

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2013**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

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

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

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

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**Year Ended December 31, 2013**



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

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		3
Management's Discussion and Analysis		6
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position - Governmental Activities	1	14
Statement of Activities	2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	3	16
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	4	20
Statement of Revenues, Expenditures, and Changes in Fund Balance	5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities	6	23
Fiduciary Funds		
Statement of Fiduciary Net Position	7	24
Statement of Changes in Fiduciary Net Position	8	25
Notes to the Financial Statements		26
Required Supplementary Information		
Schedule of Funding Progress - Other Postemployment Benefits	A-1	62
Budgetary Comparison Schedules		
General Fund	A-2	63
Road and Bridge Special Revenue Fund	A-3	67
Social Services Special Revenue Fund	A-4	68
Ditch Special Revenue Fund	A-5	69
Notes to the Required Supplementary Information		70

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

TABLE OF CONTENTS

	Exhibit	Page
<b>Financial Section (Continued)</b>		
Supplementary Information		
Major Governmental Fund		
Budgetary Comparison Schedule		
Debt Service Fund	B-1	71
Nonmajor Governmental Funds		72
Combining Balance Sheet	C-1	73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	C-2	74
Fiduciary Funds		
Agency Funds		75
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	D-1	77
Other Schedules		
Schedule of Intergovernmental Revenue	E-1	81
Schedule of Expenditures of Federal Awards	E-2	83
Notes to the Schedule of Expenditures of Federal Awards		85
<b>Management and Compliance Section</b>		
Schedule of Findings and Questioned Costs		87
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		95
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance		98



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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2013

Office	Name	Term Expires
Board of County Commissioners		
District 1	Glen Mathiason*	January 2017
District 2	Daniel Belshan	January 2015
District 3	James Nelson	January 2017
District 4	Christopher Shoff	January 2015
District 5	Mike Lee	January 2017
County Officers		
Elected		
Attorney	Craig Nelson	January 2015
Auditor/Treasurer	Pat Martinson	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	Ronald Reule	Indefinite

\*Chair

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2013  
(Continued)

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Human Services		
Board		
Chair	Glen Mathiason	January 2017
Vice Chair	James Nelson	January 2017
Member	Daniel Belshan	January 2015
Member	Christopher Shoff	January 2015
Member	Mike Lee	January 2017
Appointed		
Director	Brian Buhmann	Indefinite
Accountant	Alan Olson	Indefinite



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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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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, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We 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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

### ***Other Matters***

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

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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 24, 2014, 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 24, 2014

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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, 2013  
(Unaudited)**

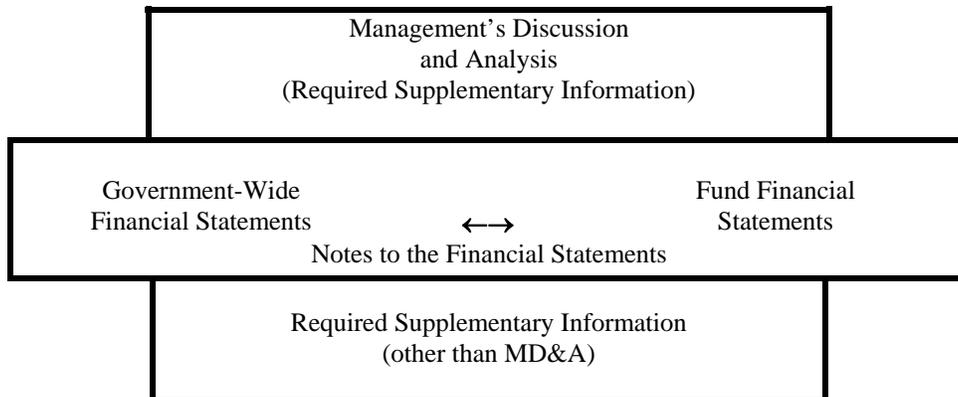
Freeborn County’s Management’s Discussion and Analysis (MD&A) provides an overview of the County’s financial activities for the fiscal year ended December 31, 2013. Since this information is designed to focus on the current year’s activities, resulting changes, and currently known facts, it should be read in conjunction with the County’s financial statements.

**FINANCIAL HIGHLIGHTS**

- Governmental activities’ total net position is \$86,543,151, of which \$61,821,070 is the net investment in capital assets, and \$11,147,528 is restricted to specific purposes.
- Freeborn County’s net position increased by \$3,252,440 for the year ended December 31, 2013.
- The net cost of governmental activities was \$18,520,180 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$21,772,620.

**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, deferred outflows/inflows of resources, and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net position and changes in them. You can think of the County's net position--the difference between assets, deferred outflows/inflows of resources, 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, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development. 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 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 statements following each governmental fund financial statement.

**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 7 and 8. 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 \$83,290,711 to \$86,543,151. 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	
	2013	2012
Assets		
Current and other assets	\$ 40.6	\$ 33.6
Capital assets	78.7	76.1
Total Assets	\$ 119.3	\$ 109.7

	Governmental Activities	
	2013	2012
Liabilities		
Long-term liabilities outstanding	\$ 29.5	\$ 24.7
Other liabilities	1.6	1.7
Total Liabilities	<u>\$ 31.1</u>	<u>\$ 26.4</u>
Deferred Inflows of Resources	<u>\$ 1.7</u>	<u>\$ -</u>
Net Position		
Net investment in capital assets	\$ 61.8	\$ 58.0
Restricted	11.1	6.9
Unrestricted	<u>13.6</u>	<u>18.4</u>
Total Net Position	<u><u>\$ 86.5</u></u>	<u><u>\$ 83.3</u></u>

Net position of the County's governmental activities increased (\$86.5 million compared to \$83.3 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 \$18.4 million surplus at December 31, 2012, to \$13.6 million at the end of this year (2013).

**Table 2**  
**Changes in Net Position**  
**(in millions)**

	Governmental Activities	
	2013	2012
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 4.2	\$ 5.0
Operating grants and contributions	17.1	14.0
Capital grants and contributions	1.5	1.7
General revenues		
Property taxes	19.6	18.8
Grants and contributions	1.5	1.7
Other general revenues	<u>0.7</u>	<u>0.6</u>
Total Revenues	<u>\$ 44.6</u>	<u>\$ 41.8</u>

	Governmental Activities	
	2013	2012
Program Expenses		
General government	\$ 6.9	\$ 7.2
Public safety	6.5	6.3
Highways and streets	11.4	9.5
Sanitation	0.4	0.4
Human services	9.2	7.6
Health	1.5	3.2
Culture and recreation	0.4	0.3
Conservation of natural resources	4.0	1.1
Economic development	0.1	0.4
Interest	0.9	0.7
Total Program Expenses	\$ 41.3	\$ 36.7
Increase (Decrease) in Net Position	\$ 3.3	\$ 5.1

### Governmental Activities

Revenues were \$44.6 million, and expenses were \$41.3 million for the County's governmental activities. This resulted in an increase of \$3.3 million to net position in the year ended December 31, 2013.

The amount that taxpayers ultimately financed for these activities through County taxes and other general sources was only \$21.8 million because some of the cost was paid by those who directly benefited from the programs (\$4.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$18.6 million). The County paid for the remaining "public benefit" portion of governmental activities with \$21.8 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)**

	2013		2012	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Highways and streets	\$ 11.4	\$ 2.7	\$ 9.5	\$ 2.0
Human services	9.2	4.5	7.6	3.9
General government	6.9	5.7	7.2	6.1
Public safety	6.5	4.0	6.3	2.4
Conservation of natural resources	4.0	(0.1)	1.1	-
Health	1.5	0.3	3.2	0.7
All others	1.8	1.4	1.8	0.9
Total	<u>\$ 41.3</u>	<u>\$ 18.5</u>	<u>\$ 36.7</u>	<u>\$ 16.0</u>

## 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 \$31.2 million, which is \$4.1 million more than 2012. Included in this year's total fund balance is a fund balance of \$12.4 million in the County's General Fund, approximately \$0.1 million more than last year. The Ditch Special Revenue Fund increased by \$0.8 million to \$2.4 million. The Social Services Special Revenue Fund had an increase of \$0.4 million. The Road and Bridge Special Revenue Fund had an increase of \$1.5 million. The Debt Service Fund had an increase of \$1.4 million.

### Governmental Funds Budgetary Highlights

No budget amendments were made for 2013. The largest variance occurred in the Road and Bridge Fund. Revenues were \$2.5 million higher than budget, and expenses were \$4.2 million higher than budget. This was due to moving up projects because of the availability of state aid dollars. For the Debt Service Fund, revenues were \$1.1 million higher than budgeted and expenditures were \$2.4 million higher than budgeted. The County issued new debt, including refunding debt that was not budgeted for. In the Social Services Fund, utilization of the programs and staff vacancies resulted in revenues being lower by \$0.4 million and expenditures being \$1.1 million lower than budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2013, the County had \$78.7 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 \$2.6 million, or 3.4 percent, from last year.

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

	Governmental Activities	
	2013	2012
Land	\$ 4.2	\$ 4.2
Land improvements	0.7	0.8
Construction in progress	-	1.3
Buildings and improvements	24.2	24.9
Machinery, vehicles, furniture, and equipment	2.5	2.4
Infrastructure	47.1	42.5
Total	<u>\$ 78.7</u>	<u>\$ 76.1</u>

### Debt

At year-end, the County had \$27.4 million in bonds and notes outstanding versus \$22.8 million last year, an increase of 20.2 percent, as shown in Table 5.

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

	Governmental Activities	
	2013	2012
General obligation bonds and notes (backed by the County)	\$ 19.5	\$ 17.6
Special assessment bonds	5.4	2.4
General obligation capital notes	2.5	2.8
Total	<u>\$ 27.4</u>	<u>\$ 22.8</u>

The County's general obligation bond rating was "Aa3" at its last bond issuance in October 2013. 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 2014 budget and tax rates.

- County General Fund expenditures for 2014 are budgeted to increase 3.2 percent over 2013.
- The combined budget for 2014 decreased \$830,048, or 2.0 percent, under the 2013 budget.
- Property tax levies have increased 0.85 percent for 2014.

## **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, Timothy Patrick Paquin, 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, 2013**

**Assets**

Cash and pooled investments	\$	32,018,927
Petty cash and change funds		2,465
Taxes receivable		
Prior - net		426,180
Special assessments receivable		
Prior - net		162,763
Noncurrent - net		3,779,974
Accounts receivable - net		1,508,794
Accrued interest receivable		25,246
Loans receivable		312,583
Due from other governments		1,946,615
Inventories		390,132
Capital assets		
Non-depreciable		4,860,775
Depreciable - net of accumulated depreciation		73,861,751
		<b>\$ 119,296,205</b>

**Liabilities**

Accounts payable	\$	705,973
Salaries payable		457,576
Due to other governments		155,016
Accrued interest payable		267,812
Unearned revenue		11,740
Long-term liabilities		
Due within one year		2,393,479
Due in more than one year		27,104,905
		<b>\$ 31,096,501</b>

**Deferred Inflows of Resources**

Advanced allotments	\$	<b>1,656,553</b>
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**Net Position**

Net investment in capital assets	\$	61,821,070
Restricted for		
General government		252,757
Public safety		66,598
Highways and streets		3,694,850
Conservation		1,169,743
Debt service		5,759,462
Economic development		68,879
Endowment - nonexpendable		135,239
Unrestricted		13,574,553
		<b>\$ 86,543,151</b>

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 2*

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions		Capital Grants and Contributions
<b>Functions/Programs</b>					
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 6,922,425	\$ 944,388	\$ 243,425	\$ -	\$ (5,734,612)
Public safety	6,469,525	1,924,810	552,713	-	(3,992,002)
Highways and streets	11,371,372	248,135	6,939,180	1,467,744	(2,716,313)
Sanitation	404,776	-	393,379	-	(11,397)
Human services	9,204,595	603,130	4,079,179	-	(4,522,286)
Health	1,539,475	431,983	830,602	-	(276,890)
Culture and recreation	388,287	1,149	-	-	(387,138)
Conservation of natural resources	4,011,503	65,550	4,031,465	-	85,512
Economic development	50,963	-	-	-	(50,963)
Interest	914,091	-	-	-	(914,091)
<b>Total Governmental Activities</b>	<b>\$ 41,277,012</b>	<b>\$ 4,219,145</b>	<b>\$ 17,069,943</b>	<b>\$ 1,467,744</b>	<b>\$ (18,520,180)</b>
<b>General Revenues</b>					
Property taxes					\$ 19,641,393
Gravel taxes					80,105
Mortgage registry and deed tax					20,860
Wheelage taxes					19,212
Local sales taxes					413,441
Payments in lieu of tax					2,828
Grants and contributions not restricted to specific programs					1,459,818
Unrestricted investment earnings					102,769
Miscellaneous					28,616
Gain on sale of capital assets					3,578
<b>Total general revenues</b>					<b>\$ 21,772,620</b>
<b>Change in net position</b>					<b>\$ 3,252,440</b>
<b>Net Position - Beginning</b>					<b>83,290,711</b>
<b>Net Position - Ending</b>					<b>\$ 86,543,151</b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 11,336,030	\$ 6,266,576
Petty cash and change funds	2,415	-
Taxes receivable		
Prior	172,679	81,399
Special assessments		
Prior	52,095	-
Noncurrent	-	-
Accounts receivable	454,348	57,015
Accrued interest receivable	25,198	-
Loans receivable	312,583	-
Due from other funds	35,534	2,914
Due from other governments	503,748	380,757
Inventories	-	390,132
Advances to other funds	706,302	-
	<b>\$ 13,600,932</b>	<b>\$ 7,178,793</b>
 <b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>Liabilities</b>		
Accounts payable	\$ 281,901	\$ 65,238
Salaries payable	276,403	56,810
Due to other funds	2,555	-
Due to other governments	52,018	1,621
Unearned revenue	-	-
Advance from other funds	-	-
	<b>\$ 612,877</b>	<b>\$ 123,669</b>
 <b>Deferred Inflows of Resources</b>		
Advanced allotments	\$ -	\$ 1,656,553
Unavailable revenue	601,227	436,889
	<b>\$ 601,227</b>	<b>\$ 2,093,442</b>

**EXHIBIT 3**

<b>Special Revenue Funds</b>				
<b>Social Services</b>	<b>Ditch</b>	<b>Debt Service</b>	<b>Nonmajor Funds</b>	<b>Total</b>
\$ 8,052,579	\$ 2,937,879	\$ 3,196,640	\$ 229,223	\$ 32,018,927
50	-	-	-	2,465
116,164	-	55,938	-	426,180
-	9,118	101,550	-	162,763
-	2,299,020	1,480,954	-	3,779,974
802,087	-	-	-	1,313,450
-	-	-	48	25,246
-	-	-	-	312,583
2,555	-	-	-	41,003
735,954	326,156	-	-	1,946,615
-	-	-	-	390,132
-	-	-	-	706,302
<b>\$ 9,709,389</b>	<b>\$ 5,572,173</b>	<b>\$ 4,835,082</b>	<b>\$ 229,271</b>	<b>\$ 41,125,640</b>
\$ 262,718	\$ 96,116	\$ -	\$ -	\$ 705,973
124,363	-	-	-	457,576
38,310	46	-	-	40,911
69,303	6,921	-	25,153	155,016
-	11,740	-	-	11,740
-	511,050	-	-	511,050
<b>\$ 494,694</b>	<b>\$ 625,873</b>	<b>\$ -</b>	<b>\$ 25,153</b>	<b>\$ 1,882,266</b>
\$ -	\$ -	\$ -	\$ -	\$ 1,656,553
1,225,100	2,521,575	1,625,287	-	6,410,078
<b>\$ 1,225,100</b>	<b>\$ 2,521,575</b>	<b>\$ 1,625,287</b>	<b>\$ -</b>	<b>\$ 8,066,631</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

	<b>General</b>	<b>Road and Bridge</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u></b>		
<b>(Continued)</b>		
<b>Fund Balances</b>		
Nonspendable		
Advances to other funds	\$ 166,049	\$ -
Long-term loans/notes receivable	277,756	-
Inventories	-	390,132
Endowment permanent	-	-
Restricted for		
Law library	51,272	-
Recorder's technology equipment	108,010	-
Recorder's equipment	82,841	-
E-911	66,598	-
Attorney's forfeited property	10,634	-
Highway construction projects	-	3,300,000
Gravel pit postclosure	64,031	-
Ditch maintenance and repairs	-	-
Future revolving loans	-	-
Debt service	-	-
Committed		
Individual sewage treatment system	261,128	-
Assigned		
Subsequent year's appropriated budget	1,357,696	-
Road and bridge	-	1,271,550
Human services	-	-
Unassigned	9,940,813	-
<b>Total Fund Balances</b>	<b>\$ 12,386,828</b>	<b>\$ 4,961,682</b>
<b>Total Liabilities Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 13,600,932</b>	<b>\$ 7,178,793</b>

**EXHIBIT 3**  
**(Continued)**

<b>Special Revenue Funds</b>				
<b>Social Services</b>	<b>Ditch</b>	<b>Debt Service</b>	<b>Nonmajor Funds</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ -	\$ 166,049
-	-	-	-	277,756
-	-	-	-	390,132
-	-	-	135,239	135,239
-	-	-	-	51,272
-	-	-	-	108,010
-	-	-	-	82,841
-	-	-	-	66,598
-	-	-	-	10,634
-	-	-	-	3,300,000
-	-	-	-	64,031
-	1,045,620	-	-	1,045,620
-	-	-	68,879	68,879
-	1,890,364	3,209,795	-	5,100,159
-	-	-	-	261,128
-	-	-	-	1,357,696
-	-	-	-	1,271,550
7,989,595	-	-	-	7,989,595
-	(511,259)	-	-	9,429,554
<b>\$ 7,989,595</b>	<b>\$ 2,424,725</b>	<b>\$ 3,209,795</b>	<b>\$ 204,118</b>	<b>\$ 31,176,743</b>
<b>\$ 9,709,389</b>	<b>\$ 5,572,173</b>	<b>\$ 4,835,082</b>	<b>\$ 229,271</b>	<b>\$ 41,125,640</b>

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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, 2013**

<b>Fund balances - total governmental funds (Exhibit 3)</b>		<b>\$ 31,176,743</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		78,722,526
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the governmental funds.		6,410,078
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	\$ (19,485,000)	
General obligation capital notes	(2,450,000)	
Compensated absences	(1,469,579)	
Special assessment general obligation bonds	(5,410,000)	
Accrued interest payable	(267,812)	
Unamortized premium	(716,456)	
Unamortized discount	32,651	(29,766,196)
<b>Net Position of Governmental Activities (Exhibit 1)</b>		<b><u><u>\$ 86,543,151</u></u></b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

	<b>General</b>	<b>Road and Bridge</b>
<b>Revenues</b>		
Taxes	\$ 8,346,982	\$ 3,931,142
Special assessments	393,497	-
Licenses and permits	114,555	6,700
Intergovernmental	3,002,541	8,732,805
Charges for services	2,845,744	131,581
Fines and forfeits	28,345	-
Gifts and contributions	10,095	-
Investment earnings	110,471	-
Miscellaneous	1,221,376	96,534
	<b>\$ 16,073,606</b>	<b>\$ 12,898,762</b>
<b>Expenditures</b>		
<b>Current</b>		
General government	\$ 6,067,026	\$ -
Public safety	6,162,702	-
Highways and streets	13,868	13,852,284
Sanitation	389,793	-
Human services	142,060	-
Health	1,524,573	-
Culture and recreation	388,287	-
Conservation of natural resources	639,462	-
Economic development	397,409	-
<b>Intergovernmental</b>		
Highways and streets	-	318,877
Conservation of natural resources	-	-
<b>Capital outlay</b>	255,144	509,119
<b>Debt service</b>		
Principal	-	-
Interest	-	-
Bond issuance costs	-	-
Administrative (fiscal) charges	1,184	-
	<b>\$ 15,981,508</b>	<b>\$ 14,680,280</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 92,098</b>	<b>\$ (1,781,518)</b>
<b>Other Financing Sources (Uses)</b>		
Bonds issued	\$ -	\$ 3,300,000
Premium on bonds/notes issued	-	-
Discount on bonds/notes issued	-	-
Proceeds from sale of capital assets	3,578	-
	<b>\$ 3,578</b>	<b>\$ 3,300,000</b>
<b>Net Change in Fund Balance</b>	<b>\$ 95,676</b>	<b>\$ 1,518,482</b>
<b>Fund Balance - January 1</b>	<b>12,291,152</b>	<b>3,488,535</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>(45,335)</b>
<b>Fund Balance - December 31</b>	<b>\$ 12,386,828</b>	<b>\$ 4,961,682</b>

**EXHIBIT 5**

<u>Social Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 5,065,874	\$ -	\$ 2,843,011	\$ -	\$ 20,187,009
-	1,123,320	766,986	-	2,283,803
-	-	-	-	121,255
3,861,179	120,895	-	-	15,717,420
669,910	-	-	-	3,647,235
1,411	-	-	-	29,756
2,147	-	-	-	12,242
-	-	-	558	111,029
16,491	15,188	-	25,000	1,374,589
<b>\$ 9,617,012</b>	<b>\$ 1,259,403</b>	<b>\$ 3,609,997</b>	<b>\$ 25,558</b>	<b>\$ 43,484,338</b>
\$ -	\$ -	\$ -	\$ -	\$ 6,067,026
172,767	-	-	-	6,335,469
-	-	-	-	13,866,152
-	-	-	-	389,793
9,024,754	-	-	-	9,166,814
-	-	-	-	1,524,573
-	-	-	-	388,287
-	973,035	-	25,153	1,637,650
-	-	-	-	397,409
-	-	-	-	318,877
-	-	2,364,690	-	2,364,690
-	-	-	-	764,263
-	328,591	1,761,409	32,159	2,122,159
-	91,581	616,138	275	707,994
-	15,471	74,319	-	89,790
-	782	3,927	-	5,893
<b>\$ 9,197,521</b>	<b>\$ 1,409,460</b>	<b>\$ 4,820,483</b>	<b>\$ 57,587</b>	<b>\$ 46,146,839</b>
<b>\$ 419,491</b>	<b>\$ (150,057)</b>	<b>\$ (1,210,486)</b>	<b>\$ (32,029)</b>	<b>\$ (2,662,501)</b>
\$ -	\$ 936,143	\$ 2,443,857	\$ -	\$ 6,680,000
-	18,784	159,412	-	178,196
-	-	(19,144)	-	(19,144)
-	-	-	-	3,578
<b>\$ -</b>	<b>\$ 954,927</b>	<b>\$ 2,584,125</b>	<b>\$ -</b>	<b>\$ 6,842,630</b>
<b>\$ 419,491</b>	<b>\$ 804,870</b>	<b>\$ 1,373,639</b>	<b>\$ (32,029)</b>	<b>\$ 4,180,129</b>
<b>7,570,104</b>	<b>1,619,855</b>	<b>1,836,156</b>	<b>236,147</b>	<b>27,041,949</b>
<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(45,335)</b>
<b>\$ 7,989,595</b>	<b>\$ 2,424,725</b>	<b>\$ 3,209,795</b>	<b>\$ 204,118</b>	<b>\$ 31,176,743</b>

**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, 2013**

**Net change in fund balances - total governmental funds (Exhibit 5) \$ 4,180,129**

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 unavailable revenue.

Unavailable revenue - December 31	\$ 6,410,078	
Unavailable revenue - January 1	(4,981,296)	1,428,782

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	\$ 5,547,282	
Net book value of assets disposed	(48,046)	
Current year depreciation	(2,891,342)	2,607,894

Debt issuance proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

General obligation bonds issued	\$ (3,300,000)	
Special assessment general obligation bonds issued	(3,380,000)	
Premium on bonds issued	(178,196)	
Discount on bonds issued	19,144	(6,839,052)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal repayments		
General obligation bonds	\$ 1,370,000	
Special assessment general obligation bonds	340,000	
Capital notes	380,000	
Loans	32,159	2,122,159

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 compensated absences	\$ (91,723)	
Amortization of discounts/premiums	52,325	
Deferred charges not previously expensed	(162,739)	
Change in inventories	(45,335)	(247,472)

**Change in Net Position of Governmental Activities (Exhibit 2) \$ 3,252,440**

**FIDUCIARY FUNDS**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT 7**

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

	<b>Private-Purpose Trust</b>	<b>Agency Funds</b>
<b><u>Assets</u></b>		
Cash and pooled investments	\$ 10,929	\$ 872,239
Accrued interest receivable	1	-
Due from other governments	-	26,004
	<b>\$ 10,930</b>	<b>\$ 898,243</b>
<b><u>Liabilities</u></b>		
Due to other funds	\$ -	\$ 92
Due to other governments	-	702,899
Advance from governmental funds	-	195,252
	<b>\$ -</b>	<b>\$ 898,243</b>
<b><u>Net Position</u></b>		
Net position, held in trust for other purposes	<b>\$ 10,930</b>	

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT 8*

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Private-Purpose Trust</u>
<u>Additions</u>	
Investment earnings	
Interest	\$ 20
<b>Change in Net Position</b>	<b>\$ 20</b>
<b>Net Position - January 1</b>	<b>10,910</b>
<b>Net Position - December 31</b>	<b>\$ 10,930</b>

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the County are discussed below.

Changes in Accounting Principles

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

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

A. Financial Reporting Entity

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.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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, which was inactive for 2013.

<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.

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.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities 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.

2. Fund Financial Statements

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

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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.

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

Additionally, the County reports the following fund types:

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 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.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2013, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2013 were \$110,471.

2. 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 inter-fund loans) or "advances to/from other funds" (the noncurrent portion of inter-fund 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.

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.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. 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.

4. 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.

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

5. 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

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Compensated Absences (Continued)

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.

6. Long-Term Obligations

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

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.

7. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

7. Deferred Outflows/Inflows of Resources (Continued)

inflow of resources (revenue) until that time. The County has two items, which arise under the modified accrual basis of accounting, that qualify for reporting in this category. The items, advanced allotments and unavailable revenue, are reported in the governmental fund balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The advanced allotments are also reported as an inflow of resources under the full accrual basis in the statement of net position.

8. Classification of Net Position

Net position in the government-wide 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 does not meet the definition of restricted or net investment in capital assets.

9. 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 in spendable form” criterion includes items that are not expected to be converted to cash.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

9. Classifications of Fund Balances (Continued)

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.

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.

10. 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.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

10. Minimum Fund Balance (Continued)

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 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.

11. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

For the year ended December 31, 2013, expenditures exceeded budgeted amounts in the General Fund, Road and Bridge Special Revenue Fund, Ditch Special Revenue Fund, and Debt Service Fund. The Road and Bridge Fund received \$910,917 in bridge bonding money from the State of Minnesota and received an additional \$3,300,000 in Regular Construction highway user tax. The County was able to complete the bridge construction in 2013 and to do a highway construction project. The Debt Service Fund issued debt for the Turtle Creek Watershed District and passed the proceeds of \$2,364,690 to the Turtle Creek Watershed Agency Fund. These items were not budgeted.

	Final Budget	Expenditures	Excess
General Fund	\$ 15,549,007	\$ 15,981,508	\$ 432,501
Road and Bridge Special Revenue Fund	10,465,987	14,680,280	4,214,293
Ditch Special Revenue Fund	1,281,000	1,409,460	128,460
Debt Service Fund	2,396,594	4,820,483	2,423,889

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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2. Stewardship, Compliance, and Accountability (Continued)

B. Ditch Special Revenue Fund Equity

On the full accrual basis of accounting, two 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, 2013, using the full accrual basis of accounting.

Account balances	\$ 4,951,673
Account deficits	(5,374)
	\$ 4,946,299
Fund Equity - Full Accrual Basis	\$ 4,946,299

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, nine ditches had fund deficits.

Account balances	\$ 2,935,984
Account deficits	(511,259)
	\$ 2,424,725
Fund Balance - Modified Accrual Basis	\$ 2,424,725

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	\$ 32,018,927
Petty cash and change funds	2,465
Fiduciary funds	
Cash and pooled investments	
Private-Purpose Trust Fund	10,929
Agency funds	872,239
	\$ 32,904,560
Total Cash and Investments	\$ 32,904,560

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk other than complying with the requirements of Minnesota statutes. As of December 31, 2013, the County's deposits were exposed to custodial credit risk in the amount of \$18,665.

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;

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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**

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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's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased that exceed SIPC coverage shall be transferred to the County custodian. As of December 31, 2013, 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, 2013, 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	
U.S. government agency securities					
Federal Home Loan Bank	Aaa	Moody's	<5%	12/27/2018	\$ 493,671
Federal Home Loan Mortgage Corporation	Aaa	Moody's	<5%	12/27/2018	990,856
Total U.S. government agency securities					\$ 1,484,527
Negotiable certificates of deposit					
Sterling Savings Bank	N/A	N/A	<5%	04/25/2016	\$ 243,792
Medallion Bank	N/A	N/A	<5%	05/06/2016	243,592
Bank of China New York	N/A	N/A	<5%	05/08/2015	244,480
Privatebank	N/A	N/A	<5%	05/11/2015	244,504
Key Bank National	N/A	N/A	<5%	11/09/2015	244,408
Marlin Business Bank	N/A	N/A	<5%	05/09/2016	243,685
Synovus Bank GA	N/A	N/A	<5%	05/09/2016	243,686
Oriental Bank & Trust	N/A	N/A	<5%	05/16/2016	243,511
Cardinal Bank	N/A	N/A	<5%	05/18/2015	244,482
Merrick Bank	N/A	N/A	<5%	05/22/2015	244,437
Noah Bank	N/A	N/A	<5%	05/20/2016	243,537
Comenity Capital Bank	N/A	N/A	<5%	05/31/2016	243,450
Townebank Portsmouth VA	N/A	N/A	<5%	06/01/2015	244,443
State Bank India NY	N/A	N/A	<5%	06/06/2016	243,411
BMW Bank of North America	N/A	N/A	<5%	08/09/2018	244,334
GE Capital Retail Bank	N/A	N/A	<5%	08/09/2018	243,689
Cit Bank	N/A	N/A	<5%	08/14/2018	244,267
Compass Bank	N/A	N/A	<5%	08/28/2018	244,209
Bank Baroda NY	N/A	N/A	<5%	11/23/2018	243,661
Independent Bank	N/A	N/A	<5%	06/19/2017	243,866
Level One	N/A	N/A	<5%	02/21/2017	243,739
Bucks Co Bank	N/A	N/A	<5%	06/23/2017	243,662
Yadkin Valley	N/A	N/A	<5%	12/26/2017	243,692
First Priority Bank	N/A	N/A	<5%	12/27/2016	243,876
Alliance B&T	N/A	N/A	<5%	02/20/2014	245,372
Discover Bank	N/A	N/A	<5%	09/26/2014	245,639
Sovereign Bank National	N/A	N/A	<5%	09/26/2014	245,656
Ally Bank Utah	N/A	N/A	<5%	10/01/2014	245,803
American Express Centurion	N/A	N/A	<5%	11/10/2014	201,008
GE Capital Financial Inc.	N/A	N/A	<5%	11/17/2014	201,036
Goldman Sachs Bank	N/A	N/A	<5%	12/15/2014	201,066
Sallie Mae Bank	N/A	N/A	<5%	12/15/2014	201,024
Total negotiable certificates of deposit					\$ 7,641,017

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
Mutual funds					
Wells Fargo Advantage Heritage Fund	Aaa	Moody's	N/A	N/A	\$ 17,150,143
Total investments					\$ 26,275,687
Deposits					6,626,408
Petty cash and change funds					2,465
Total Cash and Investments					<u>\$ 32,904,560</u>

N/A - Not Applicable

2. Receivables

Receivables as of December 31, 2013, 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	\$ 426,180	\$ -	\$ 426,180	\$ -
Special assessments	3,942,737	-	3,942,737	-
Accounts	2,074,758	(565,964)	1,508,794	606,631
Accrued interest	25,246	-	25,246	-
Loans	312,583	-	312,583	-
Due from other governments	1,946,615	-	1,946,615	-
Total Governmental Activities	<u>\$ 8,728,119</u>	<u>\$ (565,964)</u>	<u>\$ 8,162,155</u>	<u>\$ 606,631</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Governmental activities capital asset activity for the year ended December 31, 2013, 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>\$ 6,186,974</u>	<u>\$ -</u>	<u>\$ 1,326,199</u>	<u>\$ 4,860,775</u>
Capital assets depreciated				
Buildings and improvements	\$ 32,018,204	\$ -	\$ -	\$ 32,018,204
Other land improvements	110,838	-	-	110,838
Machinery, furniture, and equipment	6,392,034	764,253	437,786	6,718,501
Infrastructure - sewer	391,579	-	-	391,579
Infrastructure - highway	88,427,449	6,109,228	138,292	94,398,385
Total capital assets depreciated	<u>\$ 127,340,104</u>	<u>\$ 6,873,481</u>	<u>\$ 576,078</u>	<u>\$ 133,637,507</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 7,117,858	\$ 805,942	\$ -	\$ 7,923,800
Other land improvements	28,172	5,542	-	33,714
Machinery, furniture, and equipment	3,952,393	666,382	436,714	4,182,061
Infrastructure - sewer	200,634	15,833	-	216,467
Infrastructure - highway	46,113,389	1,397,643	91,318	47,419,714
Total accumulated depreciation	<u>\$ 57,412,446</u>	<u>\$ 2,891,342</u>	<u>\$ 528,032</u>	<u>\$ 59,775,756</u>
Total capital assets depreciated, net	<u>\$ 69,927,658</u>	<u>\$ 3,982,139</u>	<u>\$ 48,046</u>	<u>\$ 73,861,751</u>
Capital Assets, Net	<u>\$ 76,114,632</u>	<u>\$ 3,982,139</u>	<u>\$ 1,374,245</u>	<u>\$ 78,722,526</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 835,993
Public safety	122,888
Highways and streets, including depreciation of infrastructure assets	1,910,213
Human services	7,265
Sanitation	14,983
Total Depreciation Expense - Governmental Activities	<u>\$ 2,891,342</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, 2013, 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	\$ 35,396
	Ditch Special Revenue Fund	Services provided	46
	Turtle Creek Watershed Agency Fund	Services provided	<u>92</u>
Total General Fund			\$ 35,534
Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	Services provided	2,914
Social Services Special Revenue Fund	General Fund	Services provided	<u>2,555</u>
Total Due To/From Other Funds			<u>\$ 41,003</u>

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ditch Special Revenue Fund	\$ 511,050
	Motor Vehicle Agency Fund	25,000
	Supplemental Insurance Agency Fund	26,004
	Insurance Agency Fund	141,049
	Turtle Creek Watershed Agency Fund	<u>3,199</u>
Total Advances To/From Other Funds		<u>\$ 706,302</u>

Advances were made to cover shortfalls/timing differences between payments and receipts.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities and Deferred Inflows of Resources

1. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2013
2010A G.O. Waste Disposal Bonds	2022	\$40,000 - \$45,000	3.75 - 5.25	\$ 525,000	\$ 390,000
2011A G.O. Refunding Bonds	2023	\$495,000 - \$645,000	3.00 - 4.00	6,120,000	5,640,000
2011B G.O. Refunding Bonds	2023	\$385,000 - \$515,000	3.00 - 4.00	4,800,000	4,425,000
2011C G.O. Refunding Bonds	2023	\$520,000 - \$635,000	3.00	6,200,000	5,730,000
2013B G.O. Capital Improvement Bonds	2023	\$335,000 - \$395,000	3.00	3,300,000	3,300,000
Total General Obligation Bonds				<u>\$ 20,945,000</u>	<u>\$ 19,485,000</u>
2010B G.O. Radio Capital Notes	2019	\$385,000 - \$440,000	2.00 - 3.75	<u>\$ 3,575,000</u>	<u>\$ 2,450,000</u>
Ditch Series 2006 G.O. Special Assessment Bonds	2022	\$255,000 - \$35,000	3.625 - 4.15	\$ 3,020,000	\$ 1,230,000
Ditch Series 2009 G.O. Special Assessment Bonds	2022	\$85,000 - \$90,000	1.70 - 3.75	1,060,000	800,000
Watershed Series 2013A G.O. Special Assessment Bonds	2028	\$145,000 - \$165,000	0.30 - 2.30	2,400,000	2,400,000
Ditch Series 2013C G.O. Special Assessment Refunding Bonds	2019	\$110,000 - \$275,000	2.00	980,000	980,000
Total G.O. Special Assessment Bonds				<u>\$ 7,460,000</u>	<u>\$ 5,410,000</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

2. Debt Service Requirements

Debt service requirements at December 31, 2013, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds		General Obligation Capital Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 1,445,000	\$ 579,093	\$ 490,000	\$ 123,719	\$ 385,000	\$ 67,406
2015	1,810,000	548,631	775,000	101,731	390,000	59,706
2016	1,865,000	493,169	630,000	86,414	400,000	50,931
2017	1,910,000	435,981	625,000	72,635	410,000	40,432
2018	1,950,000	377,294	620,000	58,172	425,000	28,131
2019 - 2023	10,505,000	916,450	1,470,000	153,455	440,000	14,850
2024 - 2028	-	-	800,000	42,880	-	-
Total	<u>\$ 19,485,000</u>	<u>\$ 3,350,618</u>	<u>\$ 5,410,000</u>	<u>\$ 639,006</u>	<u>\$ 2,450,000</u>	<u>\$ 261,456</u>

3. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 17,555,000	\$ 3,300,000	\$ 1,370,000	\$ 19,485,000	\$ 1,445,000
Special assessment G.O. bonds	2,370,000	3,380,000	340,000	5,410,000	490,000
Premiums	592,086	178,196	53,826	716,456	-
Less: discounts	(15,008)	(19,144)	(1,501)	(32,651)	-
Total bonds payable	\$ 20,502,078	\$ 6,839,052	\$ 1,762,325	\$ 25,578,805	\$ 1,935,000
Loans payable	32,159	-	32,159	-	-
General obligation capital notes payable	2,830,000	-	380,000	2,450,000	385,000
Compensated absences	1,377,856	91,723	-	1,469,579	73,479
Long-Term Liabilities	<u>\$ 24,742,093</u>	<u>\$ 6,930,775</u>	<u>\$ 2,174,484</u>	<u>\$ 29,498,384</u>	<u>\$ 2,393,479</u>

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

In November 2013, the County issued refunding bonds, the Ditch G.O. Special Assessments Bonds, Series 2013C. The proceeds will be used to retire the Ditch G.O. Special Assessment Bonds, Series 2006. As a result of the refunding issue, the County will save \$60,369 in debt service payments and achieve an economic gain of \$53,588. The final payment on the Series 2006 bonds was made in February 2014.

**FREEBORN COUNTY  
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3. Detailed Notes on All Funds

C. Liabilities and Deferred Inflows of Resources (Continued)

4. Deferred Inflows of Resources

Deferred inflows of resources as of December 31, 2013, for the County's governmental funds and activities were as follows:

	<u>Deferred Inflows of Resources</u>
Advanced allotments	
Highway allotments that were received in advance	\$ 1,656,553
Unavailable revenue	
Taxes and special assessments, delinquent and deferred	4,262,983
Highway allotments that do not provide current financial resources	330,819
Grants, charges for services, and miscellaneous revenue	<u>1,816,276</u>
 Total Governmental Funds	 <u>\$ 8,066,631</u>

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.

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

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plan

A. Plan Description (Continued)

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 remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for Public Employees Police and Fire Fund members and Public Employees Correctional Fund

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plan

A. Plan Description (Continued)

members, and either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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.

The County is required to contribute the following percentages of annual covered payroll in 2013:

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

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plan

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 733,668	\$ 709,331	\$ 710,013
Public Employees Police and Fire Fund	188,055	185,081	182,437
Public Employees Correctional Fund	248,941	235,966	237,779

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. 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.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plan

C. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2013, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 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.

As of the year-end, the County has 68 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2013, the County expended \$75,996 for these benefits.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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4. Employee Retirement Systems and Pension Plan

D. Other Postemployment Benefits (OPEB) (Continued)

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 six former elected officials eligible for this benefit. The County expended \$6,264 for this benefit in 2013.

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 2013, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

ARC	\$ 61,244
Interest on net OPEB obligation	-
Adjustment to ARC	<u>21,016</u>
Annual OPEB cost	\$ 82,260
Contribution during the year	<u>(82,260)</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**

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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 years ended December 31, 2011, 2012, and 2013, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2011	\$ 87,002	\$ 87,002	100%	\$ -
December 31, 2012	83,522	83,522	100%	-
December 31, 2013	82,260	82,260	100%	-

Funded Status and Funding Progress

As of December 31, 2013, the actuarial accrued liability for benefits was \$1,531,094, all of which was unfunded. The covered payroll (annual payroll of 21 active employees covered by the plan) was \$1,390,584, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 110.1 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**

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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 21 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 2013 Trustee Report Cohort Life Tables V.A4 for Males and for Females was 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**

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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, 2013, was 25 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 \$470,000 per claim in 2013 and \$480,000 in 2014. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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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

Freeborn County 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 2013, 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.

Financial information can be obtained by contacting Alan Olson, Accountant, Freeborn County Social Services, P. O. Box 1248, Albert Lea, Minnesota 56007.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

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.

Southeast Minnesota Regional Radio Board

The Southeast Minnesota Radio Board was established April 16, 2008, as provided by Minn. Stat. §§ 403.39 and 471.59. This joint powers between Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona Counties and the City of Rochester serves to provide regional administration of enhancement to the Allied Radio Matrix for Emergency Response (ARMER) system owned and operated by the State of Minnesota and enhance and improve interoperable public safety communications.

Control of the Southeast Minnesota Radio Board is vested in a Joint Powers Board that is composed of one County Commissioner from each of the participating counties and one City Council member from each participating city.

The financial activities of the Board are accounted for by Olmsted County as fiscal agent. During the year, the County paid \$1,000 to the Radio Board.

Southeastern Minnesota Workforce Development, Inc. (MWD)

The Southeastern Minnesota Workforce Development provides various job training services for member organizations. During the year, Freeborn County made no payments to the MWD.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

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 \$136,256 to the Cooperative.

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 2013, Freeborn County expended \$2,000 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.

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 did not have any expenditures for 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.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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 \$262,000 to the Library.

Greater Blue Earth River Basin Alliance (GBERBA)

The Greater Blue Earth River Basin Alliance establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. The Board consists of County Commissioners and members of the Soil and Water Conservation Districts. During the year, the County made \$2,250 in contributions to the GBERBA

Region One - Southeast Minnesota Homeland Security Emergency Management Organization

The Region One - Southeast Minnesota Security Emergency Management Organization (SERHSEM) was established to provide for regional coordination of planning, training, purchase of equipment, and allocating emergency services and staff in order to better respond to emergencies and natural or other disasters within the SERHSEM region. There are 16 counties participating, with one member from each entity being represented on the Joint Powers Board. Freeborn County's responsibility does not extend beyond making this appointment.

Minnesota Criminal Justice Data Communications Network

The Minnesota Criminal Justice Data Communications Network Joint Powers Agreement exists to create access for the County Sheriff and County Attorney to systems and tools available from the State of Minnesota, Department of Public Safety, and the Bureau of Criminal Apprehension to carry out criminal justice. During the year, the County made no payments to the joint powers.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Minnesota River Board

The Minnesota River Board (formerly the Minnesota River Basin Joint Powers Board) was established July 12, 1995, by an agreement between Freeborn County and 37 other counties. According to the latest information available, 38 other counties are members under this agreement. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

Control is vested in an executive committee of one executive director and four officers elected from the membership of the Minnesota River Powers Board, consisting of one representative from one of the member County Board of Commissioners included in this agreement. During the year, Freeborn County did not make any payments to the Project.

Complete financial statements for the Minnesota River Board can be obtained from its administrative office at Administrative Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

Sentence to Service

Freeborn County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Service (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders who can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Although Freeborn County has no operational or financial control over the STS program, Freeborn County budgets for a percentage of this program.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

South Central Community Based Initiative

The South Central Community Based Initiative Joint Powers Board was established pursuant to Minn. Stat. §§ 471.59 and 245.4661 and a joint powers agreement effective June 20, 2008. The purpose of this joint powers agreement is to provide services to persons with mental illness in the most clinically-appropriate, person-centered, least restrictive, and cost effective ways. The focus is on improved access and outcomes for persons with mental illness as a result of the collaboration between state-operated services programs and community-based treatment. The membership of the Board is comprised of one representative appointed by Blue Earth, Brown, Faribault, Freeborn, Le Sueur, Martin, Nicollet, Rice, Sibley, and Watonwan Counties. The County did not contribute to the Joint Powers Board in 2013.

Southeast Minnesota Immunization Connection

The Southeast Minnesota Immunization Connection (SEMIC) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, Freeborn County did not make any payments to SEMIC.

Southeast Minnesota Recyclers' Exchange

The Southeast Minnesota Recyclers' Exchange (SEMREX) is a joint powers board made up of the City of Red Wing and Blue Earth, Dodge, Freeborn, Mower, Olmsted, Rice, Steele, and Waseca Counties. It is organized to promote regional waste reduction activities through recycling, cooperative marketing ventures, market development strategies, materials exchange efforts, public education, and other projects to protect the environment of southeast Minnesota. During the year, the County made payments of \$1,300 to SEMREX.

Southeast Service Cooperative

The Southeast Services Cooperative delivers numerous services to support administrative and instructional functions to its members and to improve learning opportunities. During the year, the County made payments of \$1,859 to the Cooperative.

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Southeastern Community Action Council

The Southeastern Community Action Council (SEMCAC) provides various services on behalf of member counties to assist people to achieve or maintain independence and self-reliance through their own and community resources. SEMCAC provides services in Dodge, Fillmore, Freeborn, Houston, Mower, Steele, and Winona Counties. During the year, the County made payments of \$7,610 to SEMCAC.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT A-1**

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

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, 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	112.2
December 31, 2013	-	1,531,094	1,531,094	0.0	1,390,584	110.1

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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 8,412,843	\$ 8,412,843	\$ 8,346,982	\$ (65,861)
Special assessments	305,000	305,000	393,497	88,497
Licenses and permits	115,800	115,800	114,555	(1,245)
Intergovernmental	2,525,124	2,525,124	3,002,541	477,417
Charges for services	3,103,850	3,103,850	2,845,744	(258,106)
Fines and forfeits	45,500	45,500	28,345	(17,155)
Gifts and contributions	1,100	1,100	10,095	8,995
Investment earnings	101,000	101,000	110,471	9,471
Miscellaneous	550,133	550,133	1,221,376	671,243
<b>Total Revenues</b>	<b>\$ 15,160,350</b>	<b>\$ 15,160,350</b>	<b>\$ 16,073,606</b>	<b>\$ 913,256</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General government</b>				
Commissioners	\$ 230,706	\$ 230,706	\$ 452,983	\$ (222,277)
Courts	158,200	158,200	162,247	(4,047)
County administration	1,174,726	1,174,726	799,611	375,115
County auditor-treasurer	648,597	648,597	643,531	5,066
License bureau	272,418	272,418	256,995	15,423
County assessor	457,866	457,866	459,354	(1,488)
Elections	30,000	30,000	21,539	8,461
Data processing	685,907	685,907	594,577	91,330
Attorney	601,404	601,404	623,152	(21,748)
Law library	29,500	29,500	18,309	11,191
Recorder	405,410	405,410	471,088	(65,678)
Surveyor	10,000	10,000	800	9,200
Planning and zoning	169,312	169,312	208,173	(38,861)
Buildings and plant	1,143,692	1,143,692	1,183,073	(39,381)
Veterans service officer	156,506	156,506	170,836	(14,330)
Other general government	-	-	758	(758)
<b>Total general government</b>	<b>\$ 6,174,244</b>	<b>\$ 6,174,244</b>	<b>\$ 6,067,026</b>	<b>\$ 107,218</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

***EXHIBIT A-2  
(Continued)***

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Public safety</b>				
Sheriff	\$ 2,198,233	\$ 2,198,233	\$ 2,224,175	\$ (25,942)
Boat and water safety	6,791	6,791	5,374	1,417
Ambulance	3,500	3,500	3,500	-
Coroner	74,155	74,155	81,283	(7,128)
E-911 system	64,520	64,520	20,824	43,696
County jail	2,933,379	2,933,379	2,818,989	114,390
Law enforcement center	49,000	49,000	60,823	(11,823)
Community corrections	796,122	796,122	845,091	(48,969)
Sheriff's contingent	4,000	4,000	6,500	(2,500)
DARE program	5,200	5,200	-	5,200
Civil defense	72,359	72,359	91,343	(18,984)
Other public safety	6,100	6,100	4,800	1,300
<b>Total public safety</b>	<b>\$ 6,213,359</b>	<b>\$ 6,213,359</b>	<b>\$ 6,162,702</b>	<b>\$ 50,657</b>
<b>Highways and streets</b>				
Administration	\$ 10,000	\$ 10,000	\$ 13,868	\$ (3,868)
<b>Sanitation</b>				
Solid waste	\$ -	\$ -	\$ 23,213	\$ (23,213)
Recycling	395,504	395,504	366,580	28,924
<b>Total sanitation</b>	<b>\$ 395,504</b>	<b>\$ 395,504</b>	<b>\$ 389,793</b>	<b>\$ 5,711</b>
<b>Human services</b>				
Income maintenance	\$ -	\$ -	\$ 142,060	\$ (142,060)
<b>Health</b>				
Community health	\$ 426,173	\$ 426,173	\$ 293,023	\$ 133,150
Administration	302,891	302,891	297,665	5,226
Health education	84,115	84,115	66,171	17,944
WIC	179,444	179,444	171,047	8,397
Maternal and child health	55,413	55,413	91,329	(35,916)
Disease prevention	73,340	73,340	38,013	35,327
Child and teen checkups	55,903	55,903	55,789	114
Home health	448,319	448,319	511,536	(63,217)
<b>Total health</b>	<b>\$ 1,625,598</b>	<b>\$ 1,625,598</b>	<b>\$ 1,524,573</b>	<b>\$ 101,025</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-2  
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
<b>Current (Continued)</b>				
<b>Culture and recreation</b>				
Parks	\$ 70,900	\$ 70,900	\$ 83,339	\$ (12,439)
Museum	15,000	15,000	26,773	(11,773)
County/regional library	262,000	262,000	262,000	-
Other culture and recreation	16,275	16,275	16,175	100
<b>Total culture and recreation</b>	<b>\$ 364,175</b>	<b>\$ 364,175</b>	<b>\$ 388,287</b>	<b>\$ (24,112)</b>
<b>Conservation of natural resources</b>				
County extension	\$ 241,845	\$ 241,845	\$ 238,876	\$ 2,969
Soil and water conservation	149,000	149,000	149,000	-
Agricultural inspection	34,777	34,777	35,093	(316)
Agricultural society/County fair	70,000	70,000	69,993	7
Water planning	80,283	80,283	79,825	458
Water quality	73,722	73,722	66,675	7,047
<b>Total conservation of natural resources</b>	<b>\$ 649,627</b>	<b>\$ 649,627</b>	<b>\$ 639,462</b>	<b>\$ 10,165</b>
<b>Economic development</b>				
Community development	\$ 6,500	\$ 6,500	\$ 6,500	\$ -
Other economic development	5,000	5,000	390,909	(385,909)
<b>Total economic development</b>	<b>\$ 11,500</b>	<b>\$ 11,500</b>	<b>\$ 397,409</b>	<b>\$ (385,909)</b>
<b>Capital outlay</b>				
General government	\$ -	\$ -	\$ 52,577	\$ (52,577)
Public safety	55,000	55,000	141,436	(86,436)
Highways and streets	50,000	50,000	61,131	(11,131)
<b>Total capital outlay</b>	<b>\$ 105,000</b>	<b>\$ 105,000</b>	<b>\$ 255,144</b>	<b>\$ (150,144)</b>
<b>Debt service</b>				
Administrative (fiscal) charges	\$ -	\$ -	\$ 1,184	\$ (1,184)
<b>Total Expenditures</b>	<b>\$ 15,549,007</b>	<b>\$ 15,549,007</b>	<b>\$ 15,981,508</b>	<b>\$ (432,501)</b>
<b>Excess of Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>\$ (388,657)</b>	<b>\$ (388,657)</b>	<b>\$ 92,098</b>	<b>\$ 480,755</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-2  
(Continued)*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	\$ -	\$ -	\$ 3,578	\$ 3,578
<b>Net Change in Fund Balance</b>	\$ (388,657)	\$ (388,657)	\$ 95,676	\$ 484,333
<b>Fund Balance - January 1</b>	<u>12,291,152</u>	<u>12,291,152</u>	<u>12,291,152</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 11,902,495</u>	<u>\$ 11,902,495</u>	<u>\$ 12,386,828</u>	<u>\$ 484,333</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-3*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 3,935,897	\$ 3,935,897	\$ 3,931,142	\$ (4,755)
Licenses and permits	-	-	6,700	6,700
Intergovernmental	6,375,000	6,375,000	8,732,805	2,357,805
Charges for services	13,250	13,250	131,581	118,331
Miscellaneous	43,500	43,500	96,534	53,034
<b>Total Revenues</b>	<b>\$ 10,367,647</b>	<b>\$ 10,367,647</b>	<b>\$ 12,898,762</b>	<b>\$ 2,531,115</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Highways and streets</b>				
Administration	\$ 428,881	\$ 428,881	\$ 332,182	\$ 96,699
Maintenance	4,063,536	4,063,536	3,212,636	850,900
Construction	5,245,000	5,245,000	9,086,603	(3,841,603)
Equipment maintenance and shop	728,570	728,570	1,220,863	(492,293)
<b>Total highways and streets</b>	<b>\$ 10,465,987</b>	<b>\$ 10,465,987</b>	<b>\$ 13,852,284</b>	<b>\$ (3,386,297)</b>
<b>Intergovernmental</b>				
Highways and streets	-	-	318,877	(318,877)
<b>Capital outlay</b>				
Highways and streets	-	-	509,119	(509,119)
<b>Total Expenditures</b>	<b>\$ 10,465,987</b>	<b>\$ 10,465,987</b>	<b>\$ 14,680,280</b>	<b>\$ (4,214,293)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (98,340)</b>	<b>\$ (98,340)</b>	<b>\$ (1,781,518)</b>	<b>\$ (1,683,178)</b>
<b>Other Financing Sources (Uses)</b>				
Bonds issued	-	-	3,300,000	3,300,000
<b>Net Change in Fund Balance</b>	<b>\$ (98,340)</b>	<b>\$ (98,340)</b>	<b>\$ 1,518,482</b>	<b>\$ 1,616,822</b>
<b>Fund Balance - January 1</b>	<b>3,488,535</b>	<b>3,488,535</b>	<b>3,488,535</b>	<b>-</b>
<b>Increase (decrease) in inventories</b>	<b>-</b>	<b>-</b>	<b>(45,335)</b>	<b>(45,335)</b>
<b>Fund Balance - December 31</b>	<b>\$ 3,390,195</b>	<b>\$ 3,390,195</b>	<b>\$ 4,961,682</b>	<b>\$ 1,571,487</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-4*

**BUDGETARY COMPARISON SCHEDULE  
SOCIAL SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 5,074,638	\$ 5,074,638	\$ 5,065,874	\$ (8,764)
Intergovernmental	4,209,858	4,209,858	3,861,179	(348,679)
Charges for services	729,700	729,700	669,910	(59,790)
Fines and forfeits	1,600	1,600	1,411	(189)
Gifts and contributions	3,000	3,000	2,147	(853)
Miscellaneous	15,000	15,000	16,491	1,491
<b>Total Revenues</b>	<b>\$ 10,033,796</b>	<b>\$ 10,033,796</b>	<b>\$ 9,617,012</b>	<b>\$ (416,784)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Public safety</b>				
Victim crisis	\$ 172,832	\$ 172,832	\$ 172,767	\$ 65
<b>Human services</b>				
Income maintenance	\$ 2,572,729	\$ 2,572,729	\$ 2,337,155	\$ 235,574
Social services	5,746,110	5,746,110	5,010,993	735,117
Mental health center	1,816,981	1,816,981	1,676,606	140,375
<b>Total human services</b>	<b>\$ 10,135,820</b>	<b>\$ 10,135,820</b>	<b>\$ 9,024,754</b>	<b>\$ 1,111,066</b>
<b>Total Expenditures</b>	<b>\$ 10,308,652</b>	<b>\$ 10,308,652</b>	<b>\$ 9,197,521</b>	<b>\$ 1,111,131</b>
<b>Net Change in Fund Balance</b>	<b>\$ (274,856)</b>	<b>\$ (274,856)</b>	<b>\$ 419,491</b>	<b>\$ 694,347</b>
<b>Fund Balance - January 1</b>	<b>7,570,104</b>	<b>7,570,104</b>	<b>7,570,104</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 7,295,248</b>	<b>\$ 7,295,248</b>	<b>\$ 7,989,595</b>	<b>\$ 694,347</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT A-5*

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Special assessments	\$ 1,281,000	\$ 1,281,000	\$ 1,123,320	\$ (157,680)
Intergovernmental	-	-	120,895	120,895
Miscellaneous	-	-	15,188	15,188
<b>Total Revenues</b>	<b>\$ 1,281,000</b>	<b>\$ 1,281,000</b>	<b>\$ 1,259,403</b>	<b>\$ (21,597)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Conservation of natural resources</b>				
Other	\$ 849,803	\$ 849,803	\$ 973,035	\$ (123,232)
<b>Debt service</b>				
Principal	325,000	325,000	328,591	(3,591)
Interest	106,125	106,125	91,581	14,544
Bond issuance costs	-	-	15,471	(15,471)
Administrative (fiscal) charges	72	72	782	(710)
<b>Total debt service</b>	<b>\$ 431,197</b>	<b>\$ 431,197</b>	<b>\$ 436,425</b>	<b>\$ (5,228)</b>
<b>Total Expenditures</b>	<b>\$ 1,281,000</b>	<b>\$ 1,281,000</b>	<b>\$ 1,409,460</b>	<b>\$ (128,460)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (150,057)</b>	<b>\$ (150,057)</b>
<b>Other Financing Sources (Uses)</b>				
Bonds issued	\$ -	\$ -	\$ 936,143	\$ 936,143
Premium on bonds/notes issued	-	-	18,784	18,784
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 954,927</b>	<b>\$ 954,927</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 804,870</b>	<b>\$ 804,870</b>
<b>Fund Balance - January 1</b>	<b>1,619,855</b>	<b>1,619,855</b>	<b>1,619,855</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,619,855</b>	<b>\$ 1,619,855</b>	<b>\$ 2,424,725</b>	<b>\$ 804,870</b>

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2013

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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, 2013, expenditures exceeded appropriations in the following funds:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 15,549,007	\$ 15,981,508	\$ 432,501
Road and Bridge Special Revenue Fund	10,465,987	14,680,280	4,214,293
Ditch Special Revenue Fund	1,281,000	1,409,460	128,460

3. Other Postemployment Benefits

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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**MAJOR GOVERNMENTAL FUND**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT B-1*

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 2,535,000	\$ 2,535,000	\$ 2,843,011	\$ 308,011
Special assessments	-	-	766,986	766,986
<b>Total Revenues</b>	<b>\$ 2,535,000</b>	<b>\$ 2,535,000</b>	<b>\$ 3,609,997</b>	<b>\$ 1,074,997</b>
<b>Expenditures</b>				
<b>Intergovernmental</b>				
Conservation of natural resources	\$ -	\$ -	\$ 2,364,690	\$ (2,364,690)
<b>Debt service</b>				
Principal	1,740,000	1,740,000	1,761,409	(21,409)
Interest	646,294	646,294	616,138	30,156
Bond issuance costs	-	-	74,319	(74,319)
Administrative (fiscal) charges	10,300	10,300	3,927	6,373
<b>Total Expenditures</b>	<b>\$ 2,396,594</b>	<b>\$ 2,396,594</b>	<b>\$ 4,820,483</b>	<b>\$ (2,423,889)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 138,406</b>	<b>\$ 138,406</b>	<b>\$ (1,210,486)</b>	<b>\$ (1,348,892)</b>
<b>Other Financing Sources (Uses)</b>				
Bonds issued	\$ -	\$ -	\$ 2,443,857	\$ 2,443,857
Premium on bonds/notes issued	-	-	159,412	159,412
Discount on bonds/notes issued	-	-	(19,144)	(19,144)
<b>Total Other Financing Sources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,584,125</b>	<b>\$ 2,584,125</b>
<b>Net Change in Fund Balance</b>	<b>\$ 138,406</b>	<b>\$ 138,406</b>	<b>\$ 1,373,639</b>	<b>\$ 1,235,233</b>
<b>Fund Balance - January 1</b>	<b>1,836,156</b>	<b>1,836,156</b>	<b>1,836,156</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 1,974,562</b>	<b>\$ 1,974,562</b>	<b>\$ 3,209,795</b>	<b>\$ 1,235,233</b>

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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.

**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 C-1*

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

	<b>Special Revenue Revolving Loan</b>	<b>Permanent U.S. Fish and Wildlife</b>	<b>Total (Exhibit 3)</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 68,879	\$ 160,344	\$ 229,223
Accrued interest receivable	-	48	48
<b>Total Assets</b>	<b>\$ 68,879</b>	<b>\$ 160,392</b>	<b>\$ 229,271</b>
<b><u>Liabilities and Fund Balances</u></b>			
<b>Liabilities</b>			
Due to other governments	\$ -	\$ 25,153	\$ 25,153
<b>Fund Balances</b>			
<b>Nonspendable</b>			
Endowment permanent	\$ -	\$ 135,239	\$ 135,239
<b>Restricted</b>			
Future revolving loans	68,879	-	68,879
<b>Total Fund Balances</b>	<b>\$ 68,879</b>	<b>\$ 135,239</b>	<b>\$ 204,118</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 68,879</b>	<b>\$ 160,392</b>	<b>\$ 229,271</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT C-2*

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

	<b>Special Revenue Revolving Loan</b>	<b>Permanent U.S. Fish and Wildlife</b>	<b>Total (Exhibit 5)</b>
<b>Revenues</b>			
Investment earnings	\$ 405	\$ 153	\$ 558
Miscellaneous	-	25,000	25,000
	<b>\$ 405</b>	<b>\$ 25,153</b>	<b>\$ 25,558</b>
<b>Expenditures</b>			
<b>Current</b>			
Conservation of natural resources	\$ -	\$ 25,153	\$ 25,153
<b>Debt service</b>			
Principal	32,159	-	32,159
Interest	275	-	275
	<b>\$ 32,434</b>	<b>\$ 25,153</b>	<b>\$ 57,587</b>
<b>Net Change in Fund Balance</b>	<b>\$ (32,029)</b>	<b>\$ -</b>	<b>\$ (32,029)</b>
<b>Fund Balance - January 1</b>	<b>100,908</b>	<b>135,239</b>	<b>236,147</b>
<b>Fund Balance - December 31</b>	<b>\$ 68,879</b>	<b>\$ 135,239</b>	<b>\$ 204,118</b>

**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 Agency Collections 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 Supplemental Insurance Fund accounts for supplemental insurance payments.

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 D-1**

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>AGENCY COLLECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 236,052	\$ 5,069,475	\$ 5,183,471	\$ 122,056
<b><u>Liabilities</u></b>				
Due to other governments	\$ 236,052	\$ 5,069,475	\$ 5,183,471	\$ 122,056
 <b><u>COLLABORATIVE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 88,341	\$ 421,188	\$ 290,683	\$ 218,846
<b><u>Liabilities</u></b>				
Due to other funds	\$ 37,500	\$ -	\$ 37,500	\$ -
Due to other governments	50,841	421,188	253,183	218,846
<b>Total Liabilities</b>	<b>\$ 88,341</b>	<b>\$ 421,188</b>	<b>\$ 290,683</b>	<b>\$ 218,846</b>
 <b><u>RECORDER'S AGENCY COLLECTIONS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 3,619	\$ 47,167	\$ 47,586	\$ 3,200
<b><u>Liabilities</u></b>				
Due to other governments	\$ 3,619	\$ 47,167	\$ 47,586	\$ 3,200

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT D-1  
(Continued)**

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

	<b>Balance January 1</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance December 31</b>
<b><u>TAX COLLECTION</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 685,959</u>	<u>\$ 49,597,281</u>	<u>\$ 50,012,489</u>	<u>\$ 270,751</u>
<b><u>Liabilities</u></b>				
Due to other funds	\$ -	\$ 19,633,539	\$ 19,633,539	\$ -
Due to other governments	<u>685,959</u>	<u>29,963,742</u>	<u>30,378,950</u>	<u>270,751</u>
<b>Total Liabilities</b>	<u><b>\$ 685,959</b></u>	<u><b>\$ 49,597,281</b></u>	<u><b>\$ 50,012,489</b></u>	<u><b>\$ 270,751</b></u>
 <b><u>SUPPLEMENTAL INSURANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ -	\$ 150,232	\$ 150,232	\$ -
Due from other governments	<u>29,961</u>	<u>-</u>	<u>3,957</u>	<u>26,004</u>
<b>Total Assets</b>	<u><b>\$ 29,961</b></u>	<u><b>\$ 150,232</b></u>	<u><b>\$ 154,189</b></u>	<u><b>\$ 26,004</b></u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 150,232	\$ 150,232	\$ -
Advance from governmental funds	<u>29,961</u>	<u>-</u>	<u>3,957</u>	<u>26,004</u>
<b>Total Liabilities</b>	<u><b>\$ 29,961</b></u>	<u><b>\$ 150,232</b></u>	<u><b>\$ 154,189</b></u>	<u><b>\$ 26,004</b></u>
 <b><u>INSURANCE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	<u>\$ 141,050</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 141,049</u>
<b><u>Liabilities</u></b>				
Advance from governmental funds	<u>\$ 141,050</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 141,049</u>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT D-1  
(Continued)**

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>MOTOR VEHICLE</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 25,000	\$ 6,785,575	\$ 6,785,575	\$ 25,000
<b><u>Liabilities</u></b>				
Advance from governmental funds	\$ 25,000	\$ 6,785,575	\$ 6,785,575	\$ 25,000
 <b><u>TURTLE CREEK WATERSHED</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 99,032	\$ 5,044,791	\$ 5,052,486	\$ 91,337
Due from other governments	2,306,600	-	2,306,600	-
<b>Total Assets</b>	<b>\$ 2,405,632</b>	<b>\$ 5,044,791</b>	<b>\$ 7,359,086</b>	<b>\$ 91,337</b>
<b><u>Liabilities</u></b>				
Due to other funds	\$ -	\$ 92	\$ -	\$ 92
Due to other governments	99,033	5,041,499	5,052,486	88,046
Advance from governmental funds	2,306,599	3,200	2,306,600	3,199
<b>Total Liabilities</b>	<b>\$ 2,405,632</b>	<b>\$ 5,044,791</b>	<b>\$ 7,359,086</b>	<b>\$ 91,337</b>

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT D-1  
(Continued)**

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<b><u>TOTAL ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash and pooled investments	\$ 1,279,053	\$ 67,115,709	\$ 67,522,523	\$ 872,239
Due from other governments	2,336,561	-	2,310,557	26,004
<b>Total Assets</b>	<b>\$ 3,615,614</b>	<b>\$ 67,115,709</b>	<b>\$ 69,833,080</b>	<b>\$ 898,243</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 150,232	\$ 150,232	\$ -
Due to other funds	37,500	19,633,631	19,671,039	92
Due to other governments	1,075,504	40,543,071	40,915,676	702,899
Advance from governmental funds	2,502,610	6,788,775	9,096,133	195,252
<b>Total Liabilities</b>	<b>\$ 3,615,614</b>	<b>\$ 67,115,709</b>	<b>\$ 69,833,080</b>	<b>\$ 898,243</b>

## **OTHER SCHEDULES**

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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT E-1**

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

**Shared Revenue**

**State**

Highway users tax	\$	8,027,553
PERA rate reimbursement		44,126
Disparity reduction aid		46,061
Police aid		158,039
County program aid		1,164,520
Market value credit		205,111
Enhanced 911		110,505
		110,505

**Total shared revenue** **\$ 9,755,915**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	\$	506,785
		506,785

**Payments**

**Local**

Local contributions	\$	270,757
Payments in lieu of taxes		2,828
		2,828

**Total payments** **\$ 273,585**

**Grants**

**State**

Minnesota Department/Board of		
Public Safety	\$	149,001
Health		183,475
Natural Resources		35,983
Human Services		1,543,222
Veterans Affairs		10,000
Corrections		125,503
Water and Soil Resources		88,095
Pollution Control Agency		81,652
Peace Officer Standards and Training Board		8,544
		8,544

**Total state** **\$ 2,225,475**

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

***EXHIBIT E-1  
(Continued)***

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

**Grants (Continued)**

**Federal**

Department of	
Agriculture	\$ 377,920
Justice	8,610
Health and Human Services	1,791,685
Homeland Security	162,922
Transportation	614,523
	<hr/>

**Total federal** \$ 2,955,660

**Total state and federal grants** \$ 5,181,135

**Total Intergovernmental Revenue** \$ 15,717,420

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

*EXHIBIT E-2*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 248,240
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	165,091
Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP)	10.572	<u>700</u>
<b>Total U.S. Department of Agriculture</b>		<b><u>\$ 414,031</u></b>
<b>U.S. Department of Justice</b>		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 8,195
Bulletproof Vest Partnership Program	16.607	<u>415</u>
<b>Total U.S. Department of Justice</b>		<b><u>\$ 8,610</u></b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	<b><u>\$ 614,523</u></b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	\$ 26,285
Immunization Cooperative Agreements	93.268	300
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$423,894)	93.558	33,392
Maternal and Child Health Services Block Grant to the States	93.994	37,724

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

**EXHIBIT E-2  
(Continued)**

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Health and Human Services (Continued)</b>		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	10,454
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$423,894)	93.558	390,502
Child Support Enforcement	93.563	482,201
Refugee and Entrant Assistance - State-Administered Programs	93.566	438
Child Care and Development Block Grant	93.575	21,226
Stephanie Tubbs Jones Child Welfare Services Program	93.645	985
Foster Care Title IV-E	93.658	148,840
Social Services Block Grant	93.667	202,282
Chafee Foster Care Independence Program	93.674	2,059
Children's Health Insurance Program	93.767	65
Medical Assistance Program	93.778	732,955
		<hr/>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 2,089,708</b>
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ 320,927
Emergency Management Performance Grants	97.042	2,073
		<hr/>
<b>Total U.S. Department of Homeland Security</b>		<b>\$ 323,000</b>
		<hr/>
<b>Total Federal Awards</b>		<b>\$ 3,449,872</b>

**FREEBORN COUNTY**  
**ALBERT LEA, MINNESOTA**

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

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by 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, 2013. 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.

**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue (Exhibit D-1)	\$ 2,955,660
Deferred in 2012, recognized as revenue in 2013	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	(7,744)
Child Care and Development Block 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)
Grants received more than 60 days after year-end, deferred in 2013	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA #10.561)	43,855
Temporary Assistance for Needy Families (CFDA #93.558)	91,306
Child Support Enforcement (CFDA #93.563)	76,604
Child Care and Development Block Grant (CFDA #93.575)	1,671
Foster Care Title IV-E (CFDA #93.658)	15,305
Medical Assistance Program (CFDA #93.778)	123,972
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)	160,078
Expenditures per Schedule of Expenditures of Federal Awards (Exhibit D-2)	\$ 3,449,872

5. Subrecipients

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



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**FREEBORN COUNTY  
ALBERT LEA, MINNESOTA**

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

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

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major programs are:

Highway Planning and Construction	CFDA #20.205
Temporary Assistance for Needy Families	CFDA #93.558
Medical Assistance Program	CFDA #93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	CFDA #97.036

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

Freeborn County qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2007-004

Segregation of Duties - Payroll

**Criteria:** Controls should be designed to provide segregation of incompatible duties. The input, processing, and disbursing functions should be segregated.

**Condition:** The County has a lack of segregation of duties between input, processing, and disbursing in the payroll function. The County has established a procedure to have personnel independent of the payroll payment process review information input into the payroll system. This review is not being performed in a timely manner in the Highway Department and is not being documented in the remaining departments. Review of maintenance changes to the payroll system are also not documented.

**Context:** The employee who enters information from the time sheets into the payroll system is also the individual who is making changes and adding new employees to the system.

**Effect:** When established internal control procedures are not followed, there is an increased risk errors or irregularities will not be detected in a timely manner.

**Cause:** The County did not realize the importance of documenting the independent review of information input into the payroll system.

**Recommendation:** We recommend the County's elected officials and management be aware of the lack of segregation of duties in the payroll accounting function. We also recommend the County document any oversight procedures used to monitor information input into the payroll system in a timely manner.

Client's Response:

*The County has instituted a Payroll committee to address the internal controls over the payroll system. We now have internal controls in place that we feel should address any concerns above.*

Finding 2009-002

Information Technology Policies and Procedures

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

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

**Context:** There may not be consistent application of procedures without documented information technology systems policies and procedures.

**Effect:** The County could be more vulnerable to loss or destruction of data without documented information technology systems policies and procedures.

**Cause:** The County indicated administration did not realize the importance of information technology systems policies and procedures.

**Recommendation:** We recommend the County Information Technology Department establish and document policies and procedures relating to the information technology systems specifically relating to information security, operations development, assessment of systems, and email encryption methods. The County should also ensure County staff have the policies and procedures and are aware of their responsibility to comply with them.

Client's Response:

*The County has had an information security assessment done by FRSecure Information Security Management, and is in the process of implementing the policies suggested by FRSecure which should address the finding.*

Finding 2010-001

Access to Accounting System

**Criteria:** Internal controls should be designed to provide for an adequate segregation of duties among those who are administering information technology security and those processing accounting transactions.

**Condition:** The Information Technology Department personnel have user access to the payroll 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 payroll accounting data file.

**Cause:** The County indicated the AS400 administrator is the only employee qualified to enter payroll into the accounting system.

**Recommendation:** We recommend administration of information technology security duties be segregated from processing payroll accounting transactions duties.

Client's Response:

*The County has removed the administrative function over payroll from the individual processing the payroll transactions. Since the payroll technology is controlled by an outside vendor, we believe this should address the concerns listed above.*

Finding 2011-001

Audit Adjustments

**Criteria:** A deficiency in internal controls 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.

**Condition:** During our audit, we proposed audit adjustments that resulted in significant changes to Freeborn County's financial statements. These adjustments were reviewed and approved by the appropriate staff and are reflected in the financial statements.

**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 made to record additional unavailable revenue, reclassify revenues, and to reclassify liabilities to deferred inflows of resources.

**Cause:** The County indicated there was an oversight in the proper presentation of deferred inflow of resources and deferred revenue.

**Recommendation:** We recommend the County review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

Client's Response:

*The County now has a Finance committee that will review the trial balances and financial statements for any errors or omissions going forward and we believe this should find and eliminate any potential audit adjustments going forward.*

ITEM ARISING THIS YEAR

Finding 2013-001

Workstation Security

**Criteria:** Controls in place over operations should be designed to properly protect both data and programs from unauthorized access.

**Condition:** The County does not require employees to lock access to their workstations when unattended. Some workstation security settings are not set to properly protect data and programs from unauthorized access.

**Context:** When a computer is left unattended while still logged on, someone may make changes to data or programs they may not be authorized to make. Such changes would appear to have been made by the person logged in. Several workstation settings could be changed to strengthen the security controls in place over operations.

**Effect:** The County's financial data and programs are vulnerable to unauthorized access.

**Cause:** The County indicated a written workstation policy needs to be created.

**Recommendation:** We recommend the County strengthen its controls over workstation settings to protect both data and programs from unauthorized access.

Client's Response:

*The County has had an information security assessment done by FRSecure Information Security Management, and is in the process of implementing the policies suggested by FRSecure which should address the finding.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Segregation of Duties - County Departments (2008-002)**

Several of the County's departments which 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.

**Resolution**

County departments reviewed during the 2013 audit did not lack proper segregation of duties.

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

PREVIOUSLY REPORTED ITEM RESOLVED

**Subrecipient Monitoring (CFDA #14.228) (2012-001)**

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

**Resolution**

The County did not receive any Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA #14.228) federal awards during 2013.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 1996-005

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:** 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 County Finance Manager and IT Director will work on getting a finalized draft of a disaster recovery plan in place for Board approval by January of 2015.*

Finding 2012-002

Ditch Fund Balance Deficits

**Criteria:** Since each ditch benefits specific landowners, each individual ditch should have adequate resources to meet its financial obligations. As provided by Minn. Stat. § 103E.735, subd. 1, fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$100,000, whichever is larger.

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

**Context:** Nine of the 62 individual ditch systems had deficit fund balances as of December 31, 2013, totaling \$511,259; which is an increase from the \$480,746 deficit balance reported in the prior year.

**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.

**Cause:** The County indicated the 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 continue to review assessments for ditches to build up and eliminate the negative fund balances.*



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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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, Minnesota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 24, 2014.

#### **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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2007-004, 2009-002, 2010-001, 2011-001, and 2013-001, that we consider 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 in connection with the audit of the County's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the County has no tax increment financing.

In connection with our audit, nothing came to our attention that caused us to believe that 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.

### **Other Matters**

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 Response to Findings**

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

### **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 24, 2014

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REBECCA OTTO  
STATE AUDITOR

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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, 2013. 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***

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 major federal programs for the year ended December 31, 2013.

**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 an 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.

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

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

## **Purpose of This Report**

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 24, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR