

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Year Ended December 31, 2012



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

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2012

Office	Name	Term Expires
Board of County Commissioners		
District 1	Glen Mathiason	January 2013
District 2	Daniel Belshan*	January 2015
District 3	James Nelson	January 2013
District 4	Christopher Shoff	January 2015
District 5	Mike Lee	January 2013
County Officers		
Elected		
Attorney	Craig Nelson	January 2015
Auditor/Treasurer	Dennis A. Distad**	January 2015
District Judge	Ross Leuning	January 2015
District Judge	Steven Schwab	January 2015
Recorder	Kelly Callahan	January 2015
Registrar of Titles	Kelly Callahan	January 2015
Sheriff	Robert Kindler	January 2015
Appointed		
Administrator	John Kluever	Indefinite
Assessor	Ryan Rasmussen	Indefinite
County Engineer	Susan Miller	Indefinite
Court Services	Tom Jensen	Indefinite
Court Administrator	Kristi Maiers	Indefinite
Finance Manager	William Helfritz	Indefinite
Veterans Service Officer	Jon Rhiger	Indefinite

*Chair

**Resigned December 31, 2012, Pat Martinson appointed to fill his term.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2012
(Continued)

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Human Services		
Board		
Chair	Glen Mathiason	January 2015
Vice Chair	James Nelson	January 2013
Member	Daniel Belshan	January 2015
Member	Christopher Shoff	January 2013
Member	Mike Lee	January 2013
Appointed		
Director	Brian Buhmann	Indefinite
Accountant	Alan Olson	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Freeborn County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Freeborn 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 September 27, 2013, on our consideration of Freeborn 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 Freeborn 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

September 27, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(Unaudited)**

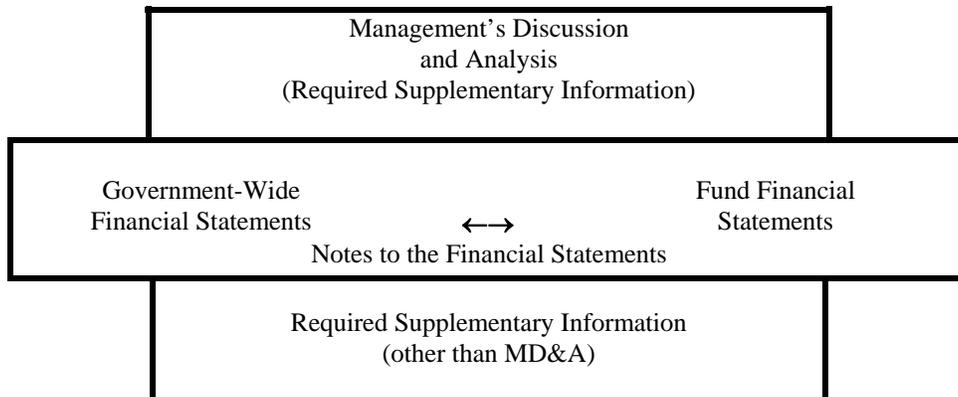
Freeborn County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position are \$83,290,711, of which \$57,967,546 is net invested in capital assets, net of related debt, and \$6,921,109 is restricted to specific purposes.
- Freeborn County's net position increased by \$5,046,238 for the year ended December 31, 2012.
- The net cost of governmental activities was \$16,017,475 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$21,063,713.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Freeborn County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



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

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

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

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

In the Statement of Net Position and the Statement of Activities, the County reports its governmental activities. The County has no business-type activities or discretely presented component units.

Governmental activities reported here include the County's basic services of general government, public safety, highways and streets, human services, health, environmental services, culture and recreation, and conservation of natural resources. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

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

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

Reporting the County’s Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets which can only be used for the trust beneficiaries based on the trust arrangement. All of the County’s fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on Exhibits 9 and 10. We exclude these activities from the County’s other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

The County’s combined net position increased from \$78,244,473 to \$83,290,711. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the County’s governmental activities.

**Table 1
Net Position
(in millions)**

	Governmental Activities	
	2012	2011
Assets		
Current and other assets	\$ 33.6	\$ 38.5
Capital assets	76.1	74.6
Total Assets	\$ 109.7	\$ 113.1

	Governmental Activities	
	2012	2011
Liabilities		
Long-term debt outstanding	\$ 24.7	\$ 33.1
Other liabilities	1.7	1.8
Total Liabilities	\$ 26.4	\$ 34.9
Net position		
Net investment in capital assets	\$ 58.0	\$ 55.7
Restricted	6.9	13.6
Unrestricted	18.4	8.9
Total Net position	\$ 83.3	\$ 78.2

Net position of the County's governmental activities increased (\$83.3 million compared to \$78.2 million). Unrestricted net position--the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from an \$8.9 million surplus at December 31, 2011, to \$18.4 million at the end of this year (2012).

Table 2
Changes in Net Position
(in millions)

	Governmental Activities	
	2012	2011
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 5.0	\$ 5.2
Operating grants and contributions	14.0	12.8
Capital grants and contributions	1.7	1.1
General revenues		
Property taxes	18.8	17.2
Grants and contributions	1.7	2.6
Other general revenues	0.6	1.8
Total Revenues	\$ 41.8	\$ 40.7

	Governmental Activities	
	2012	2011
Program Expenses		
General government	\$ 7.2	\$ 4.9
Public safety	6.3	8.0
Highways and streets	9.5	7.8
Human services	7.6	7.7
Health	3.2	3.3
Sanitation	0.4	0.4
Culture and recreation	0.3	0.4
Conservation of natural resources	1.1	2.1
Economic development	0.4	-
Interest	0.7	1.3
Total Program Expenses	\$ 36.7	\$ 35.9
Increase (Decrease) in Net Position	\$ 5.1	\$ 4.8

Governmental Activities

Revenues were \$41.8 million, and expenses were \$36.7 million for the County's governmental activities. This resulted in an increase of \$ 5.1 million to net position in the year ended December 31, 2012.

The amount that taxpayers ultimately financed for these activities through County taxes and other general sources was only \$21.1 million because some of the cost was paid by those who directly benefited from the programs (\$5.0 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$15.7 million). The County paid for the remaining "public benefit" portion of governmental activities with \$21.1 million in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as interest and general entitlements.

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

Table 3
Governmental Activities
(in millions)

	2012		2011	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Highways and streets	\$ 9.5	\$ 2.0	\$ 7.8	\$ 2.1
Human services	7.6	3.9	7.7	3.7
General government	7.2	6.1	4.9	3.8
Public safety	6.3	2.4	8.0	4.0
Health	3.2	0.7	3.3	0.8
Conservation of natural resources	1.1	-	2.1	0.7
All others	1.8	0.9	2.1	1.7
Total	\$ 36.7	\$ 16.0	\$ 35.9	\$ 16.8

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet on Exhibit 3) reported a combined fund balance of \$27.0 million, which is \$1.5 million less than 2011. Included in this year's total fund balance is a fund balance of \$12.3 million in the County's General Fund, approximately \$1.8 million more than last year. The Ditch Special Revenue Fund increased by \$0.5 million to \$1.6 million. The Social Services Special Revenue Fund had an increase of \$1.0 million. The Road and Bridge Special Revenue Fund had an increase of \$0.7 million. The decrease was in the Debt Service Fund where \$7.3 was used to retire debt, including \$6.4 million reported in the Internal Service Fund.

General Fund Budgetary Highlights

During the year, the County made no budget amendments. The largest variance occurred in the General Fund. Revenues were \$2.2 million higher than budget, and expenses were \$6.6 million higher than budget. This was due to budgeting \$1.4 million in debt services and transferring it to the General Fund. We also received \$0.4 million in economic development funds that was not budgeted. There was also a transfer of \$6.4 million for refunding bonds used to pay off outstanding debt. Road and Bridge used funds advanced from the state in 2011 to complete projects in 2012 of about \$1.7 million, this was not budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the County had \$76.1 million invested in a broad range of capital assets including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$1.5 million, or 2.0 percent, from last year.

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

	Governmental Activities	
	2012	2011
Land	\$ 4.2	\$ 4.2
Land improvements	0.8	0.8
Construction in progress	1.3	-
Buildings and improvements	24.9	25.7
Machinery, vehicles, furniture, and equipment	2.4	2.2
Infrastructure	42.5	41.7
Total	<u>\$ 76.1</u>	<u>\$ 74.6</u>

Debt

At year-end, the County had \$22.8 million in bonds and notes outstanding versus \$31.0 million last year, a decrease of 26.5 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End
(in millions)

	Governmental Activities	
	2012	2011
General obligation bonds and notes (backed by the County)	\$ 17.6	\$ 18.0
Special assessment bonds	2.4	2.7
General obligation capital notes	2.8	3.2
General obligation lease revenue	-	0.3
Lease revenue bonds	-	6.8
Total	<u>\$ 22.8</u>	<u>\$ 31.0</u>

The County's general obligation bond rating was "Aa3" at its last bond issuance in October 2011. Other obligations include accrued vacation pay and sick leave payable. More detailed information about the County's long-term liabilities is presented in Note 3.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged for the business-type activities.

- County General Fund expenditures for 2013 are budgeted to increase 0.2 percent over 2012.
- The combined budget for 2013 increased \$319,946 or 0.8 percent, over the 2012 budget.
- Property tax levies have increased 1.5 percent for 2013.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the County Finance Manager, William M. Helfritz, at 411 South Broadway, Albert Lea, Minnesota 56007.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	23,178,973
Petty cash and change funds		2,325
Taxes receivable		
Prior - net		448,549
Special assessments receivable		
Prior - net		53,566
Noncurrent - net		2,150,960
Accounts receivable - net		4,661,506
Accrued interest receivable		8,294
Loan receivable		385,426
Due from other governments		2,118,989
Inventories		435,467
Deferred charges		162,739
Capital assets		
Non-depreciable		6,186,974
Depreciable - net of accumulated depreciation		69,927,658
		69,927,658
Total Assets	\$	109,721,426

Liabilities

Accounts payable	\$	529,831
Salaries payable		361,451
Contracts payable		63,934
Due to other governments		123,938
Accrued interest payable		267,812
Advances from other governments		341,656
Long-term liabilities		
Due within one year		2,191,051
Due in more than one year		22,551,042
		22,551,042
Total Liabilities	\$	26,430,715

Net Position

Net investment in capital assets	\$	57,967,546
Restricted for		
General government		246,768
Public safety		68,434
Highways and streets		649,026
Conservation		1,489,400
Debt service		4,263,494
Economic development		68,748
Endowment - nonexpendable		135,239
Unrestricted		18,402,056
		18,402,056
Total Net Position	\$	83,290,711

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 2

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions		Capital Grants and Contributions
<u>Functions/Programs</u>					
Primary government					
Governmental activities					
General government	\$ 7,177,110	\$ 907,321	\$ 193,811	\$ -	\$ (6,075,978)
Public safety	6,315,878	2,401,345	1,500,782	-	(2,413,751)
Highways and streets	9,525,421	177,802	5,629,421	1,747,638	(1,970,560)
Sanitation	371,488	4,319	362,961	-	(4,208)
Human services	7,620,459	341,349	3,381,837	-	(3,897,273)
Health	3,165,890	1,032,223	1,450,562	-	(683,105)
Culture and recreation	321,489	13,240	88,988	-	(219,261)
Conservation of natural resources	1,099,583	89,890	961,434	-	(48,259)
Economic development	400,000	-	400,000	-	-
Interest	705,080	-	-	-	(705,080)
Total Governmental Activities	<u>\$ 36,702,398</u>	<u>\$ 4,967,489</u>	<u>\$ 13,969,796</u>	<u>\$ 1,747,638</u>	<u>\$ (16,017,475)</u>
General Revenues					
Property taxes					\$ 18,816,896
Gravel taxes					48,465
Mortgage registry and deed tax					19,502
Payments in lieu of tax					53,110
Grants and contributions not restricted to specific programs					1,682,574
Unrestricted investment earnings					192,679
Miscellaneous					143,579
Gain on sale of capital assets					106,908
Total general revenues					<u>\$ 21,063,713</u>
Change in net position					<u>\$ 5,046,238</u>
Net Position - Beginning					<u>78,244,473</u>
Net Position - Ending					<u>\$ 83,290,711</u>

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 8,525,942	\$ 3,157,828
Petty cash and change funds	2,275	-
Taxes receivable		
Prior	180,263	81,680
Special assessments		
Prior	36,469	-
Noncurrent	-	-
Accounts receivable	1,216,955	16,431
Accrued interest receivable	8,260	-
Loans receivable	345,228	-
Due from other funds	67,510	2,494
Due from other governments	491,714	1,005,083
Inventories	-	435,467
Advances to other funds	2,983,610	-
	\$ 13,858,226	\$ 4,698,983
Total Assets		

EXHIBIT 3

Special Revenue Funds			Nonmajor Funds	
Social Services	Ditch			Total
\$ 7,371,539	\$ 2,103,478	\$ 2,020,186	\$ 23,178,973	
50	-	-	2,325	
127,137	-	59,469	448,549	
-	17,097	-	53,566	
-	2,150,960	-	2,150,960	
888,010	-	-	2,121,396	
-	-	34	8,294	
-	-	40,198	385,426	
-	-	-	70,004	
612,324	9,868	-	2,118,989	
-	-	-	435,467	
-	-	-	2,983,610	
\$ 8,999,060	\$ 4,281,403	\$ 2,119,887	\$ 33,957,559	

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 246,039	\$ 45,930
Salaries payable	224,481	41,143
Contracts payable	-	63,934
Due to other funds	1,019	-
Due to other governments	23,844	1,105
Deferred revenue - unavailable	1,071,691	716,680
Advance from other governments	-	341,656
Advance from other funds	-	-
	\$ 1,567,074	\$ 1,210,448
Fund Balances		
Nonspendable		
Advances to other funds	\$ 166,049	\$ -
Long-term loans/notes receivable	327,508	-
Inventories	-	435,467
Endowment permanent	-	-
Restricted for		
Law library	50,418	-
Recorder's technology equipment	31,263	-
Recorder's equipment	159,568	-
E-911	68,434	-
Attorney's forfeited property	5,519	-
Gravel pit postclosure	50,022	-
Ditch maintenance and repairs	-	-
Future revolving loans	-	-
Debt service	-	-
Committed		
Individual Sewage Treatment System	224,846	-
Assigned		
Subsequent year's appropriated budget	388,657	-
Road and bridge	-	3,053,068
Human services	-	-
Unassigned	10,818,868	-
	\$ 12,291,152	\$ 3,488,535
Total Fund Balances	\$ 12,291,152	\$ 3,488,535
Total Liabilities and Fund Balances	\$ 13,858,226	\$ 4,698,983

EXHIBIT 3
(Continued)

Special Revenue Funds			
Social Services	Ditch	Nonmajor Funds	Total
\$ 235,951	\$ 1,911	\$ -	\$ 529,831
95,827	-	-	361,451
-	-	-	63,934
31,485	-	-	32,504
84,948	10,580	3,461	123,938
980,745	2,168,057	44,123	4,981,296
-	-	-	341,656
-	481,000	-	481,000
\$ 1,428,956	\$ 2,661,548	\$ 47,584	\$ 6,915,610
\$ -	\$ -	\$ -	\$ 166,049
-	-	-	327,508
-	-	-	435,467
-	-	135,239	135,239
-	-	-	50,418
-	-	-	31,263
-	-	-	159,568
-	-	-	68,434
-	-	-	5,519
-	-	-	50,022
-	1,058,596	-	1,058,596
-	-	68,748	68,748
-	1,042,005	1,868,316	2,910,321
-	-	-	224,846
-	-	-	388,657
-	-	-	3,053,068
7,570,104	-	-	7,570,104
-	(480,746)	-	10,338,122
\$ 7,570,104	\$ 1,619,855	\$ 2,072,303	\$ 27,041,949
\$ 8,999,060	\$ 4,281,403	\$ 2,119,887	\$ 33,957,559

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2012**

Fund balances - total governmental funds (Exhibit 3)		\$ 27,041,949
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.		76,114,632
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		4,981,296
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (17,555,000)	
General obligation capital notes	(2,830,000)	
Compensated absences	(1,377,856)	
Loans payable	(32,159)	
Special assessment debt payable	(2,370,000)	
Accrued interest payable	(267,812)	
Deferred debt issuance costs	162,739	
Unamortized premium	(592,086)	
Unamortized discount	15,008	(24,847,166)
Net Position of Governmental Activities (Exhibit 1)		\$ 83,290,711

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 8,747,045	\$ 3,639,149
Special assessments	385,153	-
Licenses and permits	122,392	11,800
Intergovernmental	4,902,051	8,404,820
Charges for services	3,836,584	312
Fines and forfeits	25,302	-
Gifts and contributions	4,697	-
Investment earnings	182,464	-
Miscellaneous	415,735	276,527
	\$ 18,621,423	\$ 12,332,608
Expenditures		
Current		
General government	\$ 6,340,666	\$ -
Public safety	13,473,782	-
Highways and streets	12,369	11,004,314
Sanitation	356,505	-
Human services	34,255	-
Health	1,396,750	-
Culture and recreation	321,489	-
Conservation of natural resources	579,741	-
Economic development	400,000	-
Intergovernmental	-	308,595
Capital outlay	253,203	552,082
Debt service		
Principal	-	-
Interest	-	-
Administrative (fiscal) charges	-	-
	\$ 23,168,760	\$ 11,864,991
Excess of Revenues Over (Under) Expenditures	\$ (4,547,337)	\$ 467,617
Other Financing Sources (Uses)		
Transfers in	\$ 6,359,722	\$ -
Transfers out	(4,044)	-
Proceeds from sale of capital assets	35,277	74,250
	\$ 6,390,955	\$ 74,250
Net Change in Fund Balance	\$ 1,843,618	\$ 541,867
Fund Balance - January 1, as restated (Note 1.E.)	10,447,534	2,810,225
Increase (decrease) in inventories	-	136,443
Fund Balance - December 31	\$ 12,291,152	\$ 3,488,535

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

EXHIBIT 5

<u>Social Services</u>	<u>Ditch</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,354,271	\$ -	\$ 1,265,420	\$ 19,005,885
-	1,265,828	20,018	1,670,999
-	-	-	134,192
4,391,275	116,908	-	17,815,054
320,080	-	-	4,156,976
1,134	-	-	26,436
24,909	-	-	29,606
-	-	1,955	184,419
392,898	57,022	-	1,142,182
\$ 10,484,567	\$ 1,439,758	\$ 1,287,393	\$ 44,165,749
\$ -	\$ -	\$ -	\$ 6,340,666
165,656	-	-	13,639,438
-	-	-	11,016,683
-	-	-	356,505
7,571,791	-	-	7,606,046
1,763,168	-	-	3,159,918
-	-	-	321,489
-	515,663	201	1,095,605
-	-	-	400,000
-	-	-	308,595
-	-	-	805,285
-	357,472	910,075	1,267,547
-	83,593	565,443	649,036
-	782	29,057	29,839
\$ 9,500,615	\$ 957,510	\$ 1,504,776	\$ 46,996,652
\$ 983,952	\$ 482,248	\$ (217,383)	\$ (2,830,903)
\$ -	\$ -	\$ 1,337,286	\$ 7,697,008
-	-	(6,620,377)	(6,624,421)
-	-	-	109,527
\$ -	\$ -	\$ (5,283,091)	\$ 1,182,114
\$ 983,952	\$ 482,248	\$ (5,500,474)	\$ (1,648,789)
6,586,152	1,137,607	7,572,777	28,554,295
-	-	-	136,443
\$ 7,570,104	\$ 1,619,855	\$ 2,072,303	\$ 27,041,949

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (1,648,789)

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

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

Deferred revenue - December 31	\$ 4,981,296	
Deferred revenue - January 1	(7,508,170)	(2,526,874)

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

Expenditures for general capital assets and infrastructure	\$ 4,282,100	
Transfer of internal service fund capital assets	14,408,708	
Net book value of assets disposed	(17,311)	
Current year depreciation	(2,711,592)	15,961,905

Issuing long-term debt provides current financial resources to governmental funds, while the repayment of debt consumes current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, those amounts are deferred and amortized over the life of the debt in the statement of net position. 1,305,077

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

Change in accrued interest payable	\$ 71,082	
Change in compensated absences	5,745	
Change in inventories	136,443	213,270

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Fund are reported with governmental activities. (8,258,351)

Change in Net Position of Governmental Activities (Exhibit 2) \$ 5,046,238

PROPRIETARY FUND

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 7

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

Operating Revenues	
Rental income	\$ 7,393,322
Operating Expenses	
Depreciation	<u>35,561</u>
Operating Income (Loss)	<u>\$ 7,357,761</u>
Nonoperating Revenues (Expenses)	
Interest expense	\$ (49,981)
Bond issuance expense	<u>(84,836)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (134,817)</u>
Income (loss) before contributions and transfers	\$ 7,222,944
Transfers in	260,655
Transfers out	<u>(15,741,950)</u>
Change in Net Position	\$ (8,258,351)
Net Position - January 1	<u>8,258,351</u>
Net Position - December 31	<u><u>\$ -</u></u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	<u>\$ 7,393,322</u>
Cash Flows from Noncapital Financing Activities	
Transfers in	\$ 260,655
Transfers out	<u>(1,333,242)</u>
Net cash provided by (used in) noncapital financing activities	<u>\$ (1,072,587)</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	\$ (7,100,000)
Interest paid on long-term debt	<u>(299,886)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (7,399,886)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (1,079,151)</u>
Cash and Cash Equivalents at January 1	<u>1,079,151</u>
Cash and Cash Equivalents at December 31	<u><u>\$ -</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities	
Operating income (loss)	\$ 7,357,761
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	<u>35,561</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 7,393,322</u></u>

FIDUCIARY FUNDS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 9

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

	Private-Purpose Trust	Agency Funds
<u>Assets</u>		
Cash and pooled investments	\$ 10,909	\$ 1,279,053
Accrued interest receivable	1	-
Due from other governments	-	2,336,561
	-	2,336,561
Total Assets	\$ 10,910	\$ 3,615,614
<u>Liabilities</u>		
Due to other funds	\$ -	\$ 37,500
Due to other governments	-	1,075,504
Advance from General Fund	-	2,502,610
	-	2,502,610
Total Liabilities	\$ -	\$ 3,615,614
<u>Net Position</u>		
Net position, held in trust for other purposes	\$ 10,910	

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 10

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Private-Purpose Trust</u>
<u>Additions</u>	
Investment earnings	
Interest	\$ 78
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>700</u>
Change in Net Position	\$ (622)
Net Position - January 1	<u>11,532</u>
Net Position - December 31	<u>\$ 10,910</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Freeborn County was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Freeborn County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator, appointed by the Board, serves as the clerk of the Board of Commissioners but has no vote.

Blended Component Unit

Blended component units are legally separate organizations so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Freeborn County has one blended component unit.

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Freeborn County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-.047.	County Commissioners are the HRA Board, and the HRA is a financial burden.	Separate financial statements are not prepared.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in joint ventures described in Note 5.C. The County also participates in jointly-governed organizations described in Note 5.D.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

The government-wide statement of net position (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 net position; and (3) unrestricted net position. The County first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities 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. The County does not allocate indirect expenses to functions within the financial statements.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as a separate column in the fund financial statements. All remaining governmental funds are aggregated 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 committed property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Services Special Revenue Fund accounts for restricted revenue resources from the federal, state, and other oversight agencies, as well as committed property tax revenues used for economic assistance and community social services programs.

The Ditch Special Revenue Fund accounts for special assessments revenues levied against benefitted property to finance the cost of constructing and maintaining an agricultural drainage ditch system.

Additionally, the County reports the following fund types:

The Debt Service Fund accounts for all financial resources restricted for payment of principal, interest, and related costs of long-term bonded debt.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Internal Service Fund accounts for HRA building facilities (jail and other general office space) activities provided to other departments and funds on a cost-reimbursement basis. (This fund was closed as of December 31, 2012.)

Private-purpose trust funds account for resources legally held in trust for others.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, 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. 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. Freeborn County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, 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 general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general 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.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2012, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2012 were \$182,464.

3. Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund to indicate that they are not in spendable format.

All receivables are shown net of an allowance for uncollectibles.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

3. Receivables and Payables (Continued)

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 on May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three 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.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

6. Capital Assets (Continued)

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

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 75
Building improvements	20 - 30
Public domain infrastructure	25 - 75
Furniture, equipment, and vehicles	3 - 15

7. Compensated Absences

The liability for compensated absences reported in 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 government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Deferred Revenue

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Classification of Net Position

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

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

Restricted 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 do not meet the definition of restricted or net investment in capital assets.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

11. Classifications of Fund Balances

Fund balance is divided into five class 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 legally or contractually required to be maintained intact. The “not is spendable from” criterion includes items that are not expected to be converted to cash.

Restricted - amounts in which constraints have been placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is 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 action (ordinance or resolution) it employed to previously commit those amounts.

Assigned - amounts the County intends to use for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is 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 and 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, or assigned to those purposes.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

11. Classification of Fund Balances (Continued)

The County applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, or 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.

12. Minimum Fund Balance

Freeborn County has adopted a minimum fund balance policy to address cash flow or working capital needs for the General Fund and other special revenue funds which are heavily reliant on property tax revenues to fund current operations. However, property tax revenues are not available for distribution until June. Therefore, the County Board has determined the need to maintain a minimum unassigned fund balance in the General Fund and an unrestricted fund balance in the remaining special revenue funds until the tax revenues are distributed. The County Board has determined this amount to be approximately 35 to 50 percent of General Fund operating expenses and 20 to 40 percent of the subsequent year's budgeted revenues for special revenue funds. This amount will provide adequate funds until the next property tax revenues are received.

13. Use of Estimates

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

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Change in Reporting Entity

The County has merged all debt service funds into one Debt Service Fund. The following is a summary of the change in fund balance for the funds.

	Courthouse Improvement Debt Service Fund	Refunding Courthouse Bonds Debt Service Fund	Turtle Creek Watershed District Debt Service Fund	Radio Bonds Debt Service Fund	Debt Service Fund
Fund Balance - January 1, as previously reported	\$ 609,477	\$ 6,620,377	\$ 70,872	\$ (1,468)	\$ -
Restatement due to merger of funds	<u>(609,477)</u>	<u>(6,620,377)</u>	<u>(70,872)</u>	<u>1,468</u>	<u>7,299,258</u>
Fund Balance - January 1, as restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,299,258</u>

2. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

For the year ended December 31, 2012, expenditures exceeded budgeted amounts in the General Fund, Road and Bridge Special Revenue Fund, and Debt Service Fund. The General Fund transferred \$6,359,722 in from a debt service fund to make a final lease payment on the courthouse improvements from 2002; this was not in the budget. The Road and Bridge Fund received \$1,562,000 in bridge bonding money from the State of Minnesota. They were able to complete the bridge construction in 2012. These items were not budgeted.

	Final Budget	Expenditures	Excess
General Revenue Fund	\$ 16,590,228	\$ 23,168,760	\$ 6,578,532
Road and Bridge Special Revenue Fund	10,160,320	11,864,991	1,704,671
Debt Service Fund	1,213,094	1,465,449	252,355

B. Ditch Special Revenue Fund Equity

On the full accrual basis of accounting, 2 of the 62 drainage systems have incurred expenses in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund equity as of December 31, 2012, using the full accrual basis of accounting.

Account balances	\$ 3,884,576
Account deficits	<u>(94,042)</u>
Fund Equity - Full Accrual Basis	<u>\$ 3,790,534</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

2. Stewardship, Compliance, and Accountability

B. Ditch Special Revenue Fund Equity (Continued)

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

Account balances	\$	2,100,601
Account deficits		(480,746)
		1,619,855
Fund Balance - Modified Accrual Basis	\$	1,619,855

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds		
Cash and pooled investments	\$	23,178,973
Petty cash and change funds		2,325
Fiduciary funds		
Cash and pooled investments		
Private-Purpose Trust Fund		10,909
Agency funds		1,279,053
Total Cash and Investments	\$	24,471,260

a. Deposits

The County is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and 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.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. The County does not have custodial credit risk as of December 31, 2012.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

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 in both short-term and long-term investments 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 needed for operations.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County will minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed SIPC coverage shall be transferred to the County custodian. As of December 31, 2012, the County does not have any investments exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County does not have a policy on concentration of credit risk.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2012, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
Non-negotiable certificates of deposit					
Alliance B&T	N/A	N/A	<5%	02/20/2014	\$ 248,787
Ally Bank Utah	N/A	N/A	<5%	10/01/2014	245,633
BMW Bank North America	N/A	N/A	<5%	08/13/2013	247,092
Discover Bank	N/A	N/A	<5%	09/28/2014	245,274
Mizuho Corporate Bank	N/A	N/A	<5%	02/28/2013	245,088
Sovereign Bank National	N/A	N/A	<5%	09/26/2014	245,317
American Express Centurion	N/A	N/A	<5%	11/10/2014	201,306
GE Capital Financial Inc.	N/A	N/A	<5%	11/17/2014	201,316
Goldman Sachs Bank	N/A	N/A	<5%	12/15/2014	201,254
Sallie Mae Bank	N/A	N/A	<5%	12/15/2014	201,230
Total non-negotiable certificates of deposit					\$ 2,282,297
Mutual funds					
Wells Fargo Advantage Heritage Fund	Aaa	Moody's	94%	N/A	\$ 11,265,000
Total investments					\$ 13,547,297
Deposits					10,921,638
Petty cash					2,325
Total Cash and Investments					\$ 24,471,260

N/A - Not Applicable
N/R - Not Rated

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2012, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Account Receivable (Gross)	Less: Allowance for Uncollectible	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities				
Taxes	\$ 448,549	\$ -	\$ 448,549	\$ -
Special assessments	2,204,526	-	2,204,526	-
Accounts	5,699,025	(1,037,519)	4,661,506	677,070
Interest	8,294	-	8,294	-
Loans receivable	385,426	-	385,426	-
Due from other governments	2,118,989	-	2,118,989	-
Total Governmental Activities	<u>\$ 10,864,809</u>	<u>\$ (1,037,519)</u>	<u>\$ 9,827,290</u>	<u>\$ 677,070</u>

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land				
General	\$ 625,953	\$ -	\$ -	\$ 625,953
Highway infrastructure	3,534,332	-	-	3,534,332
Improvements other than buildings	700,490	-	-	700,490
Construction in progress				
Highway infrastructure	-	1,326,199	-	1,326,199
Total capital assets not depreciated	<u>\$ 4,860,775</u>	<u>\$ 1,326,199</u>	<u>\$ -</u>	<u>\$ 6,186,974</u>

**FREEBORN COUNTY
ALBERT LEA, 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>
Capital assets depreciated				
Buildings and improvements	\$ 32,018,204	\$ -	\$ -	\$ 32,018,204
Other land improvements	110,838	-	-	110,838
Machinery, furniture, and equipment	6,239,000	813,238	660,204	6,392,034
Infrastructure - sewer	391,579	-	-	391,579
Infrastructure - highway	<u>86,299,478</u>	<u>2,142,663</u>	<u>14,692</u>	<u>88,427,449</u>
Total capital assets depreciated	<u>\$ 125,059,099</u>	<u>\$ 2,955,901</u>	<u>\$ 674,896</u>	<u>\$ 127,340,104</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 6,311,916	\$ 805,942	\$ -	\$ 7,117,858
Other land improvements	22,630	5,542	-	28,172
Machinery, furniture, and equipment	4,007,405	602,573	657,585	3,952,393
Infrastructure - sewer	184,801	15,833	-	200,634
Infrastructure - highway	<u>44,796,126</u>	<u>1,317,263</u>	<u>-</u>	<u>46,113,389</u>
Total accumulated depreciation	<u>\$ 55,322,878</u>	<u>\$ 2,747,153</u>	<u>\$ 657,585</u>	<u>\$ 57,412,446</u>
Total capital assets depreciated, net	<u>\$ 69,736,221</u>	<u>\$ 208,748</u>	<u>\$ 17,311</u>	<u>\$ 69,927,658</u>
Capital Assets, Net	<u>\$ 74,596,996</u>	<u>\$ 1,534,947</u>	<u>\$ 17,311</u>	<u>\$ 76,114,632</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 825,705
Public safety	120,736
Highways and streets, including depreciation of infrastructure assets	1,775,955
Health	1,846
Human services	7,928
Sanitation	<u>14,983</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,747,153</u>

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2012, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Social Services Special Revenue Fund	Services provided	\$ 30,010
	Collaborative Agency Fund	Services provided	37,500
Total General Fund			<u>\$ 67,510</u>
Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	Services provided	\$ 1,475
	General Fund	Services provided	1,019
Total Road and Bridge Special Revenue Fund			<u>\$ 2,494</u>
Total Due To/From Other Funds			<u><u>\$ 70,004</u></u>

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ditch Special Revenue Fund	\$ 481,000
	Motor Vehicle Agency Fund	25,000
	Payroll Clearing Agency Fund	29,961
	Insurance Agency Fund	141,050
	Turtle Creek Watershed Agency Fund	2,306,599
Total Advances To/From Other Funds		<u>\$ 2,983,610</u>

3. Interfund Transfers

Transfer to General Fund from Debt Service Fund	\$ 6,359,722	Payoff of bonds
Transfer to Debt Service Fund from General Fund	4,044	Cover debt service debt charges
Transfer to Internal Service Fund from Debt Service Fund	260,655	Repay advances
Transfer to Debt Service Fund from Internal Service Fund	<u>1,333,242</u>	Close fund
Total Interfund Transfers	<u><u>\$ 7,957,663</u></u>	

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables and Payables

3. Interfund Transfers (Continued)

A transfer of \$14,408,708 was made for Internal Service Fund capital assets to governmental capital assets to close this fund.

C. Liabilities

1. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2012
General obligation bonds					
2010A G.O. Waste Disposal Bonds	2022	\$40,000 - \$45,000	2.25 - 5.25	\$ 525,000	\$ 435,000
2011A G.O. Refunding Bonds	2023	\$480,000 - \$645,000	3.00 - 4.00	6,120,000	6,120,000
2011B G.O. Refunding Bonds	2023	\$375,000 - \$515,000	3.00 - 4.00	4,800,000	4,800,000
2011C G.O. Refunding Bonds	2023	\$470,000 - \$635,000	2.00 - 3.00	6,200,000	6,200,000
Total General Obligation Bonds				<u>\$ 27,245,000</u>	<u>\$ 17,555,000</u>
2010B G.O. Radio Capital Notes	2019	\$370,000 - \$440,000	2.00 - 3.75	<u>\$ 3,575,000</u>	<u>\$ 2,830,000</u>
Ditch Series 2006 G.O. Special Assessment Bonds	2022	\$325,000 - \$35,000	3.625 - 4.15	\$ 3,020,000	\$ 1,485,000
Ditch Series 2009 G.O. Special Assessment Bonds	2022	\$85,000 - \$90,000	1.15 - 3.75	<u>1,060,000</u>	<u>885,000</u>
Total G.O. Special Assessment Bonds				<u>\$ 4,080,000</u>	<u>\$ 2,370,000</u>
Minnesota Department of Economic Development Loan	2013	\$6,007 - \$42,606	3.00	<u>\$ 280,000</u>	<u>\$ 32,159</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Special Assessment Ditch Bonds	
	Principal	Interest	Principal	Interest
2013	\$ 1,370,000	\$ 538,669	\$ 340,000	\$ 75,363
2014	1,445,000	498,794	345,000	64,632
2015	1,475,000	454,656	335,000	53,694
2016	1,510,000	409,544	265,000	43,869
2017	1,555,000	363,006	260,000	35,039
2018 - 2022	8,405,000	1,054,394	825,000	64,857
2023 - 2024	1,795,000	32,725	-	-
Total	<u>\$ 17,555,000</u>	<u>\$ 3,351,788</u>	<u>\$ 2,370,000</u>	<u>\$ 337,454</u>

Year Ending December 31	General Obligation Capital Notes		Loans Payable	
	Principal	Interest	Principal	Interest
2013	\$ 380,000	\$ 75,006	\$ 32,159	\$ 444
2014	385,000	67,406	-	-
2015	390,000	59,706	-	-
2016	400,000	50,931	-	-
2017	410,000	40,432	-	-
2018 - 2020	865,000	42,982	-	-
Total	<u>\$ 2,830,000</u>	<u>\$ 336,463</u>	<u>\$ 32,159</u>	<u>\$ 444</u>

FREEBORN COUNTY
ALBERT LEA, 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, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 18,040,000	\$ -	\$ 485,000	\$ 17,555,000	\$ 1,370,000
Special assessment G.O. bond	2,740,000	-	370,000	2,370,000	340,000
G.O. lease revenue	340,000	-	340,000	-	-
Lease revenue bonds	6,760,000	-	6,760,000	-	-
Premiums	645,912	-	53,826	592,086	-
Less: deferred amounts for issuance discounts	(71,084)	-	(56,076)	(15,008)	-
Total bonds payable	\$ 28,454,828	\$ -	\$ 7,952,750	\$ 20,502,078	\$ 1,710,000
Loans payable	69,706	-	37,547	32,159	32,159
Capital notes payable	3,205,000	-	375,000	2,830,000	380,000
Compensated absences	1,383,601	-	5,745	1,377,856	68,892
Long-Term Liabilities	<u>\$ 33,113,135</u>	<u>\$ -</u>	<u>\$ 8,371,042</u>	<u>\$ 24,742,093</u>	<u>\$ 2,191,051</u>

Payments on the general obligation ditch special assessment bonds are made by the affected land owners, not the general populace of Freeborn County.

There were two refunding bonds issued in June, and one in October 2011. The bonds are Series 2011A, 2011B, and 2011C. The proceeds were used to retire the three 2002 bonds used to build the new jail and courthouse complex. This will result in a net present value interest savings of \$1,968,366. The final payments on the 2002 bonds were made in February 2012.

4. Employee Retirement Systems and Pension Plan

A. Plan Description

All full-time and certain part-time employees of Freeborn 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.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plan

A. Plan Description (Continued)

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. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

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

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

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

4. Employee Retirement Systems and Pension Plan

A. Plan Description (Continued)

For all Public 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 Public Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

B. 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.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plan

B. Funding Policy (Continued)

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

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

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

	2012	2011	2010
General Employees Retirement Fund	\$ 709,331	\$ 710,013	\$ 708,252
Public Employees Police and Fire Fund	185,081	182,437	182,007
Public Employees Correctional Fund	235,966	237,779	251,016

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

C. Defined Contribution Plan

Four Commissioners and the Sheriff of Freeborn 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.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plan

C. Defined Contribution Plan (Continued)

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, 2012, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,534	\$ 4,534
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

D. Other Postemployment Benefits (OPEB)

The County provides health insurance benefits for qualifying retired employees under a single-employer self-insured plan, financed and administered by Freeborn County and the Southeast Service Cooperative. Blue Cross and Blue Shield of Minnesota (BCBSM), under contract with Southeast Service Cooperative, is the claims administrator. The County provides benefits for retirees as required by Minn. Stat. § 471.61, subd. 2b. Active employees, who retire from the County when eligible to receive a retirement benefit from PERA (or similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the County's health benefits program. Retirees are required to pay 100 percent of the total group rate. Retirees hired prior to April 7, 1987, are entitled to a fixed County contribution of \$113.02 per month. This benefit can only be used with the County insurance plan. The premium is based on a Medicare Supplement rate determined on retiree population for all retirees 65 and older. As of January 1, 2008, there were 60 retirees receiving Medicare Supplements health benefits from the County's health plan. There were 9 retirees rated with the active employee plan. The County's health insurance plan is a defined contribution plan.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

4. Employee Retirement Systems and Pension Plan

D. Other Postemployment Benefits (OPEB) (Continued)

As of year-end, the County has 56 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2012, the County expended \$83,522 for these benefits.

Elected Officials

The County offers the same benefit to elected officials. This benefit is funded on a pay-as-you-go basis. Freeborn County has five former elected officials eligible for this benefit. The County expended \$6,805 for this benefit in 2012.

Annual OPEB Cost and Net OPEB Obligations

The County's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer. The County has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than 100 total plan members. 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 2012, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	\$ 56,284
Interest on net OPEB obligation	-
Adjustment to ARC	<u>27,238</u>
Annual OPEB cost	\$ 83,522
Contribution during the year	<u>(83,522)</u>
Decrease in net OPEB obligation	\$ -
Net OPEB Obligation - Beginning of Year	<u>-</u>
Net OPEB Obligation - End of Year	<u><u>\$ -</u></u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plan

D. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligations (Continued)

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2010	\$ 86,234	\$ 86,234	100.00%	\$ -
December 31, 2011	87,002	87,002	100.00%	-
December 31, 2012	83,522	83,522	100.00%	-

Funded Status and Funding Progress

As of December 31, 2012, the actuarial accrued liability for benefits was \$1,688,519, all of which was unfunded. The covered payroll (annual payroll of 25 active employees covered by the plan) was \$1,504,407, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 122.1 percent. This compares to 41 active employees in 2008. The total liability was \$2,242,530, and the total payroll was \$2,159,836 with a ratio of 103.8 percent. The projection of future benefit payments for an ongoing plan involves 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.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plan

D. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are 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.

The following simplifying assumptions were made:

Retirement age for 25 active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the members would qualify for benefits.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the "Social Security On-Line" statistics. The 2012 Trustee Report Cohort Life Tables V.A4 for Males and for Females were used.

Turnover - Non-group specific, age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Cost trend rate - The benefit is a fixed amount with no escalators.

Health insurance premiums - The benefit is fixed at \$113.02 per month. The actual health insurance premium has no bearing on the County's future cost.

Inflation rate - The cost is fixed; there is no inflation rate.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

4. Employee Retirement Systems and Pension Plan

D. Other Postemployment Benefits (OPEB)

Funded Status and Funding Progress (Continued)

In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2012, was 26 years.

5. 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 for which the County carries commercial insurance. 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 \$460,000 per claim in 2012 and \$470,000 in 2013. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

5. 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.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

C. Joint Ventures

Family Services Collaborative

The Freeborn County Family Services Collaborative was established in 1996 under the authority of Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Freeborn County; the City of Albert Lea; and Independent School Districts 241, 242, and 2866, each of which appoints members to the Collaborative's governing board. The purpose of the Collaborative is to provide a coordinated approach to support and nurture individuals and families through prevention and intervention so as to ensure success for every child.

Control of the Collaborative is vested in a Board of Directors. Freeborn County appoints 2 members to this 13-member Board. The Freeborn County Department of Social Services acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2012, Freeborn County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The 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, all property, real and personal, at the time of termination shall be distributed by the Minnesota Department of Education.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Family Services Collaborative (Continued)

The Collaborative was audited by Ahrens, Montag, and Voglar for 2005. Financial information can be obtained by contacting Alan Olson, Accountant, Freeborn County Social Services, at P. O. Box 1248, Albert Lea, Minnesota 56007.

Rural Minnesota Energy Board

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

Control of the Rural Minnesota Energy Board is vested in a Joint Powers Board. Freeborn County appoints one voting member and one alternate member to this Board who shall both be County Commissioners. During 2012, Freeborn County expended \$3,000 for this purpose. The Board shall prepare an annual budget to cover the administrative and planning costs of and agree that they shall continue to do so for each year of its existence. These costs will be paid equally by each member county of the Board up to a ceiling of \$3,500 per county per year, and further costs shall be based on per capita.

D. Jointly-Governed Organizations

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

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Freeborn County expended \$98,434 to the Cooperative.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

South Central Minnesota County Comprehensive Water Planning Project

The South Central Minnesota County Comprehensive Water Planning Project was established to provide regional water quality to Minnesota River Basin member counties. During the year, Freeborn County expended \$625 to the Project.

Southeast Minnesota Emergency Management Services

The Southeast Minnesota Emergency Management Services (EMS) was established to provide various health services to member counties. During the year, Freeborn County made no payments to the EMS.

Southeast Minnesota Water Quality Board

The Southeast Minnesota Water Quality Board was established to provide regional water quality services to member counties. During the year, Freeborn County made no payments to the Board.

Southeastern Minnesota Library

The Southeastern Minnesota Library was established to provide library services to member counties. During the year, Freeborn County expended \$252,000 to the Library.

Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force was established to provide drug investigation services to member counties. During the year, Freeborn County expended \$6,500 to the Task Force.

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REQUIRED SUPPLEMENTARY INFORMATION

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT A-1

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
December 31, 2010	\$ -	\$ 2,068,266	\$ 2,068,266	0.0%	\$ 1,659,836	124.6%
December 31, 2011	-	1,857,974	1,857,974	0.0	1,497,191	124.1
December 31, 2012	-	1,688,519	1,688,519	0.0	1,504,407	122.1

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

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT A-2

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 8,054,487	\$ 8,054,487	\$ 8,747,045	\$ 692,558
Special assessments	305,000	305,000	385,153	80,153
Licenses and permits	115,800	115,800	122,392	6,592
Intergovernmental	2,922,884	2,922,884	4,902,051	1,979,167
Charges for services	3,103,850	3,103,850	3,836,584	732,734
Fines and forfeits	45,500	45,500	25,302	(20,198)
Gifts and contributions	-	-	4,697	4,697
Investment earnings	101,000	101,000	182,464	81,464
Miscellaneous	1,737,329	1,737,329	415,735	(1,321,594)
Total Revenues	\$ 16,385,850	\$ 16,385,850	\$ 18,621,423	\$ 2,235,573
Expenditures				
Current				
General government				
Commissioners	\$ 415,843	\$ 415,843	\$ 571,586	\$ (155,743)
Courts	138,200	138,200	194,768	(56,568)
County administration	1,441,249	1,441,249	1,314,597	126,652
County auditor-treasurer	667,987	667,987	591,493	76,494
License bureau	264,599	264,599	257,684	6,915
County assessor	446,741	446,741	418,425	28,316
Elections	80,000	80,000	71,423	8,577
Data processing	615,661	615,661	676,447	(60,786)
Attorney	593,140	593,140	567,794	25,346
Law library	29,500	29,500	58,524	(29,024)
Recorder	400,623	400,623	544,345	(143,722)
Surveyor	10,000	10,000	7,000	3,000
Planning and zoning	162,042	162,042	199,078	(37,036)
Buildings and plant	830,471	830,471	695,186	135,285
Veterans service officer	154,109	154,109	156,384	(2,275)
Other general government	13,000	13,000	15,932	(2,932)
Total general government	\$ 6,263,165	\$ 6,263,165	\$ 6,340,666	\$ (77,501)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

*EXHIBIT A-2
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 2,174,372	\$ 2,174,372	\$ 9,618,515	\$ (7,444,143)
Boat and water safety	5,291	5,291	27,669	(22,378)
Ambulance	3,500	3,500	-	3,500
Coroner	74,155	74,155	62,127	12,028
E-911 system	64,520	64,520	15,156	49,364
County jail	3,438,220	3,438,220	2,673,849	764,371
Law enforcement center	199,000	199,000	36,787	162,213
Community corrections	781,838	781,838	778,799	3,039
Sheriff's contingent	4,000	4,000	6,500	(2,500)
Civil defense	72,359	72,359	248,184	(175,825)
Other public safety	6,100	6,100	6,196	(96)
Total public safety	\$ 6,823,355	\$ 6,823,355	\$ 13,473,782	\$ (6,650,427)
Highways and streets				
Administration	\$ 10,000	\$ 10,000	\$ 12,369	\$ (2,369)
Sanitation				
Solid waste	\$ -	\$ -	\$ 29,992	\$ (29,992)
Recycling	401,230	401,230	326,513	74,717
Total sanitation	\$ 401,230	\$ 401,230	\$ 356,505	\$ 44,725
Human services				
Income maintenance	\$ 5,000	\$ 5,000	\$ 17,127	\$ (12,127)
Social services	5,000	5,000	17,128	(12,128)
Total human services	\$ 10,000	\$ 10,000	\$ 34,255	\$ (24,255)
Health				
Community health	\$ 424,806	\$ 424,806	\$ 312,067	\$ 112,739
Administration	303,775	303,775	296,969	6,806
Health education	132,393	132,393	61,864	70,529
WIC	177,150	177,150	202,690	(25,540)
Maternal and child health	53,918	53,918	73,381	(19,463)
Disease prevention	72,923	72,923	44,383	28,540
Child and teen checkups	64,478	64,478	51,211	13,267
Home health	443,600	443,600	354,185	89,415
Total health	\$ 1,673,043	\$ 1,673,043	\$ 1,396,750	\$ 276,293

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

*EXHIBIT A-2
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Culture and recreation				
Parks	\$ 70,900	\$ 70,900	\$ 45,109	\$ 25,791
Museum	30,000	30,000	23,205	6,795
County/regional library	252,000	252,000	252,000	-
Other culture and recreation	1,275	1,275	1,175	100
Total culture and recreation	\$ 354,175	\$ 354,175	\$ 321,489	\$ 32,686
Conservation of natural resources				
County extension	\$ 178,065	\$ 178,065	\$ 174,968	\$ 3,097
Soil and water conservation	149,000	149,000	149,000	-
Agricultural inspection	34,897	34,897	33,075	1,822
Agricultural society/County fair	70,000	70,000	74,162	(4,162)
Water planning	79,981	79,981	79,836	145
Water quality	71,074	71,074	68,700	2,374
Environmental services	62,243	62,243	-	62,243
Total conservation of natural resources	\$ 645,260	\$ 645,260	\$ 579,741	\$ 65,519
Economic development				
Community development	\$ -	\$ -	\$ 400,000	\$ (400,000)
Other economic development	5,000	5,000	-	5,000
Total economic development	\$ 5,000	\$ 5,000	\$ 400,000	\$ (395,000)
Capital outlay				
General government	\$ 310,000	\$ 310,000	\$ 141,501	\$ 168,499
Public safety	35,000	35,000	55,629	(20,629)
Highways and streets	50,000	50,000	56,073	(6,073)
Human services	10,000	10,000	-	10,000
Total capital outlay	\$ 405,000	\$ 405,000	\$ 253,203	\$ 151,797
Total Expenditures	\$ 16,590,228	\$ 16,590,228	\$ 23,168,760	\$ (6,578,532)
Excess of Revenues Over (Under) Expenditures	\$ (204,378)	\$ (204,378)	\$ (4,547,337)	\$ (4,342,959)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

*EXHIBIT A-2
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 6,359,722	\$ 6,359,722
Transfers out	-	-	(4,044)	(4,044)
Sale of capital assets	-	-	35,277	35,277
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,390,955</u>	<u>\$ 6,390,955</u>
Net Change in Fund Balance	\$ (204,378)	\$ (204,378)	\$ 1,843,618	\$ 2,047,996
Fund Balance - January 1	<u>10,447,534</u>	<u>10,447,534</u>	<u>10,447,534</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 10,243,156</u></u>	<u><u>\$ 10,243,156</u></u>	<u><u>\$ 12,291,152</u></u>	<u><u>\$ 2,047,996</u></u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT A-3

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,645,897	\$ 3,645,897	\$ 3,639,149	\$ (6,748)
Licenses and permits	-	-	11,800	11,800
Intergovernmental	6,375,000	6,375,000	8,404,820	2,029,820
Charges for services	1,000	1,000	312	(688)
Miscellaneous	55,750	55,750	276,527	220,777
Total Revenues	\$ 10,077,647	\$ 10,077,647	\$ 12,332,608	\$ 2,254,961
Expenditures				
Current				
Highways and streets				
Administration	\$ 389,893	\$ 389,893	\$ 304,833	\$ 85,060
Maintenance	3,946,857	3,946,857	2,882,590	1,064,267
Construction	5,095,000	5,095,000	6,803,282	(1,708,282)
Equipment maintenance and shop	728,570	728,570	1,013,609	(285,039)
Total highways and streets	\$ 10,160,320	\$ 10,160,320	\$ 11,004,314	\$ (843,994)
Intergovernmental				
Highways and streets	-	-	308,595	(308,595)
Capital outlay				
Highways and streets	-	-	552,082	(552,082)
Total Expenditures	\$ 10,160,320	\$ 10,160,320	\$ 11,864,991	\$ (1,704,671)
Excess of Revenues Over (Under) Expenditures	\$ (82,673)	\$ (82,673)	\$ 467,617	\$ 550,290
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	74,250	74,250
Net Change in Fund Balance	\$ (82,673)	\$ (82,673)	\$ 541,867	\$ 624,540
Fund Balance - January 1	2,810,225	2,810,225	2,810,225	-
Increase (decrease) in inventories	-	-	136,443	136,443
Fund Balance - December 31	\$ 2,727,552	\$ 2,727,552	\$ 3,488,535	\$ 760,983

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT A-4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 5,332,994	\$ 5,332,994	\$ 5,354,271	\$ 21,277
Intergovernmental	4,438,761	4,438,761	4,391,275	(47,486)
Charges for services	379,700	379,700	320,080	(59,620)
Fines and forfeits	800	800	1,134	334
Gifts and contributions	23,200	23,200	24,909	1,709
Miscellaneous	479,000	479,000	392,898	(86,102)
Total Revenues	\$ 10,654,455	\$ 10,654,455	\$ 10,484,567	\$ (169,888)
Expenditures				
Current				
Public safety				
Victim crisis	\$ 153,867	\$ 153,867	\$ 165,656	\$ (11,789)
Human services				
Income maintenance	\$ 2,847,944	\$ 2,847,944	\$ 2,449,091	\$ 398,853
Social services	5,857,489	5,857,489	5,122,700	734,789
Total human services	\$ 8,705,433	\$ 8,705,433	\$ 7,571,791	\$ 1,133,642
Health				
Mental health center	\$ 1,795,155	\$ 1,795,155	\$ 1,763,168	\$ 31,987
Total Expenditures	\$ 10,654,455	\$ 10,654,455	\$ 9,500,615	\$ 1,153,840
Net Change in Fund Balance	\$ -	\$ -	\$ 983,952	\$ 983,952
Fund Balance - January 1	6,586,152	6,586,152	6,586,152	-
Fund Balance - December 31	\$ 6,586,152	\$ 6,586,152	\$ 7,570,104	\$ 983,952

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT A-5

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 1,281,000	\$ 1,281,000	\$ 1,265,828	\$ (15,172)
Intergovernmental revenue	-	-	116,908	116,908
Miscellaneous	-	-	57,022	57,022
Total Revenues	\$ 1,281,000	\$ 1,281,000	\$ 1,439,758	\$ 158,758
Expenditures				
Current				
Conservation of natural resources				
Other	\$ 824,000	\$ 824,000	\$ 515,663	\$ 308,337
Debt service				
Principal	370,000	370,000	357,472	12,528
Interest	87,000	87,000	83,593	3,407
Administrative (fiscal) charges	-	-	782	(782)
Total Expenditures	\$ 1,281,000	\$ 1,281,000	\$ 957,510	\$ 323,490
Net Change in Fund Balance	\$ -	\$ -	\$ 482,248	\$ 482,248
Fund Balance - January 1	1,137,607	1,137,607	1,137,607	-
Fund Balance - December 31	\$ 1,137,607	\$ 1,137,607	\$ 1,619,855	\$ 482,248

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds other than the Revolving Loan Fund. All annual appropriations lapse at fiscal year-end.

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

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations 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. During the year, the Board made no supplemental budgetary appropriations.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2012, expenditures exceeded appropriations in the General Fund by \$6,578,532 and the Road and Bridge Special Revenue Fund by \$1,704,671.

3. Other Postemployment Benefits

Freeborn County implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Since the County has not irrevocably deposited funds in a trust for future health benefits, the actuarial value of the assets is zero.

See Note 4.D. in the notes to the financial statements for additional information regarding the County's other postemployment benefits.

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SUPPLEMENTARY INFORMATION

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

Special revenue funds account for proceeds of specific revenue sources legally restricted to expenditures for specified purposes.

The Revolving Loan Fund accounts for economic development relating to the loan from the State of Minnesota's Department of Employment and Economic Development. Part of the money received back will be used again for new loans.

DEBT SERVICE FUND

The Debt Service Fund accounts for the accumulation of restricted resources for, and the payment of, general long-term debt principal, interest, and related costs.

PERMANENT FUND

Permanent funds report resources legally restricted to the extent that only earnings, and not principal, may be used to support the County's programs.

The U.S. Fish and Wildlife Fund accounts for money received because of land acquired and taken off the tax rolls. Interest is to be used to offset the taxes.

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT B-1

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

	Special Revenue Revolving Loan	Debt Service	Permanent U.S. Fish and Wildlife	Total (Exhibit 3)
<u>Assets</u>				
Cash and pooled investments	\$ 63,970	\$ 1,820,810	\$ 135,406	\$ 2,020,186
Taxes receivable				
Prior	-	59,469	-	59,469
Accrued interest receivable	-	-	34	34
Loans receivable	40,198	-	-	40,198
	\$ 104,168	\$ 1,880,279	\$ 135,440	\$ 2,119,887
<u>Liabilities and Fund Balances</u>				
Liabilities				
Due to other governments	\$ 3,260	\$ -	\$ 201	\$ 3,461
Deferred revenue - unavailable	-	44,123	-	44,123
	\$ 3,260	\$ 44,123	\$ 201	\$ 47,584
Fund Balances				
 Nonspendable				
Endowment permanent	\$ -	\$ -	\$ 135,239	\$ 135,239
 Restricted				
Future revolving loans	68,748	-	-	68,748
Debt service	32,160	1,836,156	-	1,868,316
	\$ 100,908	\$ 1,836,156	\$ 135,239	\$ 2,072,303
Total Fund Balances	\$ 100,908	\$ 1,836,156	\$ 135,239	\$ 2,072,303
Total Liabilities and Fund Balances	\$ 104,168	\$ 1,880,279	\$ 135,440	\$ 2,119,887

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT B-2

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

	<u>Special Revenue Revolving Loan</u>	<u>Debt Service</u>	<u>Permanent U.S. Fish and Wildlife</u>	<u>Total (Exhibit 5)</u>
Revenues				
Taxes	\$ -	\$ 1,265,420	\$ -	\$ 1,265,420
Special assessments	-	20,018	-	20,018
Investment earnings	1,754	-	201	1,955
Total Revenues	\$ 1,754	\$ 1,285,438	\$ 201	\$ 1,287,393
Expenditures				
Current				
Conservation of natural resources	\$ -	\$ -	\$ 201	\$ 201
Debt service				
Principal	37,547	872,528	-	910,075
Interest	1,579	563,864	-	565,443
Administrative (fiscal) charges	-	29,057	-	29,057
Total Expenditures	\$ 39,126	\$ 1,465,449	\$ 201	\$ 1,504,776
Excess of Revenues Over (Under) Expenditures	\$ (37,372)	\$ (180,011)	\$ -	\$ (217,383)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 1,337,286	\$ -	\$ 1,337,286
Transfers out	-	(6,620,377)	-	(6,620,377)
Total Other Financing Sources (Uses)	\$ -	\$ (5,283,091)	\$ -	\$ (5,283,091)
Net Change in Fund Balance	\$ (37,372)	\$ (5,463,102)	\$ -	\$ (5,500,474)
Fund Balance - January 1, as restated (Note 1.E.)	138,280	7,299,258	135,239	7,572,777
Fund Balance - December 31	\$ 100,908	\$ 1,836,156	\$ 135,239	\$ 2,072,303

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT B-3

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,255,000	\$ 1,255,000	\$ 1,265,420	\$ 10,420
Special assessments	-	-	20,018	20,018
Total Revenues	\$ 1,255,000	\$ 1,255,000	\$ 1,285,438	\$ 30,438
Expenditures				
Debt service				
Principal	\$ 895,000	\$ 895,000	\$ 872,528	\$ 22,472
Interest	311,294	311,294	563,864	(252,570)
Administrative (fiscal) charges	6,800	6,800	29,057	(22,257)
Total Expenditures	\$ 1,213,094	\$ 1,213,094	\$ 1,465,449	\$ (252,355)
Excess of Revenues Over (Under) Expenditures	\$ 41,906	\$ 41,906	\$ (180,011)	\$ (221,917)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 1,337,286	\$ 1,337,286
Transfers out	-	-	(6,620,377)	(6,620,377)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (5,283,091)	\$ (5,283,091)
Net Change in Fund Balance	\$ 41,906	\$ 41,906	\$ (5,463,102)	\$ (5,505,008)
Fund Balance - January 1, as restated (Note 1.E.)	7,299,258	7,299,258	7,299,258	-
Fund Balance - December 31	\$ 7,341,164	\$ 7,341,164	\$ 1,836,156	\$ (5,505,008)

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Agency Collections Fund accounts for the following:

The Current School Section accounts for collection of penalty and interest on property taxes and transmission tax. These taxes are distributed according to Minn. Stat. §§ 276.131 and 127A.34.

The Group Insurance Section accounts for payroll deductions for group health insurance.

The Mortgage Registry Tax Section accounts for the taxes received in registering a mortgage within the County.

The Post Placement Program Section accounts for money received by court services to help adolescents adapt to living in the community.

The Prepaid Tax Section accounts for payments received on taxes before the preparation of the tax statements or prior to January 1 of the year due.

The Refunding Section accounts for the refunding of property taxes.

The State Deed Tax Section accounts for the transfer of money to the state received from the sale of state deed stamps.

The State Revenue Section accounts for funds held pending remittance to the state.

The Stream Maintenance Agreement Section accounts for money received to help maintain area streams.

The Collaborative Fund accounts for funds associated with the Family Collaborative Joint Powers Board.

The Recorder's - Clearing Fund accounts for funds collected by the Recorder's Department for other governments.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS
(Continued)

The Tax Collection Fund accounts for the collection and distribution of property taxes and other amounts.

The Payroll Clearing Fund accounts for payroll withholdings.

The Insurance Fund accounts for insurance payments.

The Motor Vehicle Fund accounts for drivers' licenses and vehicle licenses.

The Turtle Creek Watershed Fund accounts for the operations of the watershed district.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT C-1

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY COLLECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 141,038</u>	<u>\$ 5,169,928</u>	<u>\$ 5,074,914</u>	<u>\$ 236,052</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 141,038</u>	<u>\$ 5,169,928</u>	<u>\$ 5,074,914</u>	<u>\$ 236,052</u>
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 81,641</u>	<u>\$ 259,117</u>	<u>\$ 252,417</u>	<u>\$ 88,341</u>
<u>Liabilities</u>				
Due to other funds	\$ 28,091	\$ 37,500	\$ 28,091	\$ 37,500
Due to other governments	<u>53,550</u>	<u>221,617</u>	<u>224,326</u>	<u>50,841</u>
Total Liabilities	<u>\$ 81,641</u>	<u>\$ 259,117</u>	<u>\$ 252,417</u>	<u>\$ 88,341</u>
 <u>RECORDER'S - CLEARING</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 3,613</u>	<u>\$ 40,155</u>	<u>\$ 40,149</u>	<u>\$ 3,619</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 3,613</u>	<u>\$ 40,155</u>	<u>\$ 40,149</u>	<u>\$ 3,619</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

*EXHIBIT C-1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAX COLLECTION</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 346,149</u>	<u>\$ 50,315,791</u>	<u>\$ 49,975,981</u>	<u>\$ 685,959</u>
<u>Liabilities</u>				
Due to other funds	\$ -	\$ 19,710,351	\$ 19,710,351	\$ -
Due to other governments	<u>346,149</u>	<u>30,605,440</u>	<u>30,265,630</u>	<u>685,959</u>
Total Liabilities	<u>\$ 346,149</u>	<u>\$ 50,315,791</u>	<u>\$ 49,975,981</u>	<u>\$ 685,959</u>
 <u>PAYROLL CLEARING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 127,355	\$ 127,355	\$ -
Due from other governments	<u>28,274</u>	<u>29,961</u>	<u>28,274</u>	<u>29,961</u>
Total Assets	<u>\$ 28,274</u>	<u>\$ 157,316</u>	<u>\$ 155,629</u>	<u>\$ 29,961</u>
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 127,355	\$ 127,355	\$ -
Advance from governmental funds	<u>28,274</u>	<u>29,961</u>	<u>28,274</u>	<u>29,961</u>
Total Liabilities	<u>\$ 28,274</u>	<u>\$ 157,316</u>	<u>\$ 155,629</u>	<u>\$ 29,961</u>
 <u>INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 141,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,050</u>
<u>Liabilities</u>				
Advance from governmental funds	<u>\$ 141,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,050</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**EXHIBIT C-1
(Continued)**

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>MOTOR VEHICLE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 25,000</u>	<u>\$ 8,111,613</u>	<u>\$ 8,111,613</u>	<u>\$ 25,000</u>
<u>Liabilities</u>				
Advance from governmental funds	<u>\$ 25,000</u>	<u>\$ 8,111,613</u>	<u>\$ 8,111,613</u>	<u>\$ 25,000</u>
 <u>TURTLE CREEK WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 188,476	\$ 21,537	\$ 110,981	\$ 99,032
Due from other governments	<u>839,000</u>	<u>2,306,600</u>	<u>839,000</u>	<u>2,306,600</u>
Total Assets	<u><u>\$ 1,027,476</u></u>	<u><u>\$ 2,328,137</u></u>	<u><u>\$ 949,981</u></u>	<u><u>\$ 2,405,632</u></u>
<u>Liabilities</u>				
Due to other governments	\$ 188,476	\$ 99,032	\$ 188,475	\$ 99,033
Advance from governmental funds	<u>839,000</u>	<u>2,229,105</u>	<u>761,506</u>	<u>2,306,599</u>
Total Liabilities	<u><u>\$ 188,476</u></u>	<u><u>\$ 99,032</u></u>	<u><u>\$ 188,475</u></u>	<u><u>\$ 99,033</u></u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**EXHIBIT C-1
(Continued)**

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 926,967	\$ 64,045,496	\$ 63,693,410	\$ 1,279,053
Due from other governments	867,274	2,336,561	867,274	2,336,561
Total Assets	\$ 1,794,241	\$ 66,382,057	\$ 64,560,684	\$ 3,615,614
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 127,355	\$ 127,355	\$ -
Due to other funds	28,091	19,747,851	19,738,442	37,500
Due to other governments	732,826	36,136,172	35,793,494	1,075,504
Advance from governmental funds	1,033,324	10,370,679	8,901,393	2,502,610
Total Liabilities	\$ 1,794,241	\$ 66,382,057	\$ 64,560,684	\$ 3,615,614

OTHER SCHEDULES

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT D-1

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

Shared Revenue

State

Highway users tax	\$ 6,766,721
PERA rate reimbursement	44,126
Disparity reduction aid	46,248
Police aid	155,880
County program aid	1,381,865
Market value credit	210,335
Enhanced 911	108,581
	108,581

Total shared revenue **\$ 8,713,756**

Reimbursement for Services

State

Minnesota Department of Human Services	\$ 506,269
	506,269

Payments

Local

Local contributions	\$ 109,574
Payments in lieu of taxes	53,110
	53,110

Total payments **\$ 162,684**

Grants

State

Minnesota Department/Board of	
Public Safety	\$ 969,506
Health	157,570
Natural Resources	96,835
Human Services	1,702,069
Corrections	297,205
Transportation	1,504,840
Water and Soil Resources	79,732
Pollution Control Agency	82,873
Peace Officer Standards and Training Board	8,966
	8,966

Total state **\$ 4,899,596**

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**EXHIBIT D-1
(Continued)**

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

Grants (Continued)

Federal

Department of	
Agriculture	\$ 397,244
Commerce	12,000
Housing and Urban Development	628,541
Justice	15,681
Health and Human Services	2,160,062
Homeland Security	261,250
Transportation	57,971

Total federal **\$ 3,532,749**

Total state and federal grants **\$ 8,432,345**

Total Intergovernmental Revenue **\$ 17,815,054**

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 242,990
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	161,298
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	<u>700</u>
Total U.S. Department of Agriculture		<u>\$ 404,988</u>
U.S. Department of Commerce		
Passed Through Southeastern Minnesota Regional Radio Board Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 12,000</u>
U.S. Department of Housing and Redevelopment		
Passed Through Minnesota Department of Employment and Economic Development Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	<u>\$ 628,541</u>
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 12,680
Bulletproof Vest Partnership Program	16.607	<u>3,001</u>
Total U.S. Department of Justice		<u>\$ 15,681</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	<u>\$ 57,971</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	\$ 17,616
Universal Newborn Hearing Screening	93.251	150
Immunization Cooperative Agreements	93.268	1,220
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$456,401)	93.558	44,266
Maternal and Child Health Services Block Grant to the States	93.994	37,659

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	1,920
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	412,135
(Total Temporary Assistance for Needy Families 93.558 \$456,401)		
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	23,488
Child Support Enforcement	93.563	470,272
Refugee and Entrant Assistance - State-Administered Programs	93.566	357
Child Care and Development Block Grant	93.575	20,524
Stephanie Tubbs Jones Child Welfare Services Program	93.645	5,931
Foster Care Title IV-E	93.658	154,680
Social Services Block Grant	93.667	221,569
Chafee Foster Care Independence Program	93.674	2,462
Children's Health Insurance Program	93.767	51
Medical Assistance Program	93.778	745,841
		\$ 2,160,141
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 27,447
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	61,949
Emergency Management Performance Grants	97.042	22,049
Passed Through Southeastern Minnesota Regional Radio Board		
Homeland Security Grant Program	97.067	62,124
		\$ 173,569
Total Federal Awards		\$ 3,452,891

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Freeborn 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 Freeborn County under programs of the federal government for the year ended December 31, 2012. The information in the 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 Freeborn County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Freeborn County.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on a 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. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Temporary Assistance for Needy Families (TANF) Cluster	\$ 479,889
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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit D-1)	\$ 3,532,749
Deferred in 2011, recognized as revenue in 2012	
Medical Assistance Program (CFDA #93.778)	(7,465)
Foster Care Title IV-E (CFDA #93.658)	(3,291)
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	(87,681)
Grants received more than 60 days after year-end, deferred in 2012	
State Administrative matching grant Food Stamps Program (CFDA#10.561)	7,744
Child Care Development Grant (CFDA #93.575)	2,054
Foster Care Title IV-E (CFDA #93.658)	6,274
Medical Assistance Program (CFDA #93.778)	839
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (CFDA #93.714)	1,668
	1,668
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit D-2)	\$ 3,452,891

6. Passed Through to Subrecipients

During 2012, Freeborn County passed \$628,541 (CFDA #14.228) to the Albert Lea Economic Development Agency.

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

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? **Yes**

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

Federal Awards

Internal control over major programs:

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

Type of auditor's report issued on compliance for major programs: **Unmodified for Child Support Enforcement (CFDA #93.563) and modified for Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA #14.228)**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CFDA #14.228
Child Support Enforcement	CFDA #93.563

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

07-4 Segregation of Duties - Payroll

Criteria: A good system of internal control is to provide segregation of incompatible duties. In other words, responsibilities should be separated between input, processing, and disbursing functions.

Condition: During our review of the County's payroll function, we noted a lack of segregation of duties between input, processing, and disbursing functions.

Context: We noted the following segregation items:

- The individual who is entering the information from the time sheets is also the individual who is making the changes and adding new employees to the system.
- A determination could not be made that all changes to the payroll system are being reviewed to verify the accuracy of the changes.
- Time sheets reviewed did not have employee approval.

Effect: The County should provide for the segregation of functions and responsibilities so that no one person has incompatible duties that would permit the perpetration and concealment of material errors or irregularities.

Cause: The County did not address this issue in 2012 since the County is considering a new payroll system that may provide the segregation needed.

Recommendation: We recommend the County segregate the duties in the payroll process.

Client's Response:

The County is currently implementing a new payroll reporting system. The target date for completion is December 2013. All payroll duties will be reviewed at that time.

08-2 Segregation of Duties - County Departments

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Several of the County's departments that collect fees lack proper segregation of duties. These departments generally have one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the County, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Freeborn County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the County's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The County informed us that they are a small county and therefore lack enough personnel to have complete segregation of duties.

Recommendation: We recommend that the County's elected officials and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

The County is aware of our limited number of staff and has implemented oversight procedures in the areas that we could. We will continue to monitor and review procedures.

09-2 Information Technology Policies and Procedures

Criteria: All major policies and procedures related to the information technology systems should be documented so that employees are aware of the County's policies and procedures relating to security, operations development, risk assessments, and email encryption.

Condition: The County does not have documented policies and procedures in place to address the following for its information technology systems: information security, operation development, risk assessments of the systems, and email encryption methods.

Context: If employees are not aware of the policies and procedures, there may not be consistent application of procedures by all staff.

Effect: Not establishing documented policies and procedures could leave County information more vulnerable to loss or destruction of data.

Cause: The County realizes the importance of documenting information technology policies and procedures but has not had time.

Recommendation: We recommend the County Information Technology Department establish and document policies and procedures relating to the information technology system specifically relating to information security, operations development, assessment of the systems, and email encryption methods. The County should also ensure that County staff are given the policies and procedures and are made aware that they are responsible for compliance with them.

Client's Response:

The County will make every effort to implement the recommendations of the State Auditor.

10-1 Access to Accounting System

Criteria: A good system of internal control provides for an adequate segregation of duties among those who are administering information technology security and those processing accounting transactions.

Condition: We noted in our review of user access to the accounting system the Information Technology Department personnel have user access to the accounting system.

Context: User access to the accounting system should be limited to those whose job positions are to process accounting transactions.

Effect: The current condition provides the opportunity for Information Technology Department personnel to make unauthorized entries to the accounting data files.

Cause: The AS400 administrator has been assigned payroll duties, and the County has not reassigned these duties or established compensating controls.

Recommendation: We recommend that user access of the accounting system be limited to those employees whose positions are to process accounting transactions.

Client's Response:

This item will be addressed as part of 07-4, as stated above.

11-1 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 material 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 significant misstatements in the financial statements increases the likelihood the financial statements would not be fairly presented.

Effect: Audit adjustments were proposed to record additional receivables found during the audit, additional contracts payable, and to reclassify fund balance and revenues.

Cause: Freeborn County staff missed the additional items found by auditors.

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.

Client's Response:

The County will make every effort to implement a system to monitor and review financial reporting.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEM ARISING THIS YEAR

12-1 Subrecipient Monitoring

Program: U.S. Department of Housing and Redevelopment's Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CDGB) (CFDA #14.228)

Pass-Through Agency: Minnesota Department of Employment and Economic Development

Criteria: OMB Circular A-133, Subpart C, § .400, indicates auditee responsibilities for entities that provide federal awards to subrecipients as a pass-through entity. Included in these responsibilities are: (1) at the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements); (2) monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings; and (4) evaluating the impact of subrecipient activities on the entity's ability to comply with applicable federal regulations.

Condition: Freeborn County, as the pass-through entity of federal awards, was unable to provide us with sufficient documentation that the County performed the required subrecipient compliance requirements. The County also had not established policies and procedures to ensure that necessary monitoring procedures were being applied.

Questioned Costs: None.

Context: Monitoring activities to ensure compliance with subrecipient requirements may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipients to review financial and programmatic records and observe operations, reviewing the subrecipient's single audit, and evaluating audit findings and the subrecipient's corrective action plan.

Effect: Freeborn County did not obtain assurance that the Albert Lea Economic Development Agency (EDA) is administering federal awards in compliance with applicable federal requirements.

Cause: Freeborn County does not have written policies and procedures in place to ensure compliance requirements over subrecipients are met and subrecipients are monitored in accordance with OMB Circular A-133.

Recommendation: We recommend the County comply with the subrecipient compliance requirements and also establish policies and procedures to ensure compliance in accordance with OMB Circular A-133.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

John Kluver, County Administrator (507/377/5116)

Corrective Action Planned:

The County Administrator has contacted the Albert Lea Economic Development Agency and an audit is being completed in compliance with OMB Circular A-133.

Anticipated Completion Date:

September 2013

PREVIOUSLY REPORTED ITEMS RESOLVED

**Special Tests and Provisions - Child Support Enforcement (CFDA #93.563)
(11-2)**

The state maintains the computer system, PRISM, which is used by the County to support monitoring support obligations. During our testing, 3 out of 40 case files were not monitored nor was there documentation to determine that action was taken within the required time frame to enforce the obligation.

Resolution

The requirement is no longer required per OMB *Circular A-133 Compliance Supplement*.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Sale of County Property (11-3)

County property was sold to an elected County official and a contractor without complying with the statutory requirements of Minn. Stat. § 15.054.

Resolution

Review of sales disclosed did not disclose any noncompliance with the statutory requirements.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-5 Disaster Recovery Plan

Criteria: The County needs to provide for the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements. A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan as to how the County will continue operations until normal operations are re-established;
- a list of materials the County needs to continue operations and how they will be obtained;
- identification of the space to be used; and
- a schedule for developing and periodically reviewing and updating the plan.

Condition: While reviewing the Information Technology Department, we noted Freeborn County has not completed or approved a formal disaster recovery plan, although, the County has started a plan.

Context: A disaster recovery plan would give greater assurance that the County is prepared for a disaster or major computer breakdown.

Effect: In the event that a disaster occurred, the County could experience a delay in reporting of financial services to the public.

Cause: The County is aware of the issue but has not had time to address the completion of a plan.

Recommendation: We recommend the County continue to develop, implement, and test the disaster recovery plan. All County employees should be familiar with the plan.

Client's Response:

The Information Technology Department continues to develop an Emergency Response plan specific to the Department. In addition, an Emergency Response plan for this Department is included in the Freeborn County Emergency Operations Plan which has been approved by the Board of Commissioners and the Minnesota Department of Public Safety.

ITEM ARISING THIS YEAR

12-2

Ditch Fund Balance Deficits

Criteria: 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 repairs of a drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

Condition: As of December 31, 2012, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balances.

Context: Seven of the 62 individual ditch systems had deficit fund balances as of December 31, 2012, totaling \$480,746.

Effect: Ditch systems with deficit fund balances indicate that measures have not been taken to ensure that an individual ditch system can meet financial obligations, and may be inconsistent with Minn. Stat. § 103E.655.

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

Recommendation: We recommend that the County eliminate the ditch system fund balance 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 and maintenance costs of a ditch system.

Client's Response:

The County will make every effort to implement the recommendations of the State Auditor.

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

Independent Auditor's Report

Board of County Commissioners
Freeborn 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, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Freeborn 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 preceding paragraph 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 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 and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 11-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 07-4, 08-2, 09-2, and 10-1 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Freeborn 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: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit included all of the listed categories, except that we did not test for compliance in 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 Freeborn 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.

Also included in the Schedule of Findings and Questioned Costs are management practices comments. We believe these recommendations to be of benefit to the County, and they are reported for that purpose.

Freeborn 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 subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

September 27, 2013

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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
Freeborn County

Report on Compliance for Each Major Federal Program

We have audited Freeborn 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 each of the County's major federal programs for the year ended December 31, 2012. Freeborn County's major federal programs are 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 each of Freeborn County's major federal programs 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 Freeborn 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 each 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

Basis for Modified Opinion on Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)

As described in the accompanying Schedule of Findings and Questioned Costs, Freeborn County did not comply with requirements regarding CFDA No. 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii as described in finding number 12-1 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Modified Opinion on Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228)

In our opinion, except for the noncompliance described in the Basis for Modified Opinion paragraph, Freeborn County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA No. 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Freeborn County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

Other Matters

Freeborn County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Freeborn County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Freeborn 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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 12-1 to be a material weakness.

Freeborn County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Freeborn County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 27, 2013