

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**BROWN COUNTY**  
**NEW ULM, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2013**

## **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.

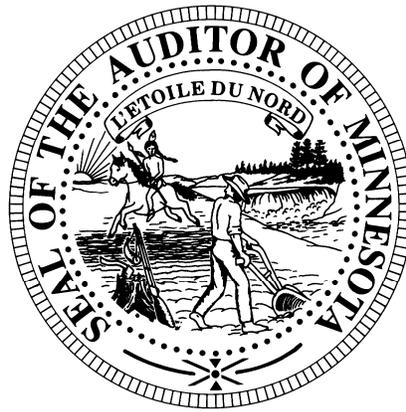
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

**Year Ended December 31, 2013**



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

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

ORGANIZATION  
2013

Office	Name	Term Expires
<b>Commissioners</b>		
1st District	Richard Seeboth	January 2017
2nd District	James Berg	January 2017
3rd District	Scott Windschitl	January 2017
4th District	Andrew Lochner	January 2015
5th District	Dennis Potter*	January 2015
<b>Officers</b>		
<b>Elected</b>		
Attorney	Robert Hinnenthal	January 2015
Auditor/Treasurer	Marlin C. Helget	January 2015
County Recorder	Betti Kamolz	January 2015
Sheriff	Rich Hoffmann	January 2015
<b>Appointed</b>		
Administrator	Charles Enter	Indefinite
Assessor	Rita Treml	December 31, 2016
Family Services Director	Tom Henderson	Indefinite
Coroner	Terry Knowles, M.D.	December 31, 2014
Probation Director	Les Schultz	Indefinite
Highway Engineer	Wayne Stevens	May 31, 2014
Human Resources Director	Mike Furth	Indefinite
Planning and Zoning Administrator	Laine Sletta	Indefinite
Public Health Director	Karen Moritz	Indefinite
Veterans Service Officer	Greg Peterson	April 11, 2017
Lay Board Member	Elizabeth Mohr	December 31, 2013
Lay Board Member	Judy Kuster	December 31, 2013

\*Chair

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

### INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners  
Brown County

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of and for the year ended December 31, 2013, 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 Brown County Economic Development Partners, Inc., which is the discretely presented component unit. 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 component unit, is based solely upon 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. The financial statements of Brown County Economic Development Partners, Inc., were not audited in accordance with *Government Auditing Standards*.

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

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

### ***Opinions***

In our opinion, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of December 31, 2013, and the respective changes in financial position thereof and the respective budgetary comparisons of the General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, and Landfill Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2013, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency

with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Brown 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 August 14, 2014, on our consideration of Brown 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 Brown County's internal control over financial reporting and compliance.

#### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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. The 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 SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

August 14, 2014

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

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2013  
(Unaudited)**

As management of Brown County, we offer readers of the Brown County financial statements this narrative overview and analysis of the financial activities of Brown County for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

**FINANCIAL HIGHLIGHTS**

- The assets of Brown County exceeded its liabilities at the close of 2013 by \$97,382,282. Of this amount, \$14,650,202 (unrestricted net position) may be used to meet Brown County's ongoing obligations to citizens and creditors.
- Brown County's total net position increased by \$6,790,657 in 2013, or 7.5 percent.
- At the close of 2013, Brown County's governmental funds reported combined ending fund balances of \$20,651,805. The amount of \$2,598,074 is unassigned and is available for spending at the County's discretion.
- At the close of 2013, unassigned fund balance for the General Fund was \$2,805,702, or 23.7 percent, of total General Fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This Management's Discussion and Analysis is intended to serve as an introduction to Brown County's basic financial statements. Brown County's basic financial statements are comprised of three components: (1) county-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**County-Wide Financial Statements**

The county-wide financial statements are designed to provide readers with a broad overview of Brown County's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of Brown County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Brown County is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The county-wide financial statements list the functions of Brown County principally supported by taxes and intergovernmental revenues. The governmental activities of Brown County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, economic development, and conservation of natural resources. There are no business-type activities within Brown County's financial structure that are intended to recover all or a significant portion of their costs through user fees and charges.

The county-wide financial statements include not only Brown County itself (the primary government), but also the legally separate Economic Development Partners, Inc. (EDP). The EDP, although legally separate, functions for all practical purposes as an integral part of Brown County and, therefore, has been included in the county-wide financial statements.

The county-wide financial statements can be found on Exhibits 1 and 2.

### **Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Brown County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Brown County can be divided into two categories: governmental funds and fiduciary funds.

Because the focus of governmental funds is narrower than that of the county-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the county-wide financial statements. By doing so, readers may better understand the long-term impact of the County's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**Governmental funds**--Governmental funds are used to account for essentially the same functions reported as governmental activities in the county-wide financial statements. However, unlike the county-wide financial statements, County fund-level financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's short-term financing requirements.

Brown County reports four major funds and two nonmajor governmental funds. The major funds are: the General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, and Landfill Special Revenue Fund. The nonmajor governmental funds are: the Building and Capital Improvements Capital Projects Fund and the County Ditch Special Revenue Fund. Information is presented separately for the major funds and in the aggregate for the nonmajor funds in Exhibits 3 and 5.

**Fiduciary funds**--Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Brown County's fiduciary funds consist of 11 agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the agency funds are not reflected in the county-wide financial statements because those resources are not available to support the County's programs.

Brown County's governmental fund financial statements are on Exhibits 3 through 10, and Brown County's fiduciary funds are on Exhibit 11.

### **Notes to the Financial Statements**

Notes to the financial statements provide additional information essential to a full understanding of the data provided.

### **Other Information**

In addition to the basic financial statements and notes, this report also presents certain required supplementary information concerning Brown County's progress in funding its obligation to provide other postemployment benefits to its employees. Required supplementary information can be found on Exhibit A-1. In addition, the County also provides supplementary information on Brown County's deposits and investments, intergovernmental revenues, and expenditures of federal awards (Exhibits D-1, D-2, and D-3).

Brown County adopts an annual appropriated budget for its General Fund, the special revenue funds, and the capital projects fund. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.

## COUNTY-WIDE FINANCIAL ANALYSIS

Over time, net position serves as a useful indicator of the County's financial position. Brown County's assets exceeded liabilities by \$97,382,282 at the close of 2013. The largest portion of Brown County's net position (78.2 percent) reflects its net investment in capital assets (such as land, buildings, and equipment); however, it should be noted that these assets are not available for future spending. Comparative data with 2012 is presented.

**Table 1**  
**Governmental Net Position**

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 27,111,471	\$ 24,435,745
Capital assets	<u>76,328,848</u>	<u>71,842,883</u>
Total Assets	<u>\$ 103,440,319</u>	<u>\$ 96,278,628</u>
Long-term liabilities outstanding	\$ 4,133,917	\$ 4,068,444
Other liabilities	<u>1,924,120</u>	<u>1,618,559</u>
Total Liabilities	<u>\$ 6,058,037</u>	<u>\$ 5,687,003</u>
Net Position		
Net investment in capital assets	\$ 76,157,162	\$ 71,842,883
Restricted	6,574,918	4,514,019
Unrestricted	<u>14,650,202</u>	<u>14,234,723</u>
Total Net Position	<u>\$ 97,382,282</u>	<u>\$ 90,591,625</u>

The unrestricted net position amount of \$14,650,202 as of December 31, 2013, may be used to meet the County's ongoing obligations to citizens and creditors.

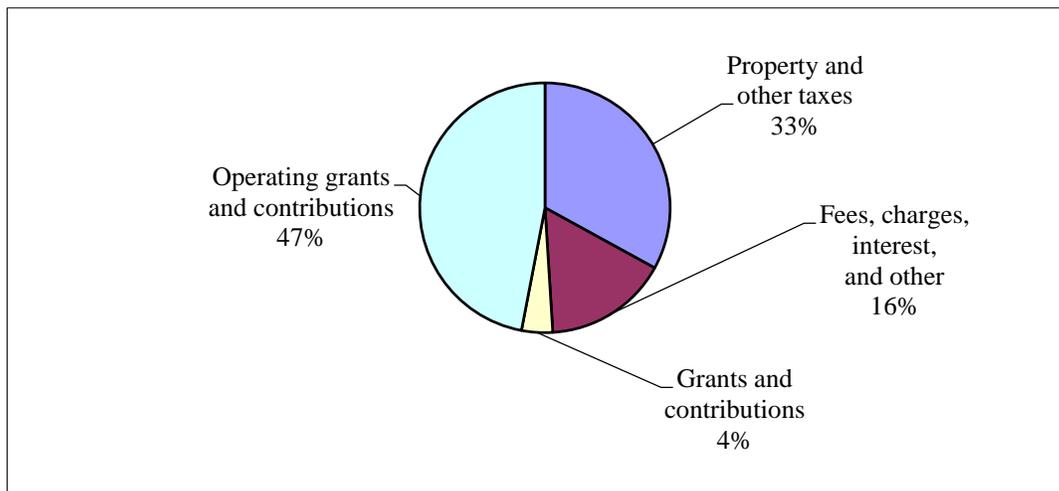
### Governmental Activities

The County's activities from operations increased net position by \$6,790,657, or 7.5 percent (\$90,591,625 in 2012 to \$97,382,282 in 2013). Table 2 summarizes the changes in net position for 2013.

**Table 2  
Changes in Governmental Net Position**

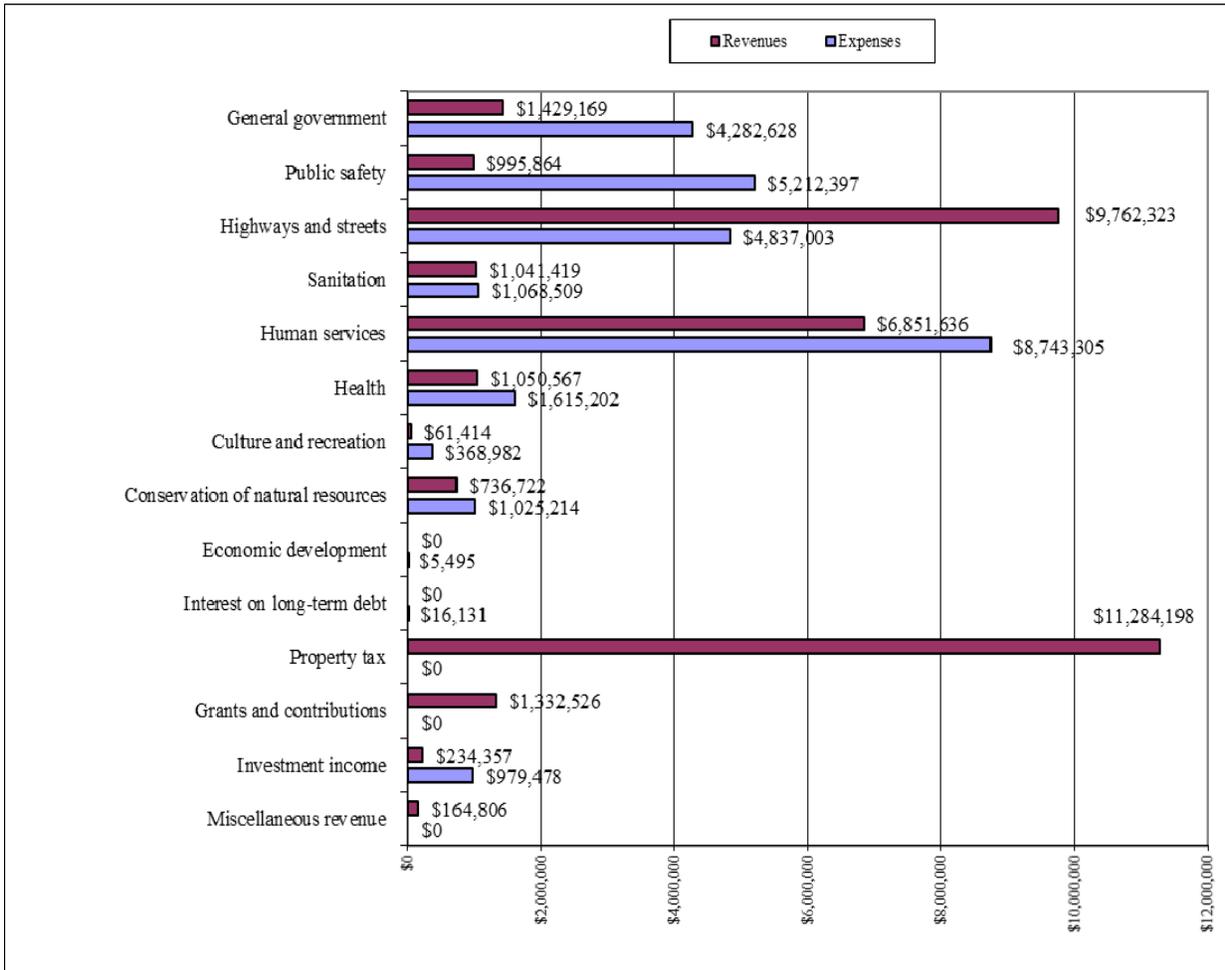
	2013	2012
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 6,071,225	\$ 5,695,335
Operating grants and contributions	15,802,785	10,808,505
Capital grants and contributions	55,104	48,439
General revenues		
Property taxes	11,261,108	11,033,889
Other	775,301	1,951,920
<b>Total Revenues</b>	<b>\$ 33,965,523</b>	<b>\$ 29,538,088</b>
<b>Expenses</b>		
General government	\$ 4,282,628	\$ 4,119,481
Public safety	5,212,397	4,882,644
Highways and streets	4,837,003	4,682,730
Sanitation	1,068,509	1,211,173
Human services	8,743,305	8,352,380
Health	1,615,202	1,559,672
Culture and recreation	368,982	376,522
Conservation of natural resources	1,025,214	807,699
Economic development	5,495	5,671
Interest	16,131	14,085
<b>Total Expenses</b>	<b>\$ 27,174,866</b>	<b>\$ 26,012,057</b>
<b>Increase in Net Position</b>	<b>\$ 6,790,657</b>	<b>\$ 3,526,031</b>
<b>Net Position - January 1</b>	<b>90,591,625</b>	<b>87,065,594</b>
<b>Net Position - December 31</b>	<b>\$ 97,382,282</b>	<b>\$ 90,591,625</b>

**Revenues by Source - 2013**



(Unaudited)

### Expenses and Revenues - 2013



Total revenues for the County were \$33,965,523, while total expenses were \$27,174,866. This reflects a \$6,790,657 increase in net position for the year ended December 31, 2013.

### FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$20,651,805, an increase of \$1,195,008 in comparison with the prior year. Of this amount, \$2,598,074 constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of Brown County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,805,702, while total General Fund balance was \$4,446,572. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 23.7 percent of total General Fund expenditures, while total fund balance represents 37.6 percent of that same amount.

### **General Fund Budgetary Highlights**

There were no changes between the original budget and the final amended budget. Total budgeted General Fund revenues exceeded actual revenues by \$641,584, due in large part to the market value of investments at December 31, 2013. Government Accounting Standards require that the County's investments reflect their market value on balance sheet date. As with any long-term investment, the County's long-term investments are subject to market fluctuations, and the County adjusted the value accordingly. When held to maturity, the County will realize the interest earnings that are associated with these investments, which consist primarily of U.S. Government Securities. Overall, the actual expenditures were below budgeted expenditures by \$234,350, primarily due to reduced spending in the general governmental, public safety, and conservation of resources functions.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The County's investment in capital assets for its governmental activities as of December 31, 2013, amounts to \$76,328,848 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was \$4,485,965.

**Table 3  
Governmental Capital Assets  
(Net of Depreciation)**

	2013	2012
Land	\$ 1,038,712	\$ 1,038,712
Construction in progress	4,423,648	444,081
Land improvements	482,931	498,540
Buildings and improvements	12,149,973	12,361,737
Machinery, furniture, and equipment	2,714,651	2,628,859
Computer software - intangible	265,554	243,877
Infrastructure	55,253,379	54,627,077
Totals	\$ 76,328,848	\$ 71,842,883

Additional information on the County’s capital assets can be found in the notes to the financial statements.

**Long-Term Debt**

At the end of the current fiscal year, the County had no bond-related debt outstanding.

Additional information on the County’s long-term debt can be found in the notes to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS**

- Brown County’s average unemployment rate for 2013 was 4.4 percent as of the end of 2013. This was slightly below the statewide rate of 4.6 percent.
- Mortgage interest rates have risen only slightly during 2013, resulting in a stable volume of mortgage refinancing.
- At the end of 2013, Brown County set its 2014 revenue and expenditure budgets.

**REQUESTS FOR INFORMATION**

This annual financial report is designed to provide a general overview of the County’s finances for all those with an interest in the County’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Brown County Auditor/Treasurer, Brown County Courthouse, 14 South State Street, P. O. Box 115, New Ulm, Minnesota 56073.

## **BASIC FINANCIAL STATEMENTS**

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**COUNTY-WIDE FINANCIAL STATEMENTS**

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT 1*

**STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

	<u>Primary Government Governmental Activities</u>	<u>Economic Development Partners, Inc., Component Unit</u>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 21,211,864	\$ 76,575
Taxes receivable		
Prior	149,978	-
Special assessments receivable		
Prior	24,672	-
Current	382,036	-
Noncurrent	310,392	-
Accounts receivable	1,015,858	-
Accrued interest receivable	58,549	-
Loan receivable	-	273,202
Due from other governments	1,288,995	-
Inventories	314,013	-
Investment in joint venture	2,355,114	-
Capital assets		
Non-depreciable	5,462,360	-
Depreciable - net of accumulated depreciation	70,866,488	-
<b>Total Assets</b>	<b><u>\$ 103,440,319</u></b>	<b><u>\$ 349,777</u></b>
<b><u>Liabilities</u></b>		
Accounts payable	\$ 673,477	\$ 674
Salaries payable	620,406	-
Contracts payable	171,686	-
Due to other governments	94,541	-
Accrued interest payable	552	-
Unearned revenue	156,297	-
Long-term liabilities		
Due within one year	207,161	-
Due in more than one year	4,133,917	-
<b>Total Liabilities</b>	<b><u>\$ 6,058,037</u></b>	<b><u>\$ 674</u></b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

	<u>Primary Government Governmental Activities</u>	<u>Economic Development Partners, Inc., Component Unit</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	\$ 76,157,162	\$ -
Restricted for		
General government	192,012	-
Public safety	226,220	-
Highways and streets	1,838,479	-
Human services	2,356,111	-
Conservation of natural resources	1,182,144	-
Landfill closure/postclosure	779,952	-
Other purposes	-	4,200
Unrestricted	<u>14,650,202</u>	<u>344,903</u>
<b>Total Net Position</b>	<b><u>\$ 97,382,282</u></b>	<b><u>\$ 349,103</u></b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
<b>Primary government</b>		
<b>Governmental activities</b>		
General government	\$ 4,282,628	\$ 1,145,800
Public safety	5,212,397	288,327
Highways and streets	4,837,003	54,398
Sanitation	1,068,509	978,810
Human services	8,743,305	2,350,505
Health	1,615,202	534,923
Culture and recreation	368,982	16,218
Conservation of natural resources	1,025,214	702,244
Economic development	5,495	-
Interest	16,131	-
<b>Total Primary Government</b>	<b><u>\$ 27,174,866</u></b>	<b><u>\$ 6,071,225</u></b>
<b>Component unit</b>		
Economic Development Partners, Inc.	<b><u>\$ 24,758</u></b>	<b><u>\$ 11,111</u></b>

**General Revenues**

Property taxes  
Grants and contributions not restricted  
to specific programs  
Payments in lieu of tax  
Investment income  
Miscellaneous

**Total general revenues**

**Change in net position**

**Net Position - January 1**

**Net Position - December 31**

**EXHIBIT 2**

<b>Program Revenues</b>		<b>Net (Expense) Revenue and Change in Net Position</b>	
<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Economic Development Partners, Inc., Component Unit</b>
\$ 283,369	\$ -	\$ (2,853,459)	
707,537	-	(4,216,533)	
9,703,035	4,890	4,925,320	
62,609	-	(27,090)	
4,450,917	50,214	(1,891,669)	
515,644	-	(564,635)	
45,196	-	(307,568)	
34,478	-	(288,492)	
-	-	(5,495)	
-	-	(16,131)	
<b>\$ 15,802,785</b>	<b>\$ 55,104</b>	<b>\$ (5,245,752)</b>	
<b>\$ -</b>	<b>\$ -</b>		<b>\$ (13,647)</b>
		\$ 11,261,108	\$ -
		1,332,526	-
		23,090	-
		(745,121)	-
		164,806	-
		<b>\$ 12,036,409</b>	<b>\$ -</b>
		<b>\$ 6,790,657</b>	<b>\$ (13,647)</b>
		<b>90,591,625</b>	<b>362,750</b>
		<b>\$ 97,382,282</b>	<b>\$ 349,103</b>

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**FUND FINANCIAL STATEMENTS**

**BROWN COUNTY  
NEW ULM, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 4,878,161	\$ 5,111,567
Taxes receivable		
Prior	95,399	22,251
Special assessments		
Prior	7,620	-
Current	134,068	-
Noncurrent	275,420	-
Accounts receivable	118,312	-
Accrued interest receivable	58,549	-
Due from other funds	156	10,226
Due from other governments	105,318	736,690
Inventories	-	314,013
	<b>\$ 5,673,003</b>	<b>\$ 6,194,747</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 210,503	\$ 102,732
Salaries payable	351,930	67,298
Contracts payable	-	171,686
Due to other funds	5,240	-
Due to other governments	11,106	1,676
Unearned revenue	135,465	8,234
	<b>\$ 714,244</b>	<b>\$ 351,626</b>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue	<b>\$ 512,187</b>	<b>\$ 734,182</b>
<b>Fund Balances</b>		
Nonspendable	\$ -	\$ 314,013
Restricted	1,254,115	1,120,893
Assigned	386,755	3,674,033
Unassigned	2,805,702	-
	<b>\$ 4,446,572</b>	<b>\$ 5,108,939</b>
	<b>\$ 4,446,572</b>	<b>\$ 5,108,939</b>
	<b>\$ 5,673,003</b>	<b>\$ 6,194,747</b>

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

**EXHIBIT 3**

<u>Family Services</u>	<u>Landfill</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,484,260	\$ 5,513,783	\$ 1,224,093	\$ 21,211,864
31,630	-	698	149,978
-	16,621	431	24,672
-	-	247,968	382,036
-	-	34,972	310,392
850,254	47,292	-	1,015,858
-	-	-	58,549
992	-	-	11,374
417,221	-	29,766	1,288,995
-	-	-	314,013
<b><u>\$ 5,784,357</u></b>	<b><u>\$ 5,577,696</u></b>	<b><u>\$ 1,537,928</u></b>	<b><u>\$ 24,767,731</u></b>
\$ 245,412	\$ 64,649	\$ 50,181	\$ 673,477
196,182	4,996	-	620,406
-	-	-	171,686
6,134	-	-	11,374
58,517	-	23,242	94,541
11,291	1,162	145	156,297
<b><u>\$ 517,536</u></b>	<b><u>\$ 70,807</u></b>	<b><u>\$ 73,568</u></b>	<b><u>\$ 1,727,781</u></b>
<b><u>\$ 819,937</u></b>	<b><u>\$ 12,316</u></b>	<b><u>\$ 309,523</u></b>	<b><u>\$ 2,388,145</u></b>
\$ -	\$ -	\$ -	\$ 314,013
997	2,546,805	778,089	5,700,899
4,445,887	2,947,768	584,376	12,038,819
-	-	(207,628)	2,598,074
<b><u>\$ 4,446,884</u></b>	<b><u>\$ 5,494,573</u></b>	<b><u>\$ 1,154,837</u></b>	<b><u>\$ 20,651,805</u></b>
<b><u>\$ 5,784,357</u></b>	<b><u>\$ 5,577,696</u></b>	<b><u>\$ 1,537,928</u></b>	<b><u>\$ 24,767,731</u></b>

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

**EXHIBIT 4**

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION--GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2013**

<b>Fund balances - total governmental funds (Exhibit 3)</b>	<b>\$</b>	<b>20,651,805</b>
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.		76,328,848
Investments in joint venture are recorded in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds.		2,355,114
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the governmental funds.		2,388,145
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$	(717,369)
Compensated absences		(1,441,734)
Accrued interest payable		(552)
Estimated liability for landfill closure/postclosure		(1,766,853)
Net OPEB liability		(415,122)
		(4,341,630)
<b>Net Position of Governmental Activities (Exhibit 1)</b>	<b>\$</b>	<b><u>97,382,282</u></b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 7,261,931	\$ 1,684,910
Special assessments	212,609	-
Licenses and permits	44,349	-
Intergovernmental	2,271,994	9,412,863
Charges for services	1,664,840	19,214
Fines and forfeits	5,897	-
Gifts and contributions	53,400	-
Investment earnings	(749,847)	-
Miscellaneous	441,442	35,184
	<b>\$ 11,206,615</b>	<b>\$ 11,152,171</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 4,166,925	\$ -
Public safety	5,045,417	-
Highways and streets	-	9,482,044
Sanitation	-	-
Human services	-	-
Health	1,601,101	-
Culture and recreation	354,759	-
Conservation of natural resources	468,362	-
Economic development	5,495	-
<b>Debt service</b>		
Principal	155,691	-
Interest	16,099	-
	<b>\$ 11,813,849</b>	<b>\$ 9,482,044</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (607,234)</b>	<b>\$ 1,670,127</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	\$ -	\$ 52,529
Transfers out	(154,370)	-
Proceeds from loans	9,660	-
	<b>\$ (144,710)</b>	<b>\$ 52,529</b>
<b>Change in Fund Balance</b>	<b>\$ (751,944)</b>	<b>\$ 1,722,656</b>
<b>Fund Balance - January 1</b>	<b>5,198,516</b>	<b>3,304,410</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>81,873</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,446,572</b>	<b>\$ 5,108,939</b>

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

**EXHIBIT 5**

<b>Family Services</b>	<b>Landfill</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 2,327,487	\$ -	\$ 7,543	\$ 11,281,871
-	342,114	747,436	1,302,159
-	240	-	44,589
4,646,407	63,088	17,063	16,411,415
1,108,166	631,337	-	3,423,557
-	-	-	5,897
7,311	-	-	60,711
-	-	-	(749,847)
551,108	3,374	8,323	1,039,431
<b>\$ 8,640,479</b>	<b>\$ 1,040,153</b>	<b>\$ 780,365</b>	<b>\$ 32,819,783</b>
\$ -	\$ -	\$ 27,663	\$ 4,194,588
-	-	166,441	5,211,858
-	-	-	9,482,044
-	945,498	-	945,498
8,704,012	-	-	8,704,012
-	-	-	1,601,101
-	-	-	354,759
-	-	576,801	1,045,163
-	-	-	5,495
-	-	-	155,691
-	-	-	16,099
<b>\$ 8,704,012</b>	<b>\$ 945,498</b>	<b>\$ 770,905</b>	<b>\$ 31,716,308</b>
<b>\$ (63,533)</b>	<b>\$ 94,655</b>	<b>\$ 9,460</b>	<b>\$ 1,103,475</b>
\$ 40,330	\$ 51,174	\$ 10,337	\$ 154,370
-	-	-	(154,370)
-	-	-	9,660
<b>\$ 40,330</b>	<b>\$ 51,174</b>	<b>\$ 10,337</b>	<b>\$ 9,660</b>
\$ (23,203)	\$ 145,829	\$ 19,797	\$ 1,113,135
4,470,087	5,348,744	1,135,040	19,456,797
-	-	-	81,873
<b>\$ 4,446,884</b>	<b>\$ 5,494,573</b>	<b>\$ 1,154,837</b>	<b>\$ 20,651,805</b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

**EXHIBIT 6**

**RECONCILIATION OF THE CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Change in fund balances - total governmental funds (Exhibit 5) \$ 1,113,135**

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

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. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures	\$ 6,743,008	
Depreciation expense	<u>(2,248,021)</u>	4,494,987

The net effect of various miscellaneous transactions involving capital assets (such as sales, trade-ins, and retirements) is to decrease net position.

Net book value of assets disposed of		(9,021)
--------------------------------------	--	---------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Decrease in deferred inflows of resources for taxes and special assessments	\$ (279,017)	
Increase in deferred inflows of resources for grants and allotments	<u>862,810</u>	583,793

The issuance of long-term debt (such as bonds or loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Proceeds of new debt	\$ (9,660)	
Principal payments on debt	<u>155,691</u>	146,031

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.

Increase in inventories	\$ 81,873	
Increase in accrued interest payable	(33)	
Increase in compensated absences payable	(21,959)	
Increase in net OPEB liability	(75,112)	
Increase in landfill postclosure care costs	(110,515)	
Increase in investment in joint venture	<u>587,478</u>	<u>461,732</u>

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 6,790,657**

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT 7*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 7,162,951	\$ 7,162,951	\$ 7,261,931	\$ 98,980
Special assessments	196,998	196,998	212,609	15,611
Licenses and permits	37,130	37,130	44,349	7,219
Intergovernmental	2,196,312	2,196,312	2,271,994	75,682
Charges for services	1,750,083	1,750,083	1,664,840	(85,243)
Fines and forfeits	4,200	4,200	5,897	1,697
Gifts and contributions	-	-	53,400	53,400
Investment earnings	49,400	49,400	(749,847)	(799,247)
Miscellaneous	451,125	451,125	441,442	(9,683)
<b>Total Revenues</b>	<b>\$ 11,848,199</b>	<b>\$ 11,848,199</b>	<b>\$ 11,206,615</b>	<b>\$ (641,584)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 244,770	\$ 244,770	\$ 243,759	\$ 1,011
Courts	71,621	71,621	90,147	(18,526)
Law library	17,000	17,000	17,442	(442)
County auditor/treasurer	589,158	589,158	550,907	38,251
Licence bureau	174,451	174,451	174,376	75
County assessor	444,377	444,377	407,685	36,692
Elections	12,400	12,400	11,410	990
Accounting and auditing	50,000	50,000	52,931	(2,931)
Data processing	433,153	433,153	432,546	607
Central services	180,863	180,863	190,457	(9,594)
Personnel administration	148,137	148,137	159,077	(10,940)
Attorney	475,118	475,118	479,316	(4,198)
Recorder	419,617	419,617	461,761	(42,144)
Planning and zoning	127,290	127,290	114,015	13,275
Buildings and plant	563,370	563,370	534,866	28,504
Veterans service officer	130,250	130,250	137,692	(7,442)
Veterans shuttle	-	-	1,443	(1,443)
Other	191,411	191,411	107,095	84,316
<b>Total general government</b>	<b>\$ 4,272,986</b>	<b>\$ 4,272,986</b>	<b>\$ 4,166,925</b>	<b>\$ 106,061</b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

**EXHIBIT 7  
(Continued)**

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 1,886,969	\$ 1,886,969	\$ 1,787,912	\$ 99,057
Regional radio board operations	1,035	1,035	-	1,035
Boat and water safety	9,152	9,152	15,259	(6,107)
Emergency services	48,051	48,051	67,108	(19,057)
Coroner	14,000	14,000	8,428	5,572
E-911 system	104,872	104,872	248,919	(144,047)
County jail	1,424,835	1,424,835	1,366,173	58,662
Probation and parole	1,575,512	1,575,512	1,533,499	42,013
Sheriff's contingency	9,000	9,000	14,823	(5,823)
Snowmobile safety	3,311	3,311	3,296	15
<b>Total public safety</b>	<b>\$ 5,076,737</b>	<b>\$ 5,076,737</b>	<b>\$ 5,045,417</b>	<b>\$ 31,320</b>
<b>Health</b>				
Nursing service	\$ 1,648,711	\$ 1,648,711	\$ 1,601,101	\$ 47,610
<b>Culture and recreation</b>				
Historical society	\$ 82,429	\$ 82,429	\$ 82,429	\$ -
Parks	143,835	143,835	134,750	9,085
County/regional library	70,412	70,412	70,412	-
Snowmobile trails	-	-	45,196	(45,196)
Other	22,579	22,579	21,972	607
<b>Total culture and recreation</b>	<b>\$ 319,255</b>	<b>\$ 319,255</b>	<b>\$ 354,759</b>	<b>\$ (35,504)</b>
<b>Conservation of natural resources</b>				
Cooperative extension	\$ 76,766	\$ 76,766	\$ 76,872	\$ (106)
Soil and water conservation	103,011	103,011	103,011	-
Agricultural society/County fair	28,500	28,500	28,500	-
Water planning	26,180	26,180	53,041	(26,861)
Wetlands	26,259	26,259	26,527	(268)
Septic loan program	288,180	288,180	180,411	107,769
<b>Total conservation of natural resources</b>	<b>\$ 548,896</b>	<b>\$ 548,896</b>	<b>\$ 468,362</b>	<b>\$ 80,534</b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT 7  
(Continued)*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Economic development</b>				
Community development	\$ 10,795	\$ 10,795	\$ 5,495	\$ 5,300
<b>Debt service</b>				
Principal	\$ 155,691	\$ 155,691	\$ 155,691	\$ -
Interest	15,128	15,128	16,099	(971)
<b>Total debt services</b>	<u>\$ 170,819</u>	<u>\$ 170,819</u>	<u>\$ 171,790</u>	<u>\$ (971)</u>
<b>Total Expenditures</b>	<u>\$ 12,048,199</u>	<u>\$ 12,048,199</u>	<u>\$ 11,813,849</u>	<u>\$ 234,350</u>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<u>\$ (200,000)</u>	<u>\$ (200,000)</u>	<u>\$ (607,234)</u>	<u>\$ (407,234)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	\$ -	\$ -	\$ (154,370)	\$ (154,370)
Proceeds from loans	200,000	200,000	9,660	(190,340)
<b>Total Other Financing Sources (Uses)</b>	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ (144,710)</u>	<u>\$ (344,710)</u>
<b>Change in Fund Balance</b>	\$ -	\$ -	\$ (751,944)	\$ (751,944)
<b>Fund Balance - January 1</b>	<u>5,198,516</u>	<u>5,198,516</u>	<u>5,198,516</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 5,198,516</u></u>	<u><u>\$ 5,198,516</u></u>	<u><u>\$ 4,446,572</u></u>	<u><u>\$ (751,944)</u></u>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT 8*

**BUDGETARY COMPARISON STATEMENT  
ROAD AND BRIDGE SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 1,678,258	\$ 1,678,258	\$ 1,684,910	\$ 6,652
Intergovernmental	8,959,797	8,959,797	9,412,863	453,066
Charges for services	-	-	19,214	19,214
Miscellaneous	28,000	28,000	35,184	7,184
<b>Total Revenues</b>	<b>\$ 10,666,055</b>	<b>\$ 10,666,055</b>	<b>\$ 11,152,171</b>	<b>\$ 486,116</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highway and streets</b>				
Administration	\$ 320,291	\$ 320,291	\$ 335,087	\$ (14,796)
Maintenance	1,999,345	1,999,345	1,909,385	89,960
Construction	7,275,531	7,275,531	6,227,672	1,047,859
Equipment maintenance and shop	822,888	822,888	716,854	106,034
Materials and services for resale	318,000	318,000	293,046	24,954
<b>Total Expenditures</b>	<b>\$ 10,736,055</b>	<b>\$ 10,736,055</b>	<b>\$ 9,482,044</b>	<b>\$ 1,254,011</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (70,000)</b>	<b>\$ (70,000)</b>	<b>\$ 1,670,127</b>	<b>\$ 1,740,127</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	22,000	22,000	52,529	30,529
<b>Change in Fund Balance</b>	<b>\$ (48,000)</b>	<b>\$ (48,000)</b>	<b>\$ 1,722,656</b>	<b>\$ 1,770,656</b>
<b>Fund Balance - January 1</b>	<b>3,304,410</b>	<b>3,304,410</b>	<b>3,304,410</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>81,873</b>	<b>81,873</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,256,410</b>	<b>\$ 3,256,410</b>	<b>\$ 5,108,939</b>	<b>\$ 1,852,529</b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT 9*

**BUDGETARY COMPARISON STATEMENT  
FAMILY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,318,146	\$ 2,318,146	\$ 2,327,487	\$ 9,341
Intergovernmental	4,690,765	4,690,765	4,646,407	(44,358)
Charges for services	986,276	986,276	1,108,166	121,890
Gifts and contributions	10,500	10,500	7,311	(3,189)
Miscellaneous	327,336	327,336	551,108	223,772
<b>Total Revenues</b>	<b>\$ 8,333,023</b>	<b>\$ 8,333,023</b>	<b>\$ 8,640,479</b>	<b>\$ 307,456</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Human services</b>				
Income maintenance	\$ 2,301,765	\$ 2,301,765	\$ 2,332,245	\$ (30,480)
Social services	5,387,357	5,387,357	5,684,518	(297,161)
Heartland express	672,901	672,901	687,249	(14,348)
<b>Total Expenditures</b>	<b>\$ 8,362,023</b>	<b>\$ 8,362,023</b>	<b>\$ 8,704,012</b>	<b>\$ (341,989)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (29,000)</b>	<b>\$ (29,000)</b>	<b>\$ (63,533)</b>	<b>\$ (34,533)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	29,000	29,000	40,330	11,330
<b>Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (23,203)</b>	<b>\$ (23,203)</b>
<b>Fund Balance - January 1</b>	<b>4,470,087</b>	<b>4,470,087</b>	<b>4,470,087</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 4,470,087</b>	<b>\$ 4,470,087</b>	<b>\$ 4,446,884</b>	<b>\$ (23,203)</b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT 10*

**BUDGETARY COMPARISON STATEMENT  
LANDFILL SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 345,000	\$ 345,000	\$ 342,114	\$ (2,886)
Licenses and permits	350	350	240	(110)
Intergovernmental	64,257	64,257	63,088	(1,169)
Charges for services	493,000	493,000	631,337	138,337
Miscellaneous	2,000	2,000	3,374	1,374
<b>Total Revenues</b>	<b>\$ 904,607</b>	<b>\$ 904,607</b>	<b>\$ 1,040,153</b>	<b>\$ 135,546</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Sanitation</b>				
Solid waste	973,268	973,268	945,498	27,770
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (68,661)</b>	<b>\$ (68,661)</b>	<b>\$ 94,655</b>	<b>\$ 163,316</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	82,000	82,000	51,174	(30,826)
<b>Change in Fund Balance</b>	<b>\$ 13,339</b>	<b>\$ 13,339</b>	<b>\$ 145,829</b>	<b>\$ 132,490</b>
<b>Fund Balance - January 1</b>	<b>5,348,744</b>	<b>5,348,744</b>	<b>5,348,744</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 5,362,083</b>	<b>\$ 5,362,083</b>	<b>\$ 5,494,573</b>	<b>\$ 132,490</b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT 11*

**STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
DECEMBER 31, 2013**

	<u>Agency Funds</u>
 <b><u>Assets</u></b>	
Cash and pooled investments	<u>\$ 935,814</u>
 <b><u>Liabilities</u></b>	
Due to other governments	<u>\$ 935,814</u>

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

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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, 2013. 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.

Changes in Accounting Principles

During 2013, the County adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statements 61 and 65. GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, modifies and clarifies the requirements for inclusion of component units and their presentation in the primary government's financial statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.7. for additional information regarding the County's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting these changes in accounting principles.

A. Financial Reporting Entity

Brown County was established February 11, 1856, 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 Brown County (primary government) and its component unit 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.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the county-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Brown County is discretely presented:

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Brown County Economic Development Partners, Inc.	The County appoints its governing board, and it is fiscally dependent on the County.	Brown County Economic Development Partners, Inc. c/o Brown County Administrator's Office 14 South State P. O. Box 248 New Ulm, Minnesota 56073-0248

Joint Ventures

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

B. Basic Financial Statements

1. County-Wide Statements

The county-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component unit. 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.

In the county-wide statement of net position, the governmental activities column: (a) is presented on a consolidated basis; and (b) is 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.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental 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 and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed in a separate column in the fund financial statements. The remaining governmental funds are grouped together and reported as nonmajor funds.

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund accounts for restricted revenues from the federal and state government, as well as assigned property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Family Services Special Revenue Fund is used to account for restricted revenue sources from the federal, state, and other oversight agencies, as well as assigned property tax revenues from the County to be used for economic assistance and community social services programs.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Landfill Special Revenue Fund is used to account for restricted revenue sources from federal and state government, as well as assigned special assessment and service revenues from the County to be used for the cost of County landfill and recycling operations.

Additionally, the County reports the following funds/fund types:

The County 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 Building and Capital Improvements Capital Projects Fund is used to account for assigned property tax revenues to be used to pay the cost of constructing and maintaining County buildings.

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

C. Measurement Focus and Basis of Accounting

The county-wide 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. Brown County considers all revenues as available if collected within 60 days after the end of the

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

current period. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2013, 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 are allocated interest as transfers from the General Fund based on the average cash balance of the fund. Pooled investment loss for 2013 was \$749,847 at the governmental fund level. The investment loss was due to the significant mark to market value adjustment that was made at year-end.

Brown 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 position value per share provided by the pool.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

1. Deposits and Investments (Continued)

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

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

Investments of the County are reported at fair value.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Receivables and Payables

Activities between funds are reported as “due to/from other funds.”

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 prior taxes receivable.

3. Inventories

The Road and Bridge Special Revenue Fund inventory is valued using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the county-wide level are reported as expenses when consumed.

Inventories, as reported in the fund financial statements, are offset by nonspendable fund balance to indicate that they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include property, plant, equipment, intangibles, and infrastructure assets (for example, roads, bridges, and similar items) are reported in the governmental activities column in the county-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 (\$100,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the County, as well as its component unit, are depreciated/amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 - 150
Land improvements	3 - 150
Infrastructure	50 - 75
Intangibles	5 - 20
Machinery, furniture, and equipment	2 - 20

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick 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 county-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.

6. Long-Term Obligations

In the county-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as an other financing source. 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.

7. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

8. Classification of Net Position

Net position in the county-wide financial statements is classified in the following categories:

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

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

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

9. Classification of Fund Balances

The County's fund balance policy established a minimum unrestricted fund balance within the range of 35 to 50 percent of fund operating revenues. In the event the unrestricted fund balance drops below the established minimum level, the County Board will develop a plan to replenish the fund balance to the established level.

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.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances (Continued)

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

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

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

Unassigned - the residual classification for the General Fund 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.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, special revenue funds, and the capital projects fund. All annual appropriations lapse at year-end.

On or before mid-August of each year, all departments 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. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the fund level.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2013:

	Expenditures	Budget	Excess
Special Revenue Funds			
Family Services	\$ 8,704,012	\$ 8,362,023	\$ 341,989
County Ditch	576,801	525,000	51,801
Capital Projects Fund			
Building and Capital Improvement	194,104	21,618	172,486

The excess of expenditures over budget was funded by unanticipated revenues and available fund balance.

C. Deficit Fund Equity

On the full accrual basis of accounting, 4 of the 90 drainage systems have incurred expenses in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund equity as the December 31, 2013, using the full accrual basis of accounting.

Account balances	\$ 948,358
Account balance deficit	(27,033)
Fund Equity - Full Accrual Basis	\$ 921,325

Using the modified accrual basis of accounting, noncurrent receivables do not affect fund balance. Noncurrent receivables are deferred inflows of resources. Using this basis of accounting, 17 ditches had fund deficits.

Account balances	\$ 778,089
Account balance deficit	(207,628)
Fund Balance - Modified Accrual Basis	\$ 570,461

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 21,211,864
Fiduciary funds	
Agency funds	
Cash and pooled investments	<u>935,814</u>
Total Cash and Investments	<u>\$ 22,147,678</u>

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 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's policy states all deposits should be fully collateralized. As of December 31, 2013, the County's deposits were not exposed to custodial credit risk.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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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 investing operating funds primarily in short-term deposits and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity required for operations. At December 31, 2013, the County had the following investments:

	Maturity Dates	
	0 - 1 Year	Over 1 Year
Deposits	\$ 8,613,551	\$ 1,000,000
Petty cash	1,040	-
MAGIC Fund	12,565	-
Federal Home Loan Bank (1)	-	11,106,137
Negotiable certificates of deposit	-	1,414,385
	<u>\$ 8,627,156</u>	<u>\$ 13,520,522</u>
Total Cash and Investments	<u>\$ 8,627,156</u>	<u>\$ 13,520,522</u>

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in the safest types of securities; pre-qualify the financial institutions, brokers/dealers, and advisors with which an entity will do business; and diversify the investment portfolio so that potential losses on individual securities are minimized. The County's U.S. government agency securities investments have been rated "AAA" by Moody's.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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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 that are in the possession of an outside party. The County's policy states the County will minimize investment custodial credit risk by permitting brokers that obtained investments to hold them only to the extent there is SIPC (Securities Investor Protection Corporation) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2013, 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. It is the County's policy that U.S. Treasury securities may be held without limit. As of December 31, 2013, investments in any one issuer that represent 5 percent or more of the County's investments are \$11,106,137 in Federal Home Loan Bank, U.S. Government Securities.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2013, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - prior	\$ 149,978	\$ -
Special assessments - prior	24,672	-
Special assessments	692,428	310,392
Accounts	1,015,858	-
Accrued interest	58,549	-
Due from other governments	1,288,995	-
Total Governmental Activities	\$ 3,230,480	\$ 310,392

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,038,712	\$ -	\$ -	\$ 1,038,712
Construction in progress	444,081	4,399,740	420,173	4,423,648
Total capital assets not depreciated	\$ 1,482,793	\$ 4,399,740	\$ 420,173	\$ 5,462,360
Capital assets depreciated				
Buildings and improvements	\$ 15,407,075	\$ -	\$ -	\$ 15,407,075
Land improvements	2,288,019	-	-	2,288,019
Machinery, furniture, and equipment	7,050,164	611,966	196,673	7,465,457
Computer software - intangible	275,429	41,779	-	317,208
Infrastructure - highway	73,209,847	2,109,695	-	75,319,542
Infrastructure - dam	2,098,857	-	-	2,098,857
Total capital assets depreciated	\$ 100,329,391	\$ 2,763,440	\$ 196,673	\$ 102,896,158

**BROWN COUNTY  
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 3,045,338	\$ 211,764	\$ -	\$ 3,257,102
Land improvements	1,789,479	15,609	-	1,805,088
Machinery, furniture, and equipment	4,421,305	517,153	187,652	4,750,806
Computer software - intangible	31,552	20,102	-	51,654
Infrastructure - highway	20,397,905	1,469,227	-	21,867,132
Infrastructure - dam	<u>283,722</u>	<u>14,166</u>	<u>-</u>	<u>297,888</u>
Total accumulated depreciation	<u>\$ 29,969,301</u>	<u>\$ 2,248,021</u>	<u>\$ 187,652</u>	<u>\$ 32,029,670</u>
Total capital assets depreciated, net	<u>\$ 70,360,090</u>	<u>\$ 515,419</u>	<u>\$ 9,021</u>	<u>\$ 70,866,488</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 71,842,883</u>	<u>\$ 4,915,159</u>	<u>\$ 429,194</u>	<u>\$ 76,328,848</u>

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

Governmental Activities	
General government	\$ 184,049
Public safety	214,802
Highways and streets, including depreciation of infrastructure assets	1,740,999
Sanitation	11,935
Human services	61,210
Health	4,366
Culture and recreation, including depreciation of infrastructure assets	25,311
Conservation of natural resources	<u>5,349</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,248,021</u>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2013, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Family Services	\$ 156	Records
Road and Bridge	General	\$ 4,248	Fuel
	Family Services	5,978	Fuel and service work
Total due to Road and Bridge Fund		<u>\$ 10,226</u>	
Family Services	General	\$ 992	Family Service fees
Total Due To/From Other Funds		<u>\$ 11,374</u>	

The interfund receivables and payables are expected to be paid within one year of December 31, 2013.

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of transfers from the General Fund to allocate investment earnings:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose</u>
General	Road and Bridge	\$ 52,529	Allocated interest
	Family Services	40,330	Allocated interest
	Landfill	51,174	Allocated interest
	Other governmental funds	10,337	Allocated interest
Total Transfers In/Out		<u>\$ 154,370</u>	

**BROWN COUNTY  
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Construction and Other Contract Commitments

The County has active construction projects and other contract commitments as of December 31, 2013. The projects and commitments include the following:

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Road and Bridge Special Revenue Fund Surface rehabilitation	\$ 4,273,438	\$ 79,423

2. Long-Term Debt

Loans Payable

The County entered into loan agreements with the Minnesota Pollution Control Agency for funding Clean Water Partnership (CWP) Projects and a loan agreement with the Minnesota Department of Agriculture for financing the repair of failing septic systems. The loans are secured by special assessments placed on the individual parcels. Loan payments are reported in the General Fund.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2013</u>
1998 Groundwater Protection CWP Project	2014	\$ 12,067	-	\$ 362,000	\$ 12,066
2001 Little Cottonwood River Restoration CWP Project	2014	5,569	2.00	100,495	5,514
2001 Watonwan Watershed CWP Project	2014	3,543	2.00	63,932	3,508

**BROWN COUNTY  
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
2001 Septic System Replacement Project	2021	2,665	-	53,300	42,640
2003 Cottonwood River Restoration CWP Project	2017	16,973	2.00	306,293	114,200
2004 Watonwan Watershed Continuation CWP Project	2016	1,448	2.00	26,145	8,396
2004 Little Cottonwood River Restoration Continuation CWP Project	2018	7,238	2.00	130,622	62,005
2007 Middle Minnesota Watershed CWP Project	2020	18,121	2.00	327,008	235,643
2007 Cottonwood River Watershed Pollution Reduction Project	2020	6,413	2.00	115,735	83,399
2009 Cottonwood River Watershed Phosphorus TMDL Continuation CWP Project	2022	9,147	2.00	165,066	149,998
Total Loans Payable					<u>\$ 717,369</u>

Debt Service Requirements

Year Ending December 31	Loans Payable	
	Principal	Interest
2014	\$ 132,558	\$ 12,635
2015	113,604	10,411
2016	115,780	8,235
2017	98,114	6,030
2018	75,598	4,334
2019 - 2022	<u>181,715</u>	<u>5,592</u>
Total	<u>\$ 717,369</u>	<u>\$ 47,237</u>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Landfill closure/postclosure liability	\$ 1,656,338	\$ 110,515	\$ -	\$ 1,766,853	\$ -
Loans payable	863,400	9,660	155,691	717,369	132,558
Net OPEB liability	340,010	120,887	45,775	415,122	-
Compensated absences	1,419,775	21,959	-	1,441,734	74,603
Long-Term Liabilities	<u>\$ 4,279,523</u>	<u>\$ 263,021</u>	<u>\$ 201,466</u>	<u>\$ 4,341,078</u>	<u>\$ 207,161</u>

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,766,853 landfill closure and postclosure care liability at December 31, 2013, represents the cumulative amount reported to date based on the use of 80 percent of the permitted capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$431,116 as the remaining permitted capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2013. The County expects the landfill to continue operation beyond 2027 through approved permitting processes. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2013, investments of \$2,546,805 are restricted for these purposes. Accumulated annual contributions and any payments of landfill postclosure care costs are reported in the Landfill Special Revenue Fund. Brown County expects that future inflation costs will be

**BROWN COUNTY  
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Landfill Closure and Postclosure Care Costs (Continued)

paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

D. Fund Balances

Fund balances at year-end December 31, 2013, were as follows:

	General	Road and Bridge	Family Services	Landfill	Nonmajor County Ditch	Nonmajor Building and Capital Improvements	Total Governmental Funds
Fund Balances							
Nonspendable							
Inventories	\$ -	\$ 314,013	\$ -	\$ -	\$ -	\$ -	\$ 314,013
Restricted							
Law library	\$ 18,356	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,356
Recorder's equipment purchases	173,656	-	-	-	-	-	173,656
Enhanced 911	220,246	-	-	-	-	-	220,246
Landfill closure/postclosure	-	-	-	2,546,805	-	-	2,546,805
Sheriff's contingency	5,974	-	-	-	-	-	5,974
Septic/sewer loans	835,883	-	-	-	-	-	835,883
Conservation of natural resources	-	-	-	-	778,089	-	778,089
Donations	-	-	997	-	-	-	997
Highway construction	-	1,120,893	-	-	-	-	1,120,893
Total restricted	\$ 1,254,115	\$ 1,120,893	\$ 997	\$ 2,546,805	\$ 778,089	\$ -	\$ 5,700,899
Assigned							
Recycling	\$ -	\$ -	\$ -	\$ 108,210	\$ -	\$ -	\$ 108,210
Road and bridge	-	3,674,033	-	-	-	-	3,674,033
Human services	-	-	4,445,887	-	-	-	4,445,887
Capital improvements	-	-	-	-	-	584,376	584,376
Landfill	-	-	-	2,839,558	-	-	2,839,558
County funded loan	200,823	-	-	-	-	-	200,823
Parks	156,594	-	-	-	-	-	156,594
Boat and water safety	29,338	-	-	-	-	-	29,338
Total assigned	\$ 386,755	\$ 3,674,033	\$ 4,445,887	\$ 2,947,768	\$ -	\$ 584,376	\$ 12,038,819
Unassigned	\$ 2,805,702	\$ -	\$ -	\$ -	\$ (207,628)	\$ -	\$ 2,598,074
Total Fund Balances	\$ 4,446,572	\$ 5,108,939	\$ 4,446,884	\$ 5,494,573	\$ 570,461	\$ 584,376	\$ 20,651,805

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits (OPEB)

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Brown 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).

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 highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent 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 General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

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 2013:

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, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2013	2012	2011
General Employees Retirement Fund	\$ 672,314	\$ 654,771	\$ 643,204
Public Employees Police and Fire Fund	92,548	91,172	90,893
Public Employees Correctional Fund	66,402	68,957	67,198

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

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

Two employees of Brown 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 ended December 31, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,504	\$ 2,504
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

Brown County provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical insurance benefits. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Brown County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retired population, the retirees are receiving an implicit rate subsidy. As of January 1, 2012, there were approximately three retirees receiving health benefits from the County's health care plan. The implicit rate subsidy amount was determined by an actuarial study to be \$45,775 for 2013. A separate, audited GAAP-basis postemployment plan report is not issued.

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 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.

ARC	\$	127,858
Interest on net OPEB obligation		11,900
Adjustment to ARC		(18,871)
		_____
Annual OPEB cost (expense)	\$	120,887
Contributions made		(45,775)
		_____
Increase in net OPEB obligation	\$	75,112
Net OPEB Obligation - Beginning of Year		340,010
		_____
Net OPEB Obligation - End of Year	\$	415,122

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2011, 2012, and 2013, 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, 2011	\$ 97,498	\$ 39,515	40.5%	\$ 247,385
December 31, 2012	122,874	30,249	24.6	340,010
December 31, 2013	120,887	45,775	37.9	415,122

Funded Status and Funding Progress

As of January 1, 2012, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial liability for benefits was \$935,491, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$935,491. The covered payroll (annual payroll of active employees covered by the plan) was \$9,546,132, and the ratio of the UAAL to the covered payroll was 9.8 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 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.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

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, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Brown County's implicit rate of return on the General Fund. The annual health care cost trend is 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 6 years. These rates include an inflation assumption of 2.5 percent. The UAAL is being amortized over 30 years as a level dollar on a closed basis. The remaining amortization period at December 31, 2013, was 24 years.

5. Conduit Debt

Martin Luther College Construction Project

In 2004, the County issued variable rate demand purchase revenue bonds in the amount of \$7,500,000 to finance the acquisition and construction of higher education facilities at Martin Luther College in New Ulm, Minnesota, as authorized by the Municipal Industrial Development Act, Minn. Stat. §§ 469.152 - 469.165. The bonds are secured by an irrevocable direct-pay letter of credit provided by Wells Fargo Bank, NA.

The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2013, is \$4,985,000.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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5. Conduit Debt (Continued)

Oak Hills Living Center Project

On December 31, 2008, the County issued a variable rate Health Care Facilities Revenue Note, Series 2008, in the amount of \$6,000,000 to finance the cost of improvements to the Oak Hills Living Center in New Ulm, Minnesota. This note is secured by the fixtures, the equipment, and the revenues and income of Oak Hills Living Center.

The County is not obligated in any manner for repayment of the note. Accordingly, the note will not be reported as a liability in the financial statements. The outstanding balance at December 31, 2013, is \$5,659,388.

6. Summary of Significant Contingencies and Other Items

A. 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. 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 \$470,000 per claim in 2013 and \$480,000 per claim in 2014. 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.

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

B. 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.

C. Joint Ventures

Brown-Nicollet Community Health Services Board

The Brown-Nicollet Community Health Services Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement, effective July 1, 1975. The Health Services Board consists of ten members, five each from Brown and Nicollet Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services. The joint venture is financed primarily from state and federal grants. For the year ended December 31, 2012 (the most current information available), the Health Services Board had net assets of \$716,268. Complete financial information can be obtained from the Brown-Nicollet Community Health Services Board, 322 South Minnesota, St. Peter, Minnesota 56082.

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Redwood, and Watonwan Counties have agreed to guarantee their shares of debt arising within each respective county. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding governmental activities indebtedness at December 31, 2012 (the most current information available), amounted to \$13,186,000, and

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

business-type indebtedness was \$160,939. The Water System's net assets decreased by \$433,643 in 2012. Complete financial information can be obtained from the Red Rock Rural Water System, Jeffers, Minnesota 56145.

Families First Collaborative

The Families First Collaborative was established in 1997 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown County Family Service, Public Health, and Probation agencies; New Ulm, Sleepy Eye, and Springfield School Districts; River Bend Education District; and Minnesota Valley Action Council. The mission of the Families First Collaborative is to provide leadership for the improvement of outcomes for children in Brown County through early intervention and prevention services. The Collaborative provides improved coordination for children and families through information sharing, elimination of duplicate services, and cooperative efforts. The Collaborative funds selected projects and services that support intervention and the prevention of out-of-home placement of children at risk.

The Collaborative is funded by Local Collaborative Time Study (LCTS) funds, fees, contributions, and DHS Medical Assistance Targeted Case Management funds. Control of the Collaborative is vested in a Board of Directors consisting of ten members. Brown County Family Services acts as a fiscal agent for the Collaborative. During 2013, Brown County provided \$300 in funding to the Collaborative Integrated Fund (\$100 - Family Services, \$100 - Public Health, and \$100 - Probation).

Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, the Families First Collaborative Board of Directors shall distribute all property, real and personal, at the time of termination.

As the administrative county, Brown County Family Services may be liable to the state or federal government for the disallowance, sanction, or audit exception attributable to the Families First Collaborative, including but not limited to, federal fiscal disallowances or sanctions based upon the Collaborative's implementation of the LCTS or any of the other state and federal funding sources and their related requirements.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Families First Collaborative (Continued)

In the event of any such audit disallowance or sanction, the following participating partners, Brown County Family Services, Public Health, and Probation agencies; New Ulm, Sleepy Eye, and Springfield School Districts; and the River Bend Education District, share the liability. Financial information can be obtained by contacting the Brown County Family Services Department.

Three Counties for Kids Collaborative

The Three Counties for Kids Collaborative was established in 1996 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown, Sibley, and Watonwan Counties; River Bend Education District; and Sioux Trails Mental Health Center. The purpose of the Collaborative is to join local units of government together to ensure a unified, unduplicated, and family-friendly system of intervention and care of families and children. The Collaborative provides improved coordination for children and families through information sharing, elimination of duplicate services, and cooperative efforts. The Collaborative funds selected projects and services that support intervention and the prevention of out-of-home placement of children at risk.

The Collaborative is financed by LCTS funds and program reimbursements. Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Family Services acts as a fiscal agent for the Collaborative. During 2013, Brown County did not provide funding to the Collaborative.

Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, the Three Counties for Kids Collaborative Board of Directors shall distribute all property, real and personal, at the time of the termination.

As the administrative county, Brown County Family Services may be liable to the state or federal government for any disallowance, sanction, or audit exception attributable to the Three Counties for Kids Collaborative, including but not limited to, federal fiscal disallowances or sanctions based upon the Collaborative's implementation of the LCTS or any of the other state and federal funding sources and their related requirements.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Three Counties for Kids Collaborative (Continued)

In the event of any such audit disallowance or sanction, the following participating partners, Brown, Sibley, and Watonwan Counties and the River Bend Education District, share the liability. Financial information can be obtained by contacting the Brown County Family Services Department.

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. In 2007, Cass, Crow Wing, Morrison, Todd, and Wadena Counties became members. The agreement is in accordance with Minn. Stat. § 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the participating counties' health care functions, referred to as county-based purchasing. In 2011, Cass, Crow Wing, and Freeborn counties elected to opt out of the SCHA, consistent with the terms of the Joint Powers Agreement.

The purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization.

The County's equity interest in the SCHA at December 31, 2013, was \$2,355,114. The County's share of the SCHA's net income was \$587,479. The equity interest is reported as an investment in joint venture on the government-wide statement of net position. Changes in equity are included in the government-wide statement of activities as Human Services fees, charges, fines, and other revenue.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

South Country Health Alliance (Continued)

Complete financial statements can be obtained from the South Country Health Alliance at 110 West Fremont Street, Owatonna, Minnesota 55060, or from its fiscal agent at 2300 Park Drive, Suite 100, Owatonna, Minnesota 55060.

South Central Minnesota Regional Radio Board

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

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

Blue Earth County acts as the fiscal agent for the Radio Board. During 2013, the County did not make payments to the Joint Powers Board. The Chair of the Board is Kip Bruender, and the address is: P. O. Box 8608, Mankato, Minnesota 56002-8608.

Brown-Lyon-Redwood Drug Task Force

The Brown-Lyon-Redwood Drug Task Force was established between Brown, Lyon, and Redwood Counties and the Cities of New Ulm, Redwood Falls, and Marshall pursuant to Minn. Stat. § 471.59. The Task Force was established to create a cooperative law enforcement effort that provides drug enforcement services for member organizations.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Brown-Lyon-Redwood Drug Task Force (Continued)

The Task Force is governed by an Advisory Board consisting of one appointed member from each party. Fiscal agent responsibilities for the Task Force are with the City of New Ulm. During the year, the County paid \$50,000 to the Task Force.

South Central Workforce Service Area Joint Powers Board

In June 2012, the County entered into a joint powers agreement with Blue Earth, Brown, Faribault, LeSueur, Martin, Nicollet, Waseca, Sibley, and Watonwan Counties, creating the South Central Workforce Services Area Joint Powers Board. The agreement is authorized by Minn Stat. §§ 471.59. The Board is comprised of one voting member and one alternate member for each participating County. The goal of the Board is to develop and maintain a quality workforce for South Central Minnesota. During the year, Brown County did not make any payments to this organization.

Separate financial information can be obtained from:

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

Rural Minnesota Energy Board

The Rural Minnesota Energy Board (RMEB) was established in 2005 under the authority of Minn. Stat. § 471.59. The Board includes Blue Earth, Brown, Cottonwood, Faribault, Freeborn, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nobles, Pipestone, Redwood, Renville, Rock, Watonwan, and Yellow Medicine Counties. The purpose of the Board is to provide guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Rural Minnesota Energy Board (Continued)

The governing body is comprised of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated, after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During the year, the Brown County contributed \$2,000 to the Board.

Complete financial information can be obtained from the Rural Minnesota Energy Board, Slayton, Minnesota 56172.

D. Jointly-Governed Organizations

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

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$12,971 to the Project.

The Redwood-Cottonwood Rivers Control Area (RCRCA), in cooperation with partner groups and landowners, works to improve water quality, reduce erosion, and enhance recreational opportunities by providing education, outreach, monitoring, and technical assistance within the watershed boundaries. During the year, the County paid \$8,040 to the RCRCA.

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

The South Central Regional IMMTRACK (Immunization Registry) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County paid \$4,384 to the Joint Powers Board.

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

D. Jointly-Governed Organizations (Continued)

The South Central Community Based Initiative was established to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state operated services programs and community-based treatment.

The Intelligent Transit System (ITS) Transit Consortium was established to implement and maintain the ITS among its members, which include the counties of Meeker, Pipestone, Sherburne, Wright, Brown, and Martin.

The Fifth District Court and Brown County Probation Department agreement established a Juvenile Drug Court program that is designed to intervene in the chemically dependent lifestyles of juvenile drug offenders and to improve public safety.

The Minnesota Criminal Justice Data Communications Network, which comprises the Minnesota Department of Public Safety (DPS), the Bureau of Criminal Apprehension (BCA), together with the Brown County Sheriff, Brown County Attorney, and Brown County Probation and provides the County with access to the State's criminal justice data communications network (CJDN), as well as other law enforcement tools for which the County is eligible.

The State of Minnesota Parks and Trails and Brown County Sentence-to-Serve (STS) joint powers agreement states that Brown County STS will provide all labor necessary to split wood at Fort Ridgely State Park.

The Trail Systems Coordination joint powers consist of the Cities of New Ulm, Sleepy Eye, Springfield, Comfrey, Hanska, and Brown County. These parties have joined together to coordinate, consider, review, study, and analyze trails and their use in and around Brown County.

The Greater Blue Earth River Basin Alliance (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The Board consists of County Commissioners and members of the Soil and Water Conservation Districts. During the year, the County did not make any payments to the Alliance.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

The Region Five - Southwest Minnesota Security Emergency Management Organization (SWRHSEM) was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the SWRHSEM region. Control is vested in the Board, which comprises representatives appointed by each Board of County Commissioners. Brown County's responsibility does not extend beyond making this appointment.

The Minnesota Counties Computer Cooperative (MCCC). Under Minnesota Joint Powers Law, Minn. Stat. § 471.59, Minnesota counties have created MCCC to jointly provide for the establishment, operation, and maintenance of data processing systems, facilities, and management information systems. During the year, Brown County expended \$138,932 to the MCCC.

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 nonpoint source water pollution. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2013.

7. Brown County Economic Development Partners, Inc., Component Unit Disclosures

A. Summary of Significant Accounting Policies

The Brown County Economic Development Partners, Inc., (EDP) was organized on October 3, 1990, under Minn. Stat. ch. 317A, as a nonprofit corporation. The purpose is to promote the development and expansion of existing businesses within Brown County and to assist in the development of new businesses in Brown County, which will increase opportunities for employment. The Board of Directors consists of nine directors: one appointed from each of the County Commissioner Districts, two appointed at-large, and two appointed from the Brown County Board of Commissioners. Brown County Economic Development Partners, Inc., is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

**BROWN COUNTY  
NEW ULM, MINNESOTA**

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7. Brown County Economic Development Partners (EDP), Inc., Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The EDP's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Codification Section 958, *Not-for-Profit Entities*. Under Section 958, the EDP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue

The EDP receives substantially all of its revenue from interest on loan payments, grants, and appropriations from Brown County.

Cash and Cash Equivalents

The EDP considers all highly liquid investments with a maturity of nine months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Loans Receivable

Loans receivable, totaling \$273,202 as of December 31, 2013, consist of twelve loans made for economic development.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT A-1*

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS  
DECEMBER 31, 2013**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
January 1, 2008	\$ -	\$ 826,382	\$ 826,382	0.0%	\$ 8,958,836	9.2%
January 1, 2010	-	746,411	746,411	0.0	9,357,001	8.0
January 1, 2012	-	935,491	935,491	0.0	9,546,132	9.8

See Note 4.C., Other Postemployment Benefits, for more information.

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**SUPPLEMENTARY INFORMATION**

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**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS  
AND SCHEDULES**

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

NONMAJOR GOVERNMENTAL FUND

SPECIAL REVENUE FUND

County Ditch - to account for the financing of maintenance and repairs to ditch systems. Financing is provided by assessing benefited property owners.

CAPITAL PROJECTS FUND

Building and Capital Improvements - to account for funds used for capital outlay and maintenance. Financing is provided by a tax levy.

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT B-1*

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2013**

	<u>Special Revenue</u> <u>County</u> <u>Ditch</u>	<u>Capital Projects</u> <u>Building and</u> <u>Capital</u> <u>Improvements</u>	<u>Total Nonmajor</u> <u>Governmental</u> <u>Funds</u>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 643,692	\$ 580,401	\$ 1,224,093
Taxes receivable			
Prior	-	698	698
Special assessments receivable			
Prior	431	-	431
Current	247,968	-	247,968
Noncurrent	34,972	-	34,972
Due from other governments	<u>25,722</u>	<u>4,044</u>	<u>29,766</u>
<b>Total Assets</b>	<b><u>\$ 952,785</u></b>	<b><u>\$ 585,143</u></b>	<b><u>\$ 1,537,928</u></b>
 <b><u>Liabilities, Deferred Inflows of Resources,</u></b> <b><u>and Fund Balances</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 50,181	\$ -	\$ 50,181
Due to other governments	23,242	-	23,242
Unearned revenue	<u>-</u>	<u>145</u>	<u>145</u>
<b>Total Liabilities</b>	<b><u>\$ 73,423</u></b>	<b><u>\$ 145</u></b>	<b><u>\$ 73,568</u></b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	<u>\$ 308,901</u>	<u>\$ 622</u>	<u>\$ 309,523</u>
<b>Fund Balances</b>			
Restricted	\$ 778,089	\$ -	\$ 778,089
Assigned	-	584,376	584,376
Unassigned	<u>(207,628)</u>	<u>-</u>	<u>(207,628)</u>
<b>Total Fund Balances</b>	<b><u>\$ 570,461</u></b>	<b><u>\$ 584,376</u></b>	<b><u>\$ 1,154,837</u></b>
<b>Total Liabilities, Deferred Inflows of Resources,</b>			
<b>and Fund Balances</b>	<b><u>\$ 952,785</u></b>	<b><u>\$ 585,143</u></b>	<b><u>\$ 1,537,928</u></b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT B-2*

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor</u>
	<u>County</u>	<u>Building and</u>	<u>Governmental</u>
	<u>Ditch</u>	<u>Capital</u>	<u>Funds</u>
		<u>Improvements</u>	
<b>Revenues</b>			
Taxes	\$ -	\$ 7,543	\$ 7,543
Special assessments	747,436	-	747,436
Intergovernmental	-	17,063	17,063
Miscellaneous	-	8,323	8,323
	<b>\$ 747,436</b>	<b>\$ 32,929</b>	<b>\$ 780,365</b>
<b>Expenditures</b>			
<b>Current</b>			
General government	\$ -	\$ 27,663	\$ 27,663
Public safety	-	166,441	166,441
Conservation of natural resources	576,801	-	576,801
	<b>\$ 576,801</b>	<b>\$ 194,104</b>	<b>\$ 770,905</b>
<b>Excess of Revenues Over (Under)</b>			
<b>Expenditures</b>	<b>\$ 170,635</b>	<b>\$ (161,175)</b>	<b>\$ 9,460</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	4,126	6,211	10,337
	<b>\$ 174,761</b>	<b>\$ (154,964)</b>	<b>\$ 19,797</b>
<b>Change in Fund Balance</b>			
<b>Fund Balance - January 1</b>	<b>395,700</b>	<b>739,340</b>	<b>1,135,040</b>
<b>Fund Balance - December 31</b>	<b>\$ 570,461</b>	<b>\$ 584,376</b>	<b>\$ 1,154,837</b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT B-3*

**BUDGETARY COMPARISON SCHEDULE  
COUNTY DITCH SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 519,500	\$ 519,500	\$ 747,436	\$ 227,936
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	<u>525,000</u>	<u>525,000</u>	<u>576,801</u>	<u>(51,801)</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	\$ <b>(5,500)</b>	\$ <b>(5,500)</b>	\$ <b>170,635</b>	\$ <b>176,135</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	<u>5,500</u>	<u>5,500</u>	<u>4,126</u>	<u>(1,374)</u>
<b>Change in Fund Balance</b>	\$ -	\$ -	\$ <b>174,761</b>	\$ <b>174,761</b>
<b>Fund Balance - January 1</b>	<u>395,700</u>	<u>395,700</u>	<u>395,700</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u><u>\$ 395,700</u></u>	<u><u>\$ 395,700</u></u>	<u><u>\$ 570,461</u></u>	<u><u>\$ 174,761</u></u>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT B-4*

**BUDGETARY COMPARISON SCHEDULE  
BUILDING AND CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 6,825	\$ 6,825	\$ 7,543	\$ 718
Intergovernmental	12,075	12,075	17,063	4,988
Miscellaneous	8,323	8,323	8,323	-
<b>Total Revenues</b>	<b>\$ 27,223</b>	<b>\$ 27,223</b>	<b>\$ 32,929</b>	<b>\$ 5,706</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Buildings and plant	\$ 10,000	\$ 10,000	\$ 11,594	\$ (1,594)
Veterans service officer	11,618	11,618	16,069	(4,451)
<b>Total general government</b>	<b>\$ 21,618</b>	<b>\$ 21,618</b>	<b>\$ 27,663</b>	<b>\$ (6,045)</b>
<b>Public safety</b>				
Sheriff	-	-	166,441	(166,441)
<b>Total Expenditures</b>	<b>\$ 21,618</b>	<b>\$ 21,618</b>	<b>\$ 194,104</b>	<b>\$ (172,486)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 5,605</b>	<b>\$ 5,605</b>	<b>\$ (161,175)</b>	<b>\$ (166,780)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	3,750	3,750	6,211	2,461
<b>Change in Fund Balance</b>	<b>\$ 9,355</b>	<b>\$ 9,355</b>	<b>\$ (154,964)</b>	<b>\$ (164,319)</b>
<b>Fund Balance - January 1</b>	<b>739,340</b>	<b>739,340</b>	<b>739,340</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 748,695</b>	<b>\$ 748,695</b>	<b>\$ 584,376</b>	<b>\$ (164,319)</b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

**AGENCY FUNDS**

Assurance - to account for the collection and payment of assurance funds to the state.

Mortgage Registry Tax - to account for the collection and distribution of mortgage registry tax to the County and other governments.

Prepaid Tax - to account for taxes paid in advance.

Region Nine - to account for the collection and distribution of funds to the Region Nine Regional Development Commission.

School Districts - to account for the school districts' share of taxes collected by the County.

Social Welfare - to account for the collection and distribution of social welfare accounts.

State Deed Tax - to account for the collection and distribution of deed tax to the County and other governments.

Three Counties for Kids Collaborative - to account for the funds of a multi-county/school district children's mental health collaborative.

Families First Family Services Collaborative - to account for the funds of the County/multi-school district family services collaborative.

Taxes and Penalties - to account for the collection and payment of taxes and penalties collected to the various taxing districts.

Towns and Cities - to account for the collection and payment of taxes due to towns and cities.

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT C-1*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>ASSURANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 4,975	\$ 7,862	\$ 278	\$ 12,559
<b><u>Liabilities</u></b>				
Due to other governments	\$ 4,975	\$ 7,862	\$ 278	\$ 12,559
 <b><u>MORTGAGE REGISTRY TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 64,244	\$ 322,455	\$ 333,211	\$ 53,488
<b><u>Liabilities</u></b>				
Due to other governments	\$ 64,244	\$ 322,455	\$ 333,211	\$ 53,488
 <b><u>PREPAID TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 26,011	\$ 153,996	\$ 145,023	\$ 34,984
<b><u>Liabilities</u></b>				
Due to other governments	\$ 26,011	\$ 153,996	\$ 145,023	\$ 34,984

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>REGION NINE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 477	\$ 48,045	\$ 48,292	\$ 230
<b><u>Liabilities</u></b>				
Due to other governments	\$ 477	\$ 48,045	\$ 48,292	\$ 230
 <b><u>SCHOOL DISTRICTS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 50,120	\$ 9,504,821	\$ 9,526,192	\$ 28,749
<b><u>Liabilities</u></b>				
Due to other governments	\$ 50,120	\$ 9,504,821	\$ 9,526,192	\$ 28,749
 <b><u>SOCIAL WELFARE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 145,340	\$ 823,570	\$ 852,903	\$ 116,007
<b><u>Liabilities</u></b>				
Due to other governments	\$ 145,340	\$ 823,570	\$ 852,903	\$ 116,007

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>STATE DEED TAX</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 94,655	\$ 329,029	\$ 387,089	\$ 36,595
<b><u>Liabilities</u></b>				
Due to other governments	\$ 94,655	\$ 329,029	\$ 387,089	\$ 36,595
 <b><u>THREE COUNTIES FOR KIDS COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 297,029	\$ 77,082	\$ 89,949	\$ 284,162
<b><u>Liabilities</u></b>				
Due to other governments	\$ 297,029	\$ 77,082	\$ 89,949	\$ 284,162
 <b><u>FAMILIES FIRST FAMILY SERVICES COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 55,676	\$ 96,894	\$ 92,950	\$ 59,620
<b><u>Liabilities</u></b>				
Due to other governments	\$ 55,676	\$ 96,894	\$ 92,950	\$ 59,620

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT C-1  
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL AGENCY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>TAXES AND PENALTIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 70,294	\$ 33,317,987	\$ 33,122,617	\$ 265,664
<b><u>Liabilities</u></b>				
Due to other governments	\$ 70,294	\$ 33,317,987	\$ 33,122,617	\$ 265,664
 <b><u>TOWNS AND CITIES</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 134,771	\$ 13,730,081	\$ 13,821,096	\$ 43,756
<b><u>Liabilities</u></b>				
Due to other governments	\$ 134,771	\$ 13,730,081	\$ 13,821,096	\$ 43,756
 <b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 943,592	\$ 58,411,822	\$ 58,419,600	\$ 935,814
<b><u>Liabilities</u></b>				
Due to other governments	\$ 943,592	\$ 58,411,822	\$ 58,419,600	\$ 935,814

## **SCHEDULES**

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT D-1*

**SCHEDULE OF DEPOSITS AND INVESTMENTS  
DECEMBER 31, 2013**

	<b>Interest Rate</b>	<b>Amount</b>
<b>Deposits and Investments</b>		
Checking accounts	0.50%	\$ 7,926,835
Savings accounts	Varies	686,716
Certificates of deposit	Varies	1,000,000
Petty cash	None	1,040
MAGIC Fund	Varies	12,565
Government securities	Varies	11,106,137
Negotiable certificates of deposit	Varies	1,414,385
		<hr/>
<b>Total Deposits and Investments</b>		<b>\$ 22,147,678</b>

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT D-2*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Shared revenue**

**State**

Highway users tax	\$	9,005,909
County program aid		870,148
PERA rate reimbursement		39,317
Disparity reduction aid		27,011
Police aid		72,384
Enhanced 911		92,180
Market value credit		203,273

**Total shared revenue** **\$ 10,310,222**

**Reimbursement for services**

**State**

Minnesota Department of Human Services	\$	<u>834,637</u>
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**Payments**

**Local**

Local contributions	\$	386,965
Payments in lieu of taxes		<u>23,090</u>

**Total payments** **\$ 410,055**

**Grants**

**State**

Minnesota Department/Board of		
Corrections	\$	333,752
Agriculture		479
Public Safety		4,567
Transportation		419,949
Health		137,216
Natural Resources		67,755
Trial Courts		78,061
Historical Society		10,735
Human Services		1,471,250
Veterans Affairs		10,000
Water and Soil Resources		76,444
Pollution Control Agency		<u>74,676</u>

**Total state** **\$ 2,684,884**

**BROWN COUNTY  
NEW ULM, MINNESOTA**

**EXHIBIT D-2  
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 212,443
Justice	99,000
Transportation	206,222
Veterans Affairs	16,388
Health and Human Services	1,598,400
Homeland Security	39,164

**Total federal** \$ 2,171,617

**Total state and federal grants** \$ 4,856,501

**Total Intergovernmental Revenue** \$ 16,411,415

**BROWN COUNTY  
NEW ULM, MINNESOTA**

*EXHIBIT D-3*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Brown-Nicollet Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 103,001
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	<u>109,442</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 212,443</u></b>
<b>U.S. Department of Justice</b>		
Direct Juvenile Mentoring Program	16.726	<b><u>\$ 99,000</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 4,890
Formula Grants for Rural Areas	20.509	<u>201,332</u>
<b>Total U.S. Department of Transportation</b>		<b><u>\$ 206,222</u></b>
<b>U.S. Department of Veterans Affairs</b>		
Direct Burial Expenses Allowance for Veterans	64.101	<b><u>\$ 16,388</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Brown-Nicollet Community Health Services Public Health Emergency Preparedness	93.069	\$ 21,743
Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 \$182,924)	93.558	38,572
Medical Assistance Program (Total Medical Assistance Program 93.778 \$580,198)	93.778	28,329
Maternal and Child Health Services Block Grant to the States	93.994	48,740

**BROWN COUNTY  
NEW ULM, MINNESOTA**

**EXHIBIT D-3  
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	72,852
Temporary Assistance for Needy Families (TANF) (Total TANF 93.558 \$182,924)	93.558	144,352
Child Support Enforcement	93.563	414,979
Refugee and Entrant Assistance - State-Administered Programs	93.566	381
Child Care and Development Block Grant	93.575	15,371
Community-Based Child Abuse Prevention Grants	93.590	12,500
Stephanie Tubbs Jones Child Welfare Services Program	93.645	7,003
Foster Care - Title IV-E	93.658	37,375
Social Services Block Grant	93.667	166,757
Chafee Foster Care Independence Program	93.674	2,667
Children's Health Insurance Program	93.767	72
Medical Assistance Program (Total Medical Assistance Program 93.778 \$580,198)	93.778	551,869
 Passed Through Minnesota Department of Commerce		
Low-Income Home Energy Assistance	93.568	80,450
 <b>Total U.S. Department of Health and Human Services</b>		<b>\$ 1,644,012</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 4,369
 Passed Through Minnesota Department of Public Safety		
Hazard Mitigation Grant	97.039	13,580
Emergency Management Performance Grants	97.042	21,215
 <b>Total U.S. Department of Homeland Security</b>		<b>\$ 39,164</b>
 <b>Total Federal Awards</b>		<b>\$ 2,217,229</b>

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Brown County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Brown County under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Brown County, it is not intended to and does not present the financial position or changes in net position of Brown County.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,171,617
Grants received more than 60 days after year-end, deferred in 2013 Medical Assistance Program	<u>45,612</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,217,229</u>

5. Subrecipients

During 2013, the County did not pass any federal money to subrecipients.

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**BROWN COUNTY  
NEW ULM, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major program is:

Medical Assistance Program

CFDA #93.778

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

Brown County qualified as a low-risk auditee? **Yes**

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

### INTERNAL CONTROL

#### ITEM ARISING THIS YEAR

Finding 2013-001

#### Audit Adjustments

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

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

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

**Effect:** The following audit adjustments were necessary to be recorded for December 31, 2013:

- An adjustment of \$4,372,068 was made to the Statement of Net Position to record capital asset additions to construction in progress for the highway construction expenditures on project SAP 08-616-004.
- An adjustment of \$979,478 was made in the General Fund to record the decrease in the fair market value of the County's cash and pooled investments at December 31, 2013.

**Cause:** The adjustment to construction in progress was due to conservative valuation at the time the Road and Bridge Special Revenue Fund working trial balance was prepared. The adjustment required for the fair market value of the County's cash and pooled investments was the result of a calculation made each year; this being the first time the calculation resulted in an amount which exceeded the materiality threshold.

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

Client's Response:

*Brown County will review its internal controls and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 1996-006

County Ditch Special Revenue Fund - Fund Deficits

**Criteria:** Assets should exceed liabilities in order for the County to meet its obligations and maintain a positive balance. Under Minn. Stat. § 103E.655, drainage project costs must be paid from the drainage system account. Through the levying of assessments, Minn. Stat. § 103E.735, subd. 1, permits the accumulation of a surplus balance for the repair costs of a ditch system not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is greater.

**Condition:** As of December 31, 2013, the County had individual ditch systems where liabilities exceeded assets, resulting in individual fund deficit balances.

**Context:** Four of the 90 individual ditch systems had fund deficit balances as of December 31, 2013, totaling \$27,033, which is an increase from the \$19,972 deficit reported in the prior year.

**Effect:** Allowing a ditch system to maintain a fund deficit, in effect, constitutes an interest-free loan from other individual ditch systems and, as such, may be inconsistent with Minn. Stat. § 103E.655, subd. 2.

**Cause:** Expenditures were made for certain ditch systems which did not have sufficient special assessments levied to meet all obligations of the systems.

**Recommendation:** We recommend the County eliminate the ditch fund deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance to provide for the repair costs of a ditch system.

Client's Response:

*Brown County will continue to levy assessments pursuant to Minnesota statutes, which permit the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.*



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  
Brown 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 14, 2014. Other auditors audited the financial statements of Brown County Economic Development Partners, Inc., as described in our report on Brown County's financial statements. The financial statements of Brown County Economic Development Partners, Inc., were not audited in accordance with *Government Auditing Standards*.

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were

not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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

### **Compliance and Other Matters**

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

### **Minnesota Legal Compliance**

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

In connection with our audit, nothing came to our attention that caused us to believe that Brown County failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the above referenced provisions.

## **Other Matters**

Also included in the Schedule of Findings and Questions Costs is a management practices comment. We believe this recommendation to be of benefit to the County, and it is reported for that purpose.

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

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

August 14, 2014

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

#### Independent Auditor's Report

Board of County Commissioners  
Brown County

#### **Report on Compliance for Each Major Federal Program**

We have audited Brown County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2013. Brown County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

#### ***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance with those requirements.

***Opinion on Each Major Federal Program***

In our opinion, Brown County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

**Report on Internal Control Over Compliance**

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

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

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

## **Purpose of This Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

August 14, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR