$ 11,200	\$ 11,200	\$ 10,000	\$ 1,200
County library	181,649	181,649	176,859	4,790
Other culture and recreation	825	825	-	825
Total culture and recreation	\$ 193,674	\$ 193,674	\$ 186,859	\$ 6,815

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**EXHIBIT A-1
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Conservation of natural resources				
Cooperative extension	\$ 110,716	\$ 110,716	\$ 106,597	\$ 4,119
Soil conservation	56,000	56,000	56,000	-
County agricultural society	18,000	18,000	18,000	-
Predator control	-	-	50	(50)
Water planning	83,741	83,741	121,758	(38,017)
Drainage/septic inspection	99,568	99,568	82,346	17,222
Septic loan program	250,000	250,000	210,155	39,845
Other conservation	500	500	-	500
Total conservation of natural resources	\$ 618,525	\$ 618,525	\$ 594,906	\$ 23,619
Economic development				
Community development	\$ 15,500	\$ 15,500	\$ 13,754	\$ 1,746
SCDL program	-	-	3,773	(3,773)
Economic development	50,000	50,000	50,000	-
Total economic development	\$ 65,500	\$ 65,500	\$ 67,527	\$ (2,027)
Debt service				
Principal	\$ 17,428	\$ 17,428	\$ 17,430	\$ (2)
Interest	1,331	1,331	1,331	-
Total debt service	\$ 18,759	\$ 18,759	\$ 18,761	\$ (2)
Total Expenditures	\$ 7,994,680	\$ 7,994,680	\$ 7,634,984	\$ 359,696
Excess of Revenues Over (Under)				
Expenditures	\$ 41,623	\$ 41,623	\$ 1,143,837	\$ 1,102,214
Other Financing Sources (Uses)				
Transfers in	\$ 250,000	\$ 250,000	\$ 210,155	\$ (39,845)
Transfers out	(324,735)	(324,735)	(367,781)	(43,046)
Total Other Financing Sources (Uses)	\$ (74,735)	\$ (74,735)	\$ (157,626)	\$ (82,891)
Change in Fund Balance	\$ (33,112)	\$ (33,112)	\$ 986,211	\$ 1,019,323
Fund Balance - January 1	4,108,175	4,108,175	4,108,175	-
Fund Balance - December 31	\$ 4,075,063	\$ 4,075,063	\$ 5,094,386	\$ 1,019,323

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

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 971,980	\$ 971,980	\$ 969,846	\$ (2,134)
Intergovernmental	6,435,594	6,435,594	5,748,083	(687,511)
Charges for services	230,000	230,000	177,727	(52,273)
Miscellaneous	95,000	95,000	84,135	(10,865)
Total Revenues	\$ 7,732,574	\$ 7,732,574	\$ 6,979,791	\$ (752,783)
Expenditures				
Current				
Highways and streets				
Administration	\$ 198,529	\$ 198,529	\$ 206,282	\$ (7,753)
Maintenance	1,674,412	1,674,412	2,050,157	(375,745)
Construction	4,006,291	4,006,291	3,645,127	361,164
Equipment maintenance and shop	900,400	900,400	706,374	194,026
Material and services for resale	116,400	116,400	77,809	38,591
Other - highways and streets	494,569	494,569	482,450	12,119
Total highways and streets	\$ 7,390,601	\$ 7,390,601	\$ 7,168,199	\$ 222,402
Culture and recreation				
Parks	171,762	171,762	141,041	30,721
Total Expenditures	\$ 7,562,363	\$ 7,562,363	\$ 7,309,240	\$ 253,123
Excess of Revenues Over (Under)				
Expenditures	\$ 170,211	\$ 170,211	\$ (329,449)	\$ (499,660)
Fund Balance - January 1	1,511,857	1,511,857	1,511,857	-
Increase (decrease) in inventories	-	-	251,421	251,421
Fund Balance - December 31	\$ 1,682,068	\$ 1,682,068	\$ 1,433,829	\$ (248,239)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,741,861	\$ 1,741,861	\$ 1,737,376	\$ (4,485)
Intergovernmental	139,750	139,750	139,765	15
Total Revenues	\$ 1,881,611	\$ 1,881,611	\$ 1,877,141	\$ (4,470)
Expenditures				
Current				
Human services	1,881,611	1,881,611	1,959,075	(77,464)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (81,934)	\$ (81,934)
Fund Balance - January 1	2,036,804	2,036,804	2,036,804	-
Fund Balance - December 31	\$ 2,036,804	\$ 2,036,804	\$ 1,954,870	\$ (81,934)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Special assessments	\$ 580,000	\$ 580,000	\$ 1,285,429	\$ 705,429
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 500,000	\$ 500,000	\$ 1,298,134	\$ (798,134)
Debt service				
Principal	50,000	50,000	45,000	5,000
Interest	30,000	30,000	21,745	8,255
Administrative (fiscal) charges	-	-	431	(431)
Total Expenditures	\$ 580,000	\$ 580,000	\$ 1,365,310	\$ (785,310)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (79,881)	\$ (79,881)
Fund Balance - January 1	(1,224,156)	(1,224,156)	(1,224,156)	-
Fund Balance - December 31	\$ (1,224,156)	\$ (1,224,156)	\$ (1,304,037)	\$ (79,881)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT A-5

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2012**

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	0.0%	\$ 3,196,823	176.6%
January 1, 2011	-	4,382,116	4,382,116	0.0	3,238,049	135.3

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**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Budgetary Information

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

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

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

2. Budget Amendments

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

3. Excess of Expenditures Over Appropriations

For the year ended December 31, 2012, the Human Services Special Revenue Fund's expenditures exceeded appropriations by \$77,464. The expenditures in excess of budget were funded by fund balance.

The Ditch Special Revenue Fund's expenditures exceeded appropriations by \$785,310. 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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Other Postemployment Benefits Funded Status

Complete multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement No. 45 was implemented in 2008. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as it becomes available. See Note 3.C.1., Other Postemployment Benefits, for more information.

SUPPLEMENTARY INFORMATION

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT B-1

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 713,705	\$ 713,705	\$ 711,730	\$ (1,975)
Intergovernmental	57,200	57,200	57,273	73
Total Revenues	\$ 770,905	\$ 770,905	\$ 769,003	\$ (1,902)
Expenditures				
Debt service				
Principal	\$ 645,000	\$ 645,000	\$ 645,000	\$ -
Interest	448,676	448,676	448,576	100
Administrative (fiscal) charges	429	429	2,413	(1,984)
Total Expenditures	\$ 1,094,105	\$ 1,094,105	\$ 1,095,989	\$ (1,884)
Excess of Revenues Over (Under)				
Expenditures	\$ (323,200)	\$ (323,200)	\$ (326,986)	\$ (3,786)
Other Financing Sources (Uses)				
Transfers in	\$ 324,735	\$ 324,735	\$ 367,781	\$ 43,046
Transfers out	(250,000)	(250,000)	(210,155)	39,845
Total Other Financing Sources (Uses)	\$ 74,735	\$ 74,735	\$ 157,626	\$ 82,891
Change in Fund Balance	\$ (248,465)	\$ (248,465)	\$ (169,360)	\$ 79,105
Fund Balance - January 1	1,224,181	1,224,181	1,224,181	-
Fund Balance - December 31	\$ 975,716	\$ 975,716	\$ 1,054,821	\$ 79,105

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FIDUCIARY FUNDS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>MORTGAGE REGISTRATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (25,223)	\$ 111,659	\$ 145,363	\$ (58,927)
<u>Liabilities</u>				
Due to other governments	\$ (25,223)	\$ 111,659	\$ 145,363	\$ (58,927)
<u>DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 60,174	\$ 316,531	\$ 224,823	\$ 151,882
<u>Liabilities</u>				
Due to other governments	\$ 60,174	\$ 316,531	\$ 224,823	\$ 151,882
<u>TAX AND PENALTY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 172,515	\$ 20,070,908	\$ 19,988,329	\$ 255,094
<u>Liabilities</u>				
Due to other governments	\$ 172,515	\$ 20,070,908	\$ 19,988,329	\$ 255,094
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 207,466	\$ 20,499,098	\$ 20,358,515	\$ 348,049
<u>Liabilities</u>				
Due to other governments	\$ 207,466	\$ 20,499,098	\$ 20,358,515	\$ 348,049

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COMPONENT UNIT

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**FARIBAUT 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, 2012**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Net Position</u>
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 320,007	\$ -	\$ 320,007
Loans receivable	174,095	-	174,095
Due from other governments	2,223	-	2,223
Restricted assets			
Investments - temporary	12,400	-	12,400
Total Assets	\$ 508,725	\$ -	\$ 508,725
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 8	\$ -	\$ 8
Deferred revenue	174,095	(174,095)	-
Total Liabilities	\$ 174,103	\$ (174,095)	\$ 8
<u>Fund Balance/Net Position</u>			
Fund Balance			
Nonspendable - loan guarantee	\$ 12,400	\$ (12,400)	
Unassigned	322,222	(322,222)	
Total Fund Balance	\$ 334,622	\$ (334,622)	
Net Position			
Unrestricted		\$ 508,717	\$ 508,717
Total Liabilities and Fund Balance	\$ 508,725		

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

**FARIBAUT 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, 2012**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
Revenues			
Charges for services	\$ 15,442	\$ 7,048	\$ 22,490
Expenditures/Expenses			
Current			
Economic development	<u>20,908</u>	<u>-</u>	<u>20,908</u>
Net Change in Fund Balance/Net Position	\$ (5,466)	\$ 7,048	\$ 1,582
Fund Balance/Net Position - January 1	<u>340,088</u>	<u>167,047</u>	<u>507,135</u>
Fund Balance/Net Position - December 31	<u><u>\$ 334,622</u></u>	<u><u>\$ 174,095</u></u>	<u><u>\$ 508,717</u></u>

*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 deferred revenues during the year.

SCHEDULES

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT E-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Total Primary Government
Shared Revenue	
State	
Highway users tax	\$ 5,106,632
PERA rate reimbursement	13,448
Disparity reduction aid	71,731
Police aid	55,556
County program aid	457,544
Market value credit	165,369
Enhanced 911	87,066
Total shared revenue	\$ 5,957,346
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 33,571
Payments	
Local	
Payments in lieu of taxes	\$ 36,260
Grants	
State	
Minnesota Department/Board of	
Public Safety	\$ 130,263
Natural Resources	44,506
Veterans Affairs	2,350
Corrections	36,940
Transportation	574,792
Water and Soil Resources	91,042
Peace Officer Standards and Training Board	4,981
Pollution Control Agency	55,950
Total state	\$ 940,824
Federal	
Department of	
Commerce	\$ 8,429
Transportation	131,527
Homeland Security	16,922
Total federal	\$ 156,878
Total state and federal grants	\$ 1,097,702
Total Intergovernmental Revenue	\$ 7,124,879

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Capital Assets Records

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

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

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

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

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

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

Client's Response:

The County is in the process of drafting an accounting policy. Staffing and time considerations have delayed the final drafts. This finding will be addressed in the accounting policy.

06-2 Budgeting

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

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

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

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

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

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

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

Client's Response:

The County has drafted a budget policy, and these recommendations will be included in the adopted draft. Staffing and time considerations have delayed the final drafts and approvals.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Individual Ditch System Deficits

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

Additionally, individual ditch systems should be maintained with a positive net position 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 net positions at December 31, 2012.

Context: At December 31, 2012, 11 of 188 ditch systems had negative cash balances totaling \$535,512, and 66 ditches had deficit net positions totaling \$1,501,136.

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

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

Recommendation: We recommend that the County eliminate the cash deficits by borrowing from eligible funds with surplus cash balances under Minn. Stat. § 103E.655. Net position 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 attempt to eliminate the cash deficits by borrowing from eligible funds with surplus cash balances. The County also intends to levy assessments to include reserves for repairs in the individual fund. The County levied over \$2,000,000 for the 2013 payable assessments and will levy over \$1,600,000 for assessments payable in 2014.



REBECCA OTTO
STATE AUDITOR

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

Independent Auditor's Report

Board of County Commissioners
Faribault County

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 as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 7, 2013.

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.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial

reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 96-5 and 06-2, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Faribault County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as item 96-1. 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

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

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 7, 2013