

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BROWN COUNTY
NEW ULM, MINNESOTA

YEAR ENDED DECEMBER 31, 2011

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

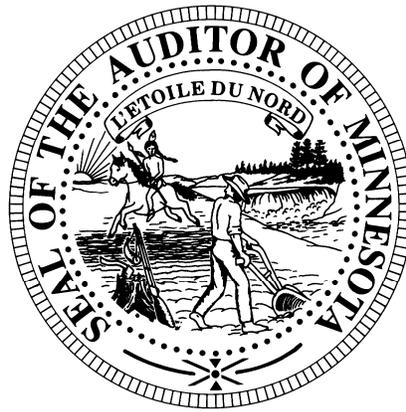
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Year Ended December 31, 2011



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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

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**BROWN COUNTY
NEW ULM, MINNESOTA**

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**BROWN COUNTY
NEW ULM, MINNESOTA**

ORGANIZATION
2011

Office	Name	Term Expires
Commissioners		
1st District	Richard Seeboth	January 2013
2nd District	James Berg*	January 2015
3rd District	Scott Windschitl	January 2013
4th District	Andrew Lochner	January 2015
5th District	Dennis Potter	January 2015
Officers		
Elected		
Attorney	Robert Hinnenthal	January 2015
Auditor/Treasurer	Marlin C. Helget	January 2015
County Recorder	Betti Kamolz	January 2015
Sheriff	Rich Hoffmann	January 2015
Appointed		
Administrator	Charles Enter	Indefinite
Assessor	Rita Treml	December 31, 2012
Family Services Director	Tom Henderson	Indefinite
Coroner	Terry Knowles, M.D.	December 31, 2014
Probation Director	Les Schultz	Indefinite
Highway Engineer	Wayne Stevens	May 31, 2014
Personnel Director	Melissa Tietel	Indefinite
Planning and Zoning Administrator	Laine Sletta	Indefinite
Public Health Director	Karen Moritz	Indefinite
Veterans Service Officer	Greg Peterson	April 20, 2013
Lay Board Member	Elizabeth Mohr	December 31, 2011
Lay Board Member	Judy Kuster	December 31, 2011

*Chair

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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
Brown County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Brown County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Brown County Economic Development Partners, Inc., the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely upon the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Brown County Economic Development Partners, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of December 31, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and the Road and Bridge, Family Services, and Landfill Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.9. to the financial statements, for 2011, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Brown County's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, 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. This 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 presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2012, on our consideration of Brown County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 24, 2012

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BROWN COUNTY
NEW ULM, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)**

As management of Brown County, we offer readers of the Brown County financial statements this narrative overview and analysis of the financial activities of Brown County for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Brown County exceeded its liabilities at the close of 2011 by \$87,065,594. Of this amount, \$12,459,640 (unrestricted net assets) may be used to meet Brown County's ongoing obligations to citizens and creditors.
- Brown County's total net assets increased by \$4,274,163 in 2011, or 5.2 percent.
- At the close of 2011, Brown County's governmental funds reported combined ending fund balances of \$17,712,550. The amount of \$2,238,869 is unassigned and is available for spending at the County's discretion.
- At the close of 2011, unassigned fund balance for the General Fund was \$2,407,422, or 21.9 percent, of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

County-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Notes to the Financial Statements

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

Other Information

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

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

COUNTY-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Brown County's assets exceeded liabilities by \$87,065,594 at the close of 2011. The largest portion of Brown County's net assets (79.5 percent) reflects its investment in capital assets (such as land, buildings, and equipment); however, it should be noted that these assets are not available for future spending. Comparative data with 2010 is presented.

Table 1
Governmental Net Assets

	2011	2010
Current and other assets	\$ 23,168,395	\$ 19,642,527
Capital assets	69,230,007	69,292,780
Total Assets	\$ 92,398,402	\$ 88,935,307
Long-term liabilities outstanding	\$ 3,979,682	\$ 4,534,939
Other liabilities	1,353,126	1,608,937
Total Liabilities	\$ 5,332,808	\$ 6,143,876
Net Assets		
Invested in capital assets, net of related debt	\$ 69,230,007	\$ 69,292,780
Restricted	5,375,947	5,273,541
Unrestricted	12,459,640	8,225,110
Total Net Assets	\$ 87,065,594	\$ 82,791,431

The unrestricted net asset amount of \$12,459,640 as of December 31, 2011, may be used to meet the County's ongoing obligations to citizens and creditors.

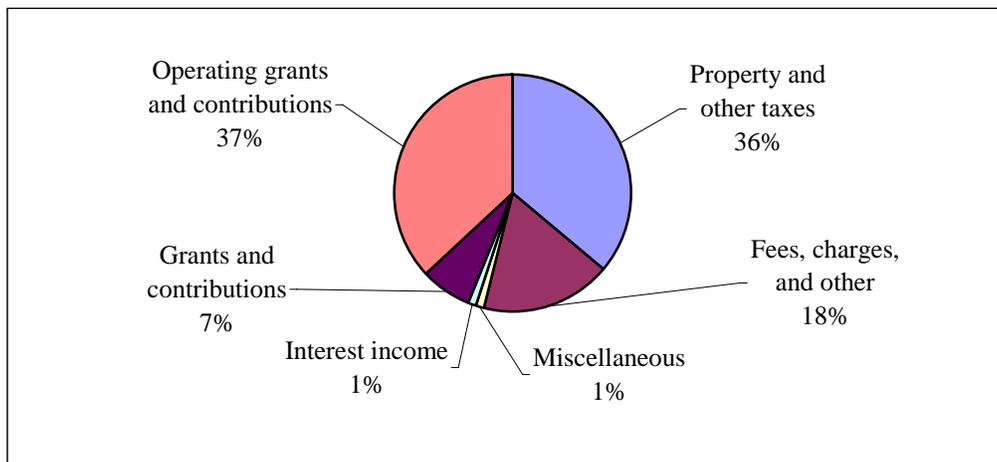
Governmental Activities

The County's activities from operations increased net assets by \$4,274,163, or 5.2 percent (\$82,791,431 in 2010 to \$87,065,594 in 2011). Table 2 summarizes the changes in net assets for 2011.

**Table 2
Changes in Governmental Net Assets**

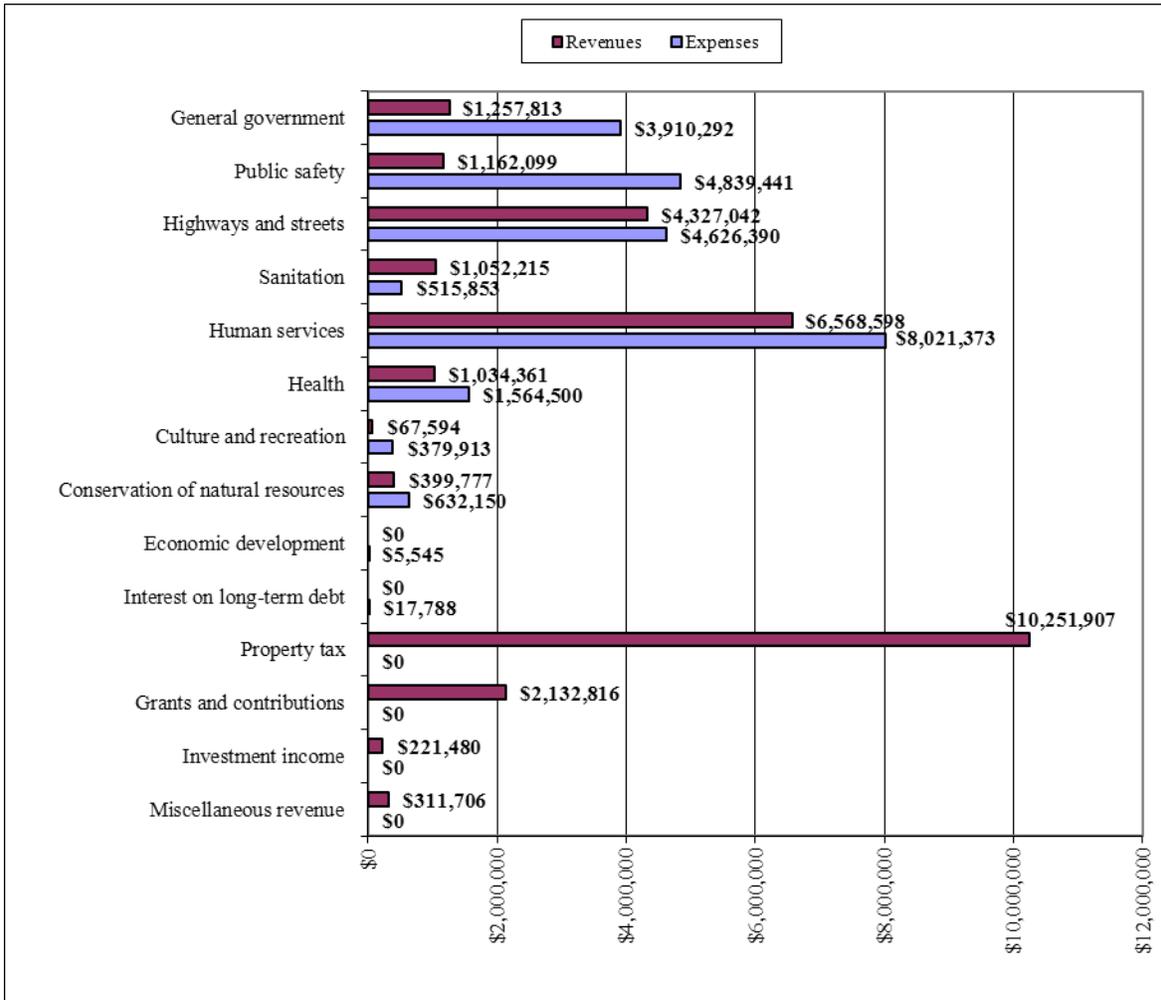
	2011	2010
Revenues		
Program revenues		
Charges for services	\$ 5,093,437	\$ 5,171,976
Operating grants and contributions	10,724,423	10,105,508
Capital grants and contributions	51,639	1,007
General revenues		
Property taxes	10,251,907	9,917,851
Other	2,666,002	2,551,300
Total Revenues	\$ 28,787,408	\$ 27,747,642
Expenses		
General government	\$ 3,910,292	\$ 3,863,658
Public safety	4,839,441	4,819,845
Highways and streets	4,626,390	4,383,264
Sanitation	515,853	908,197
Human services	8,021,373	8,428,432
Health	1,564,500	1,684,752
Culture and recreation	379,913	401,707
Conservation of natural resources	632,150	681,097
Economic development	5,545	17,630
Interest	17,788	14,933
Total Expenses	\$ 24,513,245	\$ 25,203,515
Increase in Net Assets	\$ 4,274,163	\$ 2,544,127
Net Assets - January 1	82,791,431	80,247,304
Net Assets - December 31	\$ 87,065,594	\$ 82,791,431

Revenues by Source - 2011



(Unaudited)

Expenses and Revenues - 2011



Total revenues for the County were \$28,787,408, while total expenses were \$24,513,245. This reflects a \$4,274,163 increase in net assets for the year ended December 31, 2011.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental Funds

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

At the end of the current fiscal year, the County’s governmental funds reported combined ending fund balances of \$17,712,550, an increase of \$2,724,898 in comparison with the prior year. Of this amount, \$2,238,869 constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of Brown County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,407,422, while total fund balance was \$4,311,258. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 21.9 percent of total General Fund expenditures, while total fund balance represents 39.2 percent of that same amount.

General Fund Budgetary Highlights

There were no changes between the original budget and the final amended budget. Total budgeted General Fund revenues exceeded actual revenues by \$458,383, due in large part to actual investment earning, intergovernmental revenues, and miscellaneous revenues which were greater than what was budgeted. Overall, the actual expenditures were below budgeted expenditures by \$970,262, primarily due to amounts budgeted to replace reserves spent in 2010.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County’s investment in capital assets for its governmental activities as of December 31, 2011, amounts to \$69,230,007 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total decrease in the County’s investment in capital assets for the current fiscal year was virtually unchanged.

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

	2011	2010
Land	\$ 1,038,712	\$ 1,038,712
Construction in progress	47,856	298,266
Land improvements	514,148	539,589
Buildings and improvements	12,540,845	12,649,252
Machinery, furniture, and equipment	2,091,008	2,154,822
Computer software - intangible	253,674	-
Infrastructure	52,743,764	52,612,139
Totals	<u>\$ 69,230,007</u>	<u>\$ 69,292,780</u>

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

Long-Term Debt

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

Brown County's bond rating is "A1" from Moody's.

Minnesota statutes limit the amount of debt that a county may levy to three percent of its total market value. As of the end of 2011, Brown County is well below the three percent debt limit imposed by state statutes.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Brown County's average unemployment rate for 2011 was 5.0 percent as of the end of 2011. This was slightly below the statewide rate of 5.8 percent.
- Mortgage interest rates have risen only slightly during 2011, resulting in a reduced volume of mortgage refinancing.
- At the end of 2011, Brown County set its 2012 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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COUNTY-WIDE FINANCIAL STATEMENTS

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	<u>Primary Government Governmental Activities</u>	<u>Economic Development Partners, Inc., Component Unit</u>
<u>Assets</u>		
Cash and pooled investments	\$ 17,897,635	\$ 78,053
Taxes receivable		
Prior	194,307	-
Special assessments receivable		
Prior	21,599	-
Current	345,142	-
Noncurrent	345,851	-
Accounts receivable - net	839,336	-
Accrued interest receivable	135,012	-
Loan receivable	-	255,438
Due from other governments	1,842,441	-
Inventories	137,013	-
Investment in joint venture	1,410,059	-
Capital assets		
Non-depreciable	1,086,568	-
Depreciable - net of accumulated depreciation	68,143,439	-
Total Assets	\$ 92,398,402	\$ 333,491
<u>Liabilities</u>		
Accounts payable	\$ 524,992	\$ 298
Salaries payable	506,041	-
Due to other governments	227,828	-
Accrued interest payable	614	-
Unearned revenue	93,651	-
Long-term liabilities		
Due within one year	213,463	-
Due in more than one year	3,766,219	-
Total Liabilities	\$ 5,332,808	\$ 298

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT 1
(Continued)*

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	<u>Primary Government Governmental Activities</u>	<u>Economic Development Partners, Inc., Component Unit</u>
<u>Net Assets</u>		
Invested in capital assets	\$ 69,230,007	\$ -
Restricted for		
General government	183,621	-
Public safety	469,319	-
Highways and streets	1,192,189	-
Human services	1,428,391	-
Conservation of natural resources	1,177,009	-
Landfill closure/postclosure	925,418	-
Other purposes	-	4,200
Unrestricted	<u>12,459,640</u>	<u>328,993</u>
Total Net Assets	<u>\$ 87,065,594</u>	<u>\$ 333,193</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
Primary government		
Governmental activities		
General government	\$ 3,910,292	\$ 1,013,295
Public safety	4,839,441	279,995
Highways and streets	4,626,390	25,871
Sanitation	515,853	988,359
Human services	8,021,373	1,873,977
Health	1,564,500	551,453
Culture and recreation	379,913	19,022
Conservation of natural resources	632,150	341,465
Economic development	5,545	-
Interest	17,788	-
Total Primary Government	<u>\$ 24,513,245</u>	<u>\$ 5,093,437</u>
Component unit		
Economic Development Partners, Inc.	<u>\$ 22,064</u>	<u>\$ 10,283</u>

General Revenues

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

Total general revenues

Change in net assets

Net Assets - January 1

Net Assets - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Change in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Economic Development Partners, Inc., Component Unit
\$ 244,518	\$ -	\$ (2,652,479)	
882,104	-	(3,677,342)	
4,301,171	-	(299,348)	
63,856	-	536,362	
4,642,982	51,639	(1,452,775)	
482,908	-	(530,139)	
48,572	-	(312,319)	
58,312	-	(232,373)	
-	-	(5,545)	
-	-	(17,788)	
\$ 10,724,423	\$ 51,639	\$ (8,643,746)	
\$ 58,200	\$ -		\$ 46,419
		\$ 10,251,907	\$ -
		2,132,816	-
		29,965	-
		221,480	-
		281,741	-
		\$ 12,917,909	\$ -
		\$ 4,274,163	\$ 46,419
		82,791,431	286,774
		\$ 87,065,594	\$ 333,193

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FUND FINANCIAL STATEMENTS

**BROWN COUNTY
NEW ULM, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 4,543,695	\$ 2,783,234
Taxes receivable		
Prior	123,959	26,564
Special assessments		
Prior	4,371	-
Current	182,328	-
Noncurrent	317,740	-
Accounts receivable	104,207	-
Accrued interest receivable	135,012	-
Due from other funds	10,036	11,298
Due from other governments	165,790	1,192,189
Inventories	-	137,013
	\$ 5,587,138	\$ 4,150,298
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 196,534	\$ 12,160
Salaries payable	289,254	52,645
Due to other funds	4,085	-
Due to other governments	90,450	3,475
Deferred revenue		
Unavailable	614,062	1,211,808
Unearned	81,495	4,626
	\$ 1,275,880	\$ 1,284,714
Fund Balances		
Nonspendable	\$ -	\$ 137,013
Restricted	1,520,587	-
Assigned	383,249	2,728,571
Unassigned	2,407,422	-
	\$ 4,311,258	\$ 2,865,584
Total Liabilities and Fund Balances	\$ 5,587,138	\$ 4,150,298

EXHIBIT 3

<u>Family Services</u>	<u>Landfill</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,084,899	\$ 5,282,270	\$ 1,203,537	\$ 17,897,635
41,715	-	2,069	194,307
-	16,611	617	21,599
-	-	162,814	345,142
-	-	28,111	345,851
687,476	47,653	-	839,336
-	-	-	135,012
-	-	-	21,334
468,603	-	15,859	1,842,441
-	-	-	137,013
<u>\$ 5,282,693</u>	<u>\$ 5,346,534</u>	<u>\$ 1,413,007</u>	<u>\$ 21,779,670</u>
\$ 206,759	\$ 54,017	\$ 55,522	\$ 524,992
160,636	3,281	225	506,041
17,249	-	-	21,334
113,121	9,000	11,782	227,828
654,213	11,872	201,319	2,693,274
6,290	693	547	93,651
<u>\$ 1,158,268</u>	<u>\$ 78,863</u>	<u>\$ 269,395</u>	<u>\$ 4,067,120</u>
\$ -	\$ -	\$ -	\$ 137,013
18,332	2,406,277	713,867	4,659,063
4,106,093	2,861,394	598,298	10,677,605
-	-	(168,553)	2,238,869
<u>\$ 4,124,425</u>	<u>\$ 5,267,671</u>	<u>\$ 1,143,612</u>	<u>\$ 17,712,550</u>
<u>\$ 5,282,693</u>	<u>\$ 5,346,534</u>	<u>\$ 1,413,007</u>	<u>\$ 21,779,670</u>

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011**

Fund balances - total governmental funds (Exhibit 3)	\$	17,712,550
Amounts reported for governmental activities in the statement of net assets 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.		69,230,007
Investments in joint venture are recorded in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds.		1,410,059
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,693,274
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Loans payable	\$ (865,288)	
Compensated absences	(1,386,150)	
Accrued interest payable	(614)	
Estimated liability for landfill closure/postclosure	(1,480,859)	
Net OPEB liability	(247,385)	(3,980,296)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>87,065,594</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Road and Bridge
Revenues		
Taxes	\$ 6,705,440	\$ 1,347,648
Special assessments	271,209	-
Licenses and permits	45,120	-
Intergovernmental	3,060,818	3,959,735
Charges for services	1,567,890	-
Fines and forfeits	1,006	-
Gifts and contributions	18	-
Investment earnings	248,660	-
Miscellaneous	536,764	26,497
	\$ 12,436,925	\$ 5,333,880
Expenditures		
Current		
General government	\$ 3,707,642	\$ -
Public safety	4,733,708	-
Highways and streets	-	4,670,139
Sanitation	-	-
Human services	-	-
Health	1,596,693	-
Culture and recreation	426,662	-
Conservation of natural resources	388,684	-
Economic development	5,545	-
Debt service		
Principal	135,229	-
Interest	17,617	-
	\$ 11,011,780	\$ 4,670,139
Excess of Revenues Over (Under) Expenditures	\$ 1,425,145	\$ 663,741
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 22,328
Transfers out	(93,471)	-
Proceeds from loans	1,205	-
Insurance recovery for loss of general capital assets	-	-
	\$ (92,266)	\$ 22,328
Change in Fund Balance	\$ 1,332,879	\$ 686,069
Fund Balance - January 1, as restated (Note 1.E.)	2,978,379	2,191,749
Increase (decrease) in inventories	-	(12,234)
Fund Balance - December 31	\$ 4,311,258	\$ 2,865,584

EXHIBIT 5

<u>Family Services</u>	<u>Landfill</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,067,104	\$ -	\$ 133,341	\$ 10,253,533
-	341,836	107,398	720,443
-	360	-	45,480
5,076,666	64,141	61,662	12,223,022
1,048,248	642,362	-	3,258,500
-	-	-	1,006
13,704	-	-	13,722
-	-	-	248,660
359,842	3,778	8,522	935,403
<u>\$ 8,565,564</u>	<u>\$ 1,052,477</u>	<u>\$ 310,923</u>	<u>\$ 27,699,769</u>
\$ -	\$ -	\$ 64,374	\$ 3,772,016
-	-	-	4,733,708
-	-	-	4,670,139
-	987,581	-	987,581
8,019,223	-	-	8,019,223
-	-	-	1,596,693
-	-	-	426,662
-	-	216,567	605,251
-	-	-	5,545
-	-	-	135,229
-	-	-	17,617
<u>\$ 8,019,223</u>	<u>\$ 987,581</u>	<u>\$ 280,941</u>	<u>\$ 24,969,664</u>
<u>\$ 546,341</u>	<u>\$ 64,896</u>	<u>\$ 29,982</u>	<u>\$ 2,730,105</u>
\$ 23,761	\$ 38,549	\$ 8,833	\$ 93,471
-	-	-	(93,471)
-	-	-	1,205
-	-	5,822	5,822
<u>\$ 23,761</u>	<u>\$ 38,549</u>	<u>\$ 14,655</u>	<u>\$ 7,027</u>
\$ 570,102	\$ 103,445	\$ 44,637	\$ 2,737,132
3,554,323	5,164,226	1,098,975	14,987,652
-	-	-	(12,234)
<u>\$ 4,124,425</u>	<u>\$ 5,267,671</u>	<u>\$ 1,143,612</u>	<u>\$ 17,712,550</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Change in fund balances - total governmental funds (Exhibit 5) \$ 2,737,132

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures	\$ 2,023,689	
Depreciation expense	<u>(2,078,423)</u>	(54,734)

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

Net book value of assets disposed of		(8,039)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Decrease in deferred revenue for taxes and special assessments	\$ (39,555)	
Increase in deferred revenue for grants and allotments	<u>678,566</u>	639,011

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

Proceeds of new debt	\$ (1,205)	
Principal payments on debt	<u>135,229</u>	134,024

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.

Decrease in inventories	\$ (12,234)	
Increase in accrued interest payable	(171)	
Increase in compensated absences payable	(4,866)	
Increase in net OPEB liability	(57,983)	
Decrease in landfill postclosure care costs	484,082	
Increase in investment in joint venture	<u>417,941</u>	<u>826,769</u>

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 4,274,163

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 7

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,722,520	\$ 6,722,520	\$ 6,705,440	\$ (17,080)
Special assessments	231,743	231,743	271,209	39,466
Licenses and permits	30,500	30,500	45,120	14,620
Intergovernmental	2,874,427	2,874,427	3,060,818	186,391
Charges for services	1,690,505	1,690,505	1,567,890	(122,615)
Fines and forfeits	4,550	4,550	1,006	(3,544)
Gifts and contributions	-	-	18	18
Investment earnings	24,100	24,100	248,660	224,560
Miscellaneous	400,197	400,197	536,764	136,567
Total Revenues	\$ 11,978,542	\$ 11,978,542	\$ 12,436,925	\$ 458,383
Expenditures				
Current				
General government				
Commissioners	\$ 248,771	\$ 248,771	\$ 218,464	\$ 30,307
Courts	71,971	71,971	71,950	21
Law library	17,000	17,000	25,276	(8,276)
County auditor/treasurer	526,440	526,440	523,880	2,560
License bureau	158,115	158,115	163,670	(5,555)
County assessor	397,705	397,705	389,525	8,180
Elections	700	700	13,992	(13,292)
Accounting and auditing	53,000	53,000	58,866	(5,866)
Data processing	384,624	384,624	365,102	19,522
Central services	173,996	173,996	173,080	916
Personnel administration	173,154	173,154	168,149	5,005
Attorney	378,560	378,560	379,344	(784)
Recorder	425,966	425,966	395,794	30,172
Planning and zoning	100,543	100,543	105,884	(5,341)
Buildings and plant	523,743	523,743	495,346	28,397
Veterans service officer	123,327	123,327	116,923	6,404
Other	697,432	697,432	42,397	655,035
Total general government	\$ 4,455,047	\$ 4,455,047	\$ 3,707,642	\$ 747,405

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT 7
(Continued)**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,879,511	\$ 1,879,511	\$ 1,757,845	\$ 121,666
Regional radio board operations	42,069	42,069	40,386	1,683
Boat and water safety	9,090	9,090	1,260	7,830
Emergency services	23,880	23,880	20,926	2,954
Coroner	11,400	11,400	28,328	(16,928)
E-911 system	115,200	115,200	30,284	84,916
County jail	1,451,299	1,451,299	1,385,562	65,737
Probation and parole	1,523,585	1,523,585	1,466,989	56,596
Sheriff's contingency	9,000	9,000	-	9,000
Snowmobile safety	2,600	2,600	2,128	472
Total public safety	\$ 5,067,634	\$ 5,067,634	\$ 4,733,708	\$ 333,926
Health				
Nursing service	\$ 1,645,387	\$ 1,645,387	\$ 1,596,693	\$ 48,694
Culture and recreation				
Historical society	\$ 82,788	\$ 82,788	\$ 82,788	\$ -
Parks	134,756	134,756	193,177	(58,421)
County/regional library	78,235	78,235	78,235	-
Snowmobile trails	-	-	48,554	(48,554)
Other	23,908	23,908	23,908	-
Total culture and recreation	\$ 319,687	\$ 319,687	\$ 426,662	\$ (106,975)
Conservation of natural resources				
Cooperative extension	\$ 64,565	\$ 64,565	\$ 55,921	\$ 8,644
Soil and water conservation	85,940	85,940	85,940	-
Agricultural society/County fair	28,500	28,500	28,500	-
Water planning	41,507	41,507	49,276	(7,769)
Wetlands	23,509	23,509	25,628	(2,119)
Septic loan program	80,102	80,102	130,741	(50,639)
Area flood control	12,678	12,678	-	12,678
Total conservation of natural resources	\$ 336,801	\$ 336,801	\$ 388,684	\$ (51,883)

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT 7
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 5,845	\$ 5,845	\$ 5,545	\$ 300
Debt service				
Principal	\$ 135,229	\$ 135,229	\$ 135,229	\$ -
Interest	16,412	16,412	17,617	(1,205)
Total debt service	\$ 151,641	\$ 151,641	\$ 152,846	\$ (1,205)
Total Expenditures	\$ 11,982,042	\$ 11,982,042	\$ 11,011,780	\$ 970,262
Excess of Revenues Over (Under)				
Expenditures	\$ (3,500)	\$ (3,500)	\$ 1,425,145	\$ 1,428,645
Other Financing Sources (Uses)				
Transfers in	\$ 3,500	\$ 3,500	\$ -	\$ (3,500)
Transfers out	-	-	(93,471)	(93,471)
Proceeds from loans	-	-	1,205	1,205
Total Other Financing Sources (Uses)	\$ 3,500	\$ 3,500	\$ (92,266)	\$ (95,766)
Change in Fund Balance	\$ -	\$ -	\$ 1,332,879	\$ 1,332,879
Fund Balance - January 1	2,978,379	2,978,379	2,978,379	-
Fund Balance - December 31	\$ 2,978,379	\$ 2,978,379	\$ 4,311,258	\$ 1,332,879

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 8

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,363,508	\$ 1,363,508	\$ 1,347,648	\$ (15,860)
Intergovernmental	3,995,061	3,995,061	3,959,735	(35,326)
Miscellaneous	18,000	18,000	26,497	8,497
Total Revenues	\$ 5,376,569	\$ 5,376,569	\$ 5,333,880	\$ (42,689)
Expenditures				
Current				
Highways and streets				
Administration	\$ 389,590	\$ 389,590	\$ 384,416	\$ 5,174
Maintenance	1,766,818	1,766,818	1,771,365	(4,547)
Construction	2,221,790	2,221,790	1,598,410	623,380
Equipment maintenance and shop	897,371	897,371	653,234	244,137
Materials and services for resale	206,000	206,000	262,714	(56,714)
Total Expenditures	\$ 5,481,569	\$ 5,481,569	\$ 4,670,139	\$ 811,430
Excess of Revenues Over (Under) Expenditures	\$ (105,000)	\$ (105,000)	\$ 663,741	\$ 768,741
Other Financing Sources (Uses)				
Transfers in	16,000	16,000	22,328	6,328
Change in Fund Balance	\$ (89,000)	\$ (89,000)	\$ 686,069	\$ 775,069
Fund Balance - January 1	2,191,749	2,191,749	2,191,749	-
Increase (decrease) in inventories	-	-	(12,234)	(12,234)
Fund Balance - December 31	\$ 2,102,749	\$ 2,102,749	\$ 2,865,584	\$ 762,835

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 9

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,090,705	\$ 2,090,705	\$ 2,067,104	\$ (23,601)
Intergovernmental	4,993,109	4,993,109	5,076,666	83,557
Charges for services	896,497	896,497	1,048,248	151,751
Gifts and contributions	92,617	92,617	13,704	(78,913)
Miscellaneous	584,969	584,969	359,842	(225,127)
Total Revenues	\$ 8,657,897	\$ 8,657,897	\$ 8,565,564	\$ (92,333)
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,428,443	\$ 2,428,443	\$ 2,210,877	\$ 217,566
Social services	5,603,160	5,603,160	5,142,974	460,186
Heartland express	650,924	650,924	665,372	(14,448)
Total Expenditures	\$ 8,682,527	\$ 8,682,527	\$ 8,019,223	\$ 663,304
Excess of Revenues Over (Under)				
Expenditures	\$ (24,630)	\$ (24,630)	\$ 546,341	\$ 570,971
Other Financing Sources (Uses)				
Transfers in	24,630	24,630	23,761	(869)
Change in Fund Balance	\$ -	\$ -	\$ 570,102	\$ 570,102
Fund Balance - January 1	3,554,323	3,554,323	3,554,323	-
Fund Balance - December 31	\$ 3,554,323	\$ 3,554,323	\$ 4,124,425	\$ 570,102

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 10

**BUDGETARY COMPARISON SCHEDULE
LANDFILL SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 335,000	\$ 335,000	\$ 341,836	\$ 6,836
Licenses and permits	300	300	360	60
Intergovernmental	65,947	65,947	64,141	(1,806)
Charges for services	438,500	438,500	642,362	203,862
Miscellaneous	4,100	4,100	3,778	(322)
Total Revenues	\$ 843,847	\$ 843,847	\$ 1,052,477	\$ 208,630
Expenditures				
Current				
Sanitation				
Solid waste	1,146,630	1,146,630	987,581	159,049
Excess of Revenues Over (Under)				
Expenditures	\$ (302,783)	\$ (302,783)	\$ 64,896	\$ 367,679
Other Financing Sources (Uses)				
Transfers in	111,300	111,300	38,549	(72,751)
Change in Fund Balance	\$ (191,483)	\$ (191,483)	\$ 103,445	\$ 294,928
Fund Balance - January 1	5,164,226	5,164,226	5,164,226	-
Fund Balance - December 31	\$ 4,972,743	\$ 4,972,743	\$ 5,267,671	\$ 294,928

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 11

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2011**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 689,726</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 689,726</u>

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**BROWN COUNTY
NEW ULM, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Brown County was established February 11, 1856, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Brown County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Unit

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. County-Wide Statements

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

In the county-wide statement of net assets, the governmental activities column: (a) is presented on a consolidated basis; and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed in a separate column in the fund financial statements. 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 revenues from the federal and state government, as well as property tax revenues used for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

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

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

Additionally, the County reports the following fund types:

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2011, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds are allocated interest as transfers from the General Fund based on the average cash balance of the fund. Pooled investment earnings for 2011 were \$248,660.

Brown County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Investments of the County are reported at fair value.

2. Receivables and Payables

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

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

3. Inventories

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

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

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

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

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

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Compensated Absences (Continued)

termination are included. Compensated absences are accrued when incurred in the county-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Deferred Revenue

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

7. Long-Term Obligations

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Classification of Net Assets

Net assets in the county-wide financial statements are classified in the following categories:

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

Restricted net assets - the amount of net assets 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 assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

9. Classification of Fund Balances

Beginning in 2011, Brown County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions. Also, as part of implementation of GASB Statement 54, the Building and Capital Improvements Fund was reclassified from a special revenue fund to a capital projects fund.

The County's fund balance policy established a minimum unassigned fund balance equal to 35 percent of total General Fund expenditures. In the event the unassigned fund balance drops below the established minimum level, the County Board will develop a plan to replenish the fund balance to the established level.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - the nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

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

Assigned - amounts in the assigned fund balance classification are those 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 - unassigned fund balance is 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Classification of Fund Balances (Continued)

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

10. Use of Estimates

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

E. Restatement of Fund Balance

The implementation of GASB Statement 54 required the County to report the County Parks Special Revenue Fund as part of the General Fund. The County Parks Special Revenue Fund was previously reported as a nonmajor special revenue fund. The following table summarizes the restatement of fund balance:

	General Fund	Nonmajor Governmental Funds
Fund Balance - January 1, as previously reported	\$ 2,814,228	\$ 1,263,126
Restatement	164,151	(164,151)
Fund Balance - January 1, as restated	\$ 2,978,379	\$ 1,098,975

**BROWN COUNTY
NEW ULM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

On or before mid-August of each year, all departments submit requests for appropriations to the County Auditor/Treasurer so that a budget can be prepared. Before October 31, the proposed budget is presented to the County Board for review.

The Board holds public hearings, and a final budget must be prepared and adopted no later than December 31.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the fund level.

B. Deficit Fund Equity

For internal accounting purposes, individual ditch system records are maintained on a basis which shows long-term debt payable, recognizes special assessments as revenues when levied, and does not eliminate interfund transactions. Using this basis of accounting, 9 of 90 drainage systems had a deficit fund balance at December 31, 2011.

Although this method results in numbers not considered to be in conformity with GAAP for reporting, it provides necessary information by ditch for internal accounting purposes. The following is a summary of fund balances using this non-GAAP basis.

Account balances	\$ 792,810
Account balance deficit	<u>(47,291)</u>
Total	<u>\$ 745,519</u>

The Ditch Special Revenue Fund's deficit will be eliminated with future special assessment levies against benefited properties. The Ditch Special Revenue Fund had a fund balance of \$545,314 when reported on the modified accrual basis.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 17,897,635
Fiduciary funds	
Agency funds	
Cash and pooled investments	<u>689,726</u>
Total Cash and Investments	<u>\$ 18,587,361</u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution 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's policy states all deposits should be fully collateralized. As of December 31, 2011, the County's deposits were not exposed to custodial credit risk.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing operating funds primarily in short-term deposits and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity required for operations. No more than 20 percent of the investment portfolio may be invested beyond 12 months, and the average maturity of the portfolio shall never exceed one year. At December 31, 2011, all of the County's investments had maturity dates of less than 12 months.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's policy states the County will minimize investment custodial credit risk by permitting brokers that obtained

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Custodial Credit Risk (Continued)

investments to hold them only to the extent there is SIPC (Securities Investor Protection Corporation) coverage and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. At December 31, 2011, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy limits investments with one institution to \$5,000,000. As of December 31, 2011, the County's investments were not exposed to concentration of credit risk.

2. Receivables

Receivables as of December 31, 2011, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - prior	\$ 194,307	\$ -
Special assessments - prior	21,599	-
Special assessments	690,993	345,851
Accounts	839,336	-
Accrued interest	135,012	-
Due from other governments	1,842,441	-
Total Governmental Activities	\$ 3,723,688	\$ 345,851

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,038,712	\$ -	\$ -	\$ 1,038,712
Construction in progress	298,266	16,108	266,518	47,856
Total capital assets not depreciated	\$ 1,336,978	\$ 16,108	\$ 266,518	\$ 1,086,568
Capital assets depreciated				
Buildings and improvements	\$ 15,276,944	\$ 98,507	\$ -	\$ 15,375,451
Land improvements	2,288,019	-	-	2,288,019
Machinery, furniture, and equipment	6,158,901	408,736	153,248	6,414,389
Computer software - intangible	-	266,284	-	266,284
Infrastructure - highway	68,396,764	1,500,572	-	69,897,336
Infrastructure - dam	2,098,857	-	-	2,098,857
Total capital assets depreciated	\$ 94,219,485	\$ 2,274,099	\$ 153,248	\$ 96,340,336
Less: accumulated depreciation for				
Buildings and improvements	\$ 2,627,692	\$ 206,914	\$ -	\$ 2,834,606
Land improvements	1,748,430	25,441	-	1,773,871
Machinery, furniture, and equipment	4,004,079	464,511	145,209	4,323,381
Computer software - intangible	-	12,610	-	12,610
Infrastructure - highway	17,628,092	1,354,781	-	18,982,873
Infrastructure - dam	255,390	14,166	-	269,556
Total accumulated depreciation	\$ 26,263,683	\$ 2,078,423	\$ 145,209	\$ 28,196,897
Total capital assets depreciated, net	\$ 67,955,802	\$ 195,676	\$ 8,039	\$ 68,143,439
Governmental Activities Capital Assets, Net	\$ 69,292,780	\$ 211,784	\$ 274,557	\$ 69,230,007

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	182,055
Public safety		180,342
Highways and streets, including depreciation of infrastructure assets		1,601,339
Sanitation		11,935
Human services		68,652
Health		5,096
Culture and recreation, including depreciation of infrastructure assets		22,706
Conservation of natural resources		6,298
Total Depreciation Expense - Governmental Activities	\$	2,078,423

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2011, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General	Family Services	\$ 10,036	Records, nursing, service
Road and Bridge	General	\$ 4,085	Fuel
	Family Services	7,213	Fuel and service work
Total due to Road and Bridge Special Revenue Fund		\$ 11,298	
Total Due To/From Other Funds		\$ 21,334	

The interfund receivables and payables are expected to be paid within one year of December 31, 2011.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers (Continued)

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of transfers from the General Fund to allocate investment earnings:

Transfers Out	Transfers In	Amount	Purpose
General	Road and Bridge	\$ 22,328	Allocated interest
	Family Services	23,761	Allocated interest
	Landfill	38,549	Allocated interest
	Other governmental funds	8,833	Allocated interest
	Total Transfers In/Out	<u>\$ 93,471</u>	

C. Liabilities

1. Long-Term Debt

Loans Payable

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

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
1998 Groundwater Protection CWP Project	2014	\$ 12,067	-	\$ 362,000	\$ 60,333
2001 Cottonwood River Restoration CWP Project	2013	4,447	2.00	80,244	13,078
2001 Little Cottonwood River Restoration CWP Project	2014	5,569	2.00	100,495	27,029
2001 Watonwan Watershed CWP Project	2014	3,543	2.00	63,932	17,195
2001 Septic System Replacement Project	2021	2,665	-	53,300	53,300

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2011
2003 Cottonwood River Restoration CWP Project	2017	16,973	2.00	306,293	175,973
2004 Watonwan Watershed Continuation CWP Project	2016	1,448	2.00	26,145	13,722
2004 Little Cottonwood River Restoration Continuation CWP Project	2018	7,238	2.00	130,622	87,829
2007 Middle Minnesota Watershed CWP Project	2020	18,121	2.00	327,008	297,157
2007 Cottonwood River Watershed Pollution Reduction Project	2020	6,413	2.00	115,735	105,170
2009 Cottonwood River Watershed Phosphorus TMDL Continuation CWP Project	2022	11,526	2.00	14,502	14,502
Total Loans Payable					\$ 865,288

2. Debt Service Requirements

Year Ending December 31	Loans Payable	
	Principal	Interest
2012	\$ 142,792	\$ 14,179
2013	140,623	11,901
2014	117,187	9,712
2015	97,924	7,797
2016	99,785	5,936
2017 - 2021	252,475	9,141
Total	\$ 850,786	\$ 58,666

The debt service requirements for the loan from the Minnesota Pollution Control Agency in the amount \$14,502 is not known as of December 31, 2011.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Landfill closure/postclosure liability	\$ 1,964,941	\$ -	\$ 484,082	\$ 1,480,859	\$ -
Loans payable	999,312	1,205	135,229	865,288	142,792
Net OPEB liability	189,402	97,498	39,515	247,385	-
Compensated absences	1,381,284	4,866	-	1,386,150	70,671
Long-Term Liabilities	<u>\$ 4,534,939</u>	<u>\$ 103,569</u>	<u>\$ 658,826</u>	<u>\$ 3,979,682</u>	<u>\$ 213,463</u>

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,480,859 landfill closure and postclosure care liability at December 31, 2011, represents the cumulative amount reported to date based on the use of 73 percent of the permitted capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$561,324 as the remaining permitted capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011. The County expects the landfill to continue operations beyond 2027 through approved permitting processes. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2011, investments of \$2,406,277 are restricted for these purposes. Accumulated annual contributions and any payments of landfill postclosure care costs are reported in the Landfill Special Revenue Fund. Brown County expects that future inflation costs will be

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Landfill Closure and Postclosure Care Costs (Continued)

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

D. Fund Balances

Fund balances at year-end December 31, 2011, were as follows:

	General	Road and Bridge	Family Services	Landfill	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances						
Nonspendable						
Inventories	\$ -	\$ 137,013	\$ -	\$ -	\$ -	\$ 137,013
Restricted						
Law library	\$ 31,516	\$ -	\$ -	\$ -	\$ -	\$ 31,516
Recorder's equipment purchases	152,105	-	-	-	-	152,105
Enhanced 911	454,624	-	-	-	-	454,624
Landfill closure/postclosure	-	-	-	2,406,277	-	2,406,277
Sheriff's contingency	14,695	-	-	-	-	14,695
Septic/sewer loans	867,647	-	-	-	-	867,647
Conservation of natural resources	-	-	-	-	713,867	713,867
Donations	-	-	18,332	-	-	18,332
Total restricted	\$ 1,520,587	\$ -	\$ 18,332	\$ 2,406,277	\$ 713,867	\$ 4,659,063
Assigned						
Recycling	\$ -	\$ -	\$ -	\$ 107,633	\$ -	\$ 107,633
Road and bridge	-	2,728,571	-	-	-	2,728,571
Human services	-	-	4,106,093	-	-	4,106,093
Capital improvements	-	-	-	-	598,298	598,298
Landfill	-	-	-	2,753,761	-	2,753,761
County funded loan	244,088	-	-	-	-	244,088
Parks	109,242	-	-	-	-	109,242
Boat and water safety	29,919	-	-	-	-	29,919
Total assigned	\$ 383,249	\$ 2,728,571	\$ 4,106,093	\$ 2,861,394	\$ 598,298	\$ 10,677,605
Unassigned	\$ 2,407,422	\$ -	\$ -	\$ -	\$ (168,553)	\$ 2,238,869
Total Fund Balances	\$ 4,311,258	\$ 2,865,584	\$ 4,124,425	\$ 5,267,671	\$ 1,143,612	\$ 17,712,550

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description

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

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

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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

A. Defined Benefit Plans (Continued)

Funding Policy

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

The County is required to contribute the following percentages of annual covered payroll in 2011:

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

The County's contributions for the years ending December 31, 2011, 2010, and 2009, for the General Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	2011	2010	2009
General Employees Retirement Fund	\$ 643,204	\$ 618,218	\$ 616,030
Public Employees Police and Fire Fund	90,893	90,118	93,998
Public Employees Correctional Fund	67,198	68,692	71,018

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits (Continued)

B. Defined Contribution Plan

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

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

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ended December 31, 2011, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 2,077	\$ 2,077
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

C. Other Postemployment Benefits (OPEB)

Plan Description

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the Brown County Board of Commissioners. The required contribution is based on projected pay-as-you-go financing requirements. Retirees are required to pay 100 percent of the total premium cost. Since the premium is determined on the entire active and retired population, the retirees are receiving an implicit rate subsidy. As of January 1, 2011, there were approximately eight retirees receiving health benefits from the County's health care plan. The implicit rate subsidy amount was determined by an actuarial study to be \$39,515 for 2011. A separate, audited GAAP-basis postemployment plan report is not issued.

Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$	101,204
Interest on net OPEB obligation		6,629
Adjustment to ARC		(10,335)

Annual OPEB cost (expense)	\$	97,498
Contributions made		(39,515)

Increase in net OPEB obligation	\$	57,983
Net OPEB Obligation - Beginning of Year		189,402

Net OPEB Obligation - End of Year	\$	247,385

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2009, 2010, and 2011, 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, 2009	\$ 103,304	\$ 46,318	44.8%	\$ 129,281
December 31, 2010	98,745	38,624	39.1	189,402
December 31, 2011	97,498	39,515	40.5	247,385

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial liability for benefits was \$746,411, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$746,411. The covered payroll (annual payroll of active employees covered by the plan) was \$9,357,001, and the ratio of the UAAL to the covered payroll was 8.0 percent.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans and Other Postemployment Benefits

C. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

In the January 1, 2010, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5 percent investment rate of return (net of investment expenses), which is Brown County's implicit rate of return on the General Fund. The annual health care cost trend is 8.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over 7 years. These rates do not include an inflation assumption. The UAAL is being amortized over 30 years as a level dollar on a closed basis. The remaining amortization period at December 31, 2011, was 26 years.

5. Conduit Debt

Martin Luther College Construction Project

In 2004, the County issued variable rate demand purchase revenue bonds in the amount of \$7,500,000 to finance the acquisition and construction of higher education facilities at Martin Luther College in New Ulm, Minnesota, as authorized by the Municipal Industrial Development Act, Minn. Stat. §§ 469.152 - 469.1651. The bonds are secured by an irrevocable direct-pay letter of credit provided by Wells Fargo Bank, NA.

The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2011, is \$5,640,000.

**BROWN COUNTY
NEW ULM, MINNESOTA**

5. Conduit Debt (Continued)

Oak Hills Living Center Project

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

The County is not obligated in any manner for repayment of the note. Accordingly, the note will not be reported as a liability in the financial statements. The outstanding balance at December 31, 2011, is \$5,883,235.

6. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$450,000 per claim in 2011 and \$460,000 per claim in 2012. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

B. Contingent Liabilities

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

C. Joint Ventures

Brown-Nicollet Community Health Services Board

The Brown-Nicollet Community Health Services Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement, effective July 1, 1975. The Health Services Board consists of ten members, five each from Brown and Nicollet Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services. The joint venture is financed primarily from state and federal grants. For the year ended December 31, 2010 (the most current information available), the Health Services Board had net assets of \$716,587. Complete financial information can be obtained from the Brown-Nicollet Community Health Services Board, 322 South Minnesota, St. Peter, Minnesota 56082.

Red Rock Rural Water System

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

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding governmental activities indebtedness at December 31, 2010 (the most current information available), amounted to \$13,363,000, and

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Red Rock Rural Water System (Continued)

business-type indebtedness was \$241,629. The Water System's net assets increased by \$2,667,586 in 2010. Complete financial information can be obtained from the Red Rock Rural Water System, Jeffers, Minnesota 56145.

Families First Collaborative

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

The Collaborative is funded by Local Collaborative Time Study (LCTS) funds, fees, contributions, and DHS Grant funds. Control of the Collaborative is vested in a Board of Directors consisting of ten members. Brown County Family Services acts as a fiscal agent for the Collaborative. During 2011, Brown County provided \$300 in funding to the Collaborative Integrated Fund (\$100 - Family Services, \$100 - Public Health, and \$100 - Probation).

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Families First Collaborative (Continued)

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

Three Counties for Kids Collaborative

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

The Collaborative is financed by LCTS funds and program reimbursements. Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Family Services acts as a fiscal agent for the Collaborative. During 2011, Brown County did not provide funding to the Collaborative.

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Three Counties for Kids Collaborative (Continued)

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

South Country Health Alliance

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

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

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

The County's equity interest in the SCHA at December 31, 2011, was \$1,410,059. The County's share of the SCHA's net income was \$417,941. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as Human Services miscellaneous revenue.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

South Country Health Alliance (Continued)

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

D. Jointly-Governed Organizations

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

The South Central Minnesota Regional Radio Board was established to form a regional radio board to provide for regional administration of enhancements to the Statewide Public Safety Radio Communication System (ARMER). During 2011, Brown County contributed \$1,034 to the Joint Powers Board.

The Area II Minnesota River Basin Project provides cost-share and technical assistance for the implementation of flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$12,678 to the Project.

The Brown-Lyon-Redwood Drug Task Force provides drug enforcement services for member organizations. During the year, the County made no payments to the Task Force.

The Minnesota River Board is a joint powers board comprising counties within the Minnesota River Basin. Its mission is to provide leadership, build partnerships, and support efforts to improve and protect water quality in the Minnesota River Basin. The County withdrew from the Board in 2011.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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

The South Central Minnesota County Comprehensive Water Planning Project provides the preparation of comprehensive water plans for the participating counties. During the year, the County made no payments to the Water Planning Project.

The South Central Regional IMMTRACK (Immunization Registry) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County paid \$4,343 to the Joint Powers Board.

The South Central Workforce Council Joint Powers Board comprises one representative from each of the participating County Boards. The Board is the local governmental body that appoints the Workforce Council members and is a full partner with them in overseeing area employment and training programs.

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

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

The Minnesota Bureau of Criminal Apprehension (BCA) and Brown County Probation joint powers agreement allows Brown County Probation Department continued access to the criminal data communications network (CJDN) and other tools the agency is authorized by law to allow via the CJDN Network.

The Minnesota Department of Public Safety (DPS), Bureau of Criminal Apprehension (BCA) and Brown County Sheriff and Brown County Attorney joint powers agreement allows the County to use systems and tools available over the state's CJDN for which the County is eligible.

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

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

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

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2011.

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

A. Summary of Significant Accounting Policies

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

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, the EDP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue

The EDP receives substantially all of its revenue from interest on loan payments and from Brown County in the form of an annual appropriation.

Cash and Cash Equivalents

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

A. Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

B. Loans Receivable

Loans receivable, totaling \$255,438 as of December 31, 2011, consist of 11 loans made for economic development.

REQUIRED SUPPLEMENTARY INFORMATION

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2011**

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

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

Complete multi-year trend information is not available at this time, as Governmental Accounting Standards Board Statement 45 was implemented in 2008. Future notes will provide additional trend analysis to meet the three actuarial valuations requirement as it becomes available.

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SUPPLEMENTARY INFORMATION

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECTS FUND

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

SPECIAL REVENUE FUND

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT B-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>Capital Projects</u>		
	<u>Building and Capital Improvements</u>	<u>Special Revenue County Ditch</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Assets</u>			
Cash and pooled investments	\$ 598,921	\$ 604,616	\$ 1,203,537
Taxes receivable			
Prior	2,069	-	2,069
Special assessments receivable			
Prior	-	617	617
Current	-	162,814	162,814
Noncurrent	-	28,111	28,111
Due from other governments	2,587	13,272	15,859
Total Assets	\$ 603,577	\$ 809,430	\$ 1,413,007
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 3,600	\$ 51,922	\$ 55,522
Salaries payable	-	225	225
Due to other governments	18	11,764	11,782
Deferred revenue - unavailable	1,427	199,892	201,319
Deferred revenue - unearned	234	313	547
Total Liabilities	\$ 5,279	\$ 264,116	\$ 269,395
Fund Balances			
Restricted for conservation of natural resources	\$ -	\$ 713,867	\$ 713,867
Assigned for capital improvements	598,298	-	598,298
Unassigned	-	(168,553)	(168,553)
Total Fund Balances	\$ 598,298	\$ 545,314	\$ 1,143,612
Total Liabilities and Fund Balances	\$ 603,577	\$ 809,430	\$ 1,413,007

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT B-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Capital Projects</u> <u>Building and</u> <u>Capital</u> <u>Improvements</u>	<u>Special Revenue</u> <u>County Ditch</u>	<u>Total Nonmajor</u> <u>Governmental</u> <u>Funds</u>
Revenues			
Taxes	\$ 133,341	\$ -	\$ 133,341
Special assessments	-	107,398	107,398
Intergovernmental	29,466	32,196	61,662
Miscellaneous	8,522	-	8,522
Total Revenues	\$ 171,329	\$ 139,594	\$ 310,923
Expenditures			
Current			
General government	\$ 64,374	\$ -	\$ 64,374
Conservation of natural resources	-	216,567	216,567
Total Expenditures	\$ 64,374	\$ 216,567	\$ 280,941
Excess of Revenues Over (Under)			
Expenditures	\$ 106,955	\$ (76,973)	\$ 29,982
Other Financing Sources (Uses)			
Transfers in	\$ 3,894	\$ 4,939	\$ 8,833
Insurance recovery for loss of general capital assets	5,822	-	5,822
Total Other Financing Sources (Uses)	\$ 9,716	\$ 4,939	\$ 14,655
Change in Fund Balance	\$ 116,671	\$ (72,034)	\$ 44,637
Fund Balance - January 1	481,627	617,348	1,098,975
Fund Balance - December 31	\$ 598,298	\$ 545,314	\$ 1,143,612

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT B-3

**BUDGETARY COMPARISON SCHEDULE
BUILDING AND CAPITAL IMPROVEMENTS CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 135,134	\$ 135,134	\$ 133,341	\$ (1,793)
Intergovernmental	27,366	27,366	29,466	2,100
Miscellaneous	8,137	8,137	8,522	385
Total Revenues	\$ 170,637	\$ 170,637	\$ 171,329	\$ 692
Expenditures				
Current				
General government				
Buildings and plant	\$ 30,000	\$ 30,000	\$ 51,066	\$ (21,066)
Veterans service officer	9,718	9,718	13,308	(3,590)
Total general government	\$ 39,718	\$ 39,718	\$ 64,374	\$ (24,656)
Public safety				
Sheriff	125,000	125,000	-	125,000
Total Expenditures	\$ 164,718	\$ 164,718	\$ 64,374	\$ 100,344
Excess of Revenues Over (Under) Expenditures	\$ 5,919	\$ 5,919	\$ 106,955	\$ 101,036
Other Financing Sources (Uses)				
Transfers in	\$ 2,450	\$ 2,450	\$ 3,894	\$ 1,444
Insurance recovery for loss of general capital assets	-	-	5,822	5,822
Total Other Financing Sources (Uses)	\$ 2,450	\$ 2,450	\$ 9,716	\$ 7,266
Change in Fund Balance	\$ 8,369	\$ 8,369	\$ 116,671	\$ 108,302
Fund Balance - January 1	481,627	481,627	481,627	-
Fund Balance - December 31	\$ 489,996	\$ 489,996	\$ 598,298	\$ 108,302

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT B-4

**BUDGETARY COMPARISON SCHEDULE
COUNTY DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 311,983	\$ 311,983	\$ 107,398	\$ (204,585)
Intergovernmental	-	-	32,196	32,196
Total Revenues	\$ 311,983	\$ 311,983	\$ 139,594	\$ (172,389)
Expenditures				
Current				
Conservation and natural resources				
Other	319,483	319,483	216,567	102,916
Excess of Revenues Over (Under) Expenditures	\$ (7,500)	\$ (7,500)	\$ (76,973)	\$ (69,473)
Other Financing Sources (Uses)				
Transfers in	7,500	7,500	4,939	(2,561)
Change in Fund Balance	\$ -	\$ -	\$ (72,034)	\$ (72,034)
Fund Balance - January 1	617,348	617,348	617,348	-
Fund Balance - December 31	\$ 617,348	\$ 617,348	\$ 545,314	\$ (72,034)

**BROWN COUNTY
NEW ULM, MINNESOTA**

AGENCY FUNDS

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

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

Prepaid Tax - to account for taxes paid in advance.

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

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

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

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

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

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

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

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT C-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>ASSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,677	\$ 168	\$ 222	\$ 1,623
	\$ 1,677	\$ 168	\$ 222	\$ 1,623
<u>Liabilities</u>				
Due to other governments	\$ 1,677	\$ 168	\$ 222	\$ 1,623
	\$ 1,677	\$ 168	\$ 222	\$ 1,623
 <u>MORTGAGE REGISTRY TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 30,410	\$ 212,449	\$ 221,612	\$ 21,247
	\$ 30,410	\$ 212,449	\$ 221,612	\$ 21,247
<u>Liabilities</u>				
Due to other governments	\$ 30,410	\$ 212,449	\$ 221,612	\$ 21,247
	\$ 30,410	\$ 212,449	\$ 221,612	\$ 21,247
 <u>PREPAID TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 4,779	\$ 93,853	\$ 75,718	\$ 22,914
	\$ 4,779	\$ 93,853	\$ 75,718	\$ 22,914
<u>Liabilities</u>				
Due to other governments	\$ 4,779	\$ 93,853	\$ 75,718	\$ 22,914
	\$ 4,779	\$ 93,853	\$ 75,718	\$ 22,914

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>REGION NINE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 441	\$ 39,486	\$ 39,470	\$ 457
<u>Liabilities</u>				
Due to other governments	\$ 441	\$ 39,486	\$ 39,470	\$ 457
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 56,655	\$ 6,393,201	\$ 6,385,476	\$ 64,380
<u>Liabilities</u>				
Due to other governments	\$ 56,655	\$ 6,393,201	\$ 6,385,476	\$ 64,380
 <u>SOCIAL WELFARE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 122,330	\$ -	\$ 122,330
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 122,330	\$ -	\$ 122,330

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 23,322	\$ 224,426	\$ 222,833	\$ 24,915
<u>Liabilities</u>				
Due to other governments	\$ 23,322	\$ 224,426	\$ 222,833	\$ 24,915
 <u>THREE COUNTIES FOR KIDS COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 185,324	\$ 163,327	\$ 110,128	\$ 238,523
<u>Liabilities</u>				
Due to other governments	\$ 185,324	\$ 163,327	\$ 110,128	\$ 238,523
 <u>FAMILIES FIRST FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 25,747	\$ 100,322	\$ 80,613	\$ 45,456
<u>Liabilities</u>				
Due to other governments	\$ 25,747	\$ 100,322	\$ 80,613	\$ 45,456

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT C-1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,199	\$ 29,704,365	\$ 29,664,757	\$ 46,807
<u>Liabilities</u>				
Due to other governments	\$ 7,199	\$ 29,704,365	\$ 29,664,757	\$ 46,807
 <u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 105,171	\$ 12,029,550	\$ 12,033,647	\$ 101,074
<u>Liabilities</u>				
Due to other governments	\$ 105,171	\$ 12,029,550	\$ 12,033,647	\$ 101,074
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 440,725	\$ 49,083,477	\$ 48,834,476	\$ 689,726
<u>Liabilities</u>				
Due to other governments	\$ 440,725	\$ 49,083,477	\$ 48,834,476	\$ 689,726

SCHEDULES

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT D-1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2011**

	<u>Interest Rate</u>	<u>Amount</u>
Deposits and Investments		
Checking accounts	0.50%	\$ 5,881,651
Cash on hand	None	1,040
Savings accounts	Varies	728,549
Mutual funds (MAGIC)	Varies	3,734,281
Government securities	Varies	7,146,840
Certificates of deposit	Varies	<u>1,095,000</u>
Total Deposits and Investments		<u>\$ 18,587,361</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT D-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Shared revenue

State

Highway users tax	\$ 3,614,424
County program aid	1,196,683
PERA rate reimbursement	39,317
Disparity reduction aid	27,050
Police aid	66,521
Enhanced 911	105,693
Market value credit	859,729
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Total shared revenue **\$ 5,909,417**

Reimbursement for services

State

Minnesota Department of Human Services	\$ 756,389
	<hr/>

Payments

Local

City contributions	\$ 10,037
Local contributions	157,878
Payments in lieu of taxes	29,965
	<hr/>

Total payments **\$ 197,880**

Grants

State

Minnesota Department/Board of	
Corrections	\$ 302,057
Agriculture	285
Public Safety	5,848
Transportation	398,183
Health	138,711
Natural Resources	64,433
Trial Courts	65,776
Secretary of State	1,685
Human Services	1,386,905
Veterans Affairs	1,300
Revenue	600
Water and Soil Resources	111,113
Peace Officer Standards and Training Board	7,953
Pollution Control Agency	91,493
	<hr/>

Total state **\$ 2,576,342**

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT D-2
(Continued)**

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Grants (Continued)

Federal

Department of	
Agriculture	\$ 280,151
Commerce	31,072
Justice	103,030
Transportation	250,651
Veterans Affairs	2,100
Health and Human Services	1,935,943
Homeland Security	180,047

Total federal \$ 2,782,994

Total state and federal grants \$ 5,359,336

Total Intergovernmental Revenue \$ 12,223,022

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT D-3

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Brown-Nicollet Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 112,135
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	<u>151,253</u>
Total U.S. Department of Agriculture		<u>\$ 263,388</u>
U.S. Department of Commerce		
Passed Through Blue Earth County Public Safety Interoperable Communications Grant Program	11.555	<u>\$ 31,072</u>
U.S. Department of Justice		
Direct Juvenile Justice and Delinquency Prevention Allocation to States	16.540	<u>\$ 103,030</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Formula Grants for Other Than Urbanized Areas Cluster Formula Grants for Other Than Urbanized Areas	20.509	<u>\$ 250,651</u>
U.S. Department of Veterans Affairs		
Direct Burial Expense Allowance for Veterans	64.101	<u>\$ 2,100</u>
U.S. Department of Health and Human Services		
Passed Through Brown-Nicollet Community Health Services Public Health Emergency Preparedness	93.069	\$ 40,830
Temporary Assistance for Needy Families (TANF) Cluster Temporary Assistance for Needy Families	93.558	48,606
Medical Assistance Program	93.778	25,306
Maternal and Child Health Services Block Grant to the States	93.994	28,873
Passed Through Minnesota Department of Commerce Low-Income Home Energy Assistance	93.568	203,106

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT D-3
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	61,636
Temporary Assistance for Needy Families Cluster		
Temporary Assistance for Needy Families	93.558	189,424
Emergency Contingency Fund for TANF State Program - ARRA	93.714	10,104
Child Support Enforcement	93.563	476,640
Child Care and Development Fund Cluster		
Child Care and Development Block Grant	93.575	8,461
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	9,498
Stephanie Tubbs Jones Child Welfare Services Program	93.645	11,898
Foster Care - Title IV-E	93.658	99,917
Social Services Block Grant	93.667	163,963
Chafee Foster Care Independence Program	93.674	3,668
Children's Health Insurance Program	93.767	102
Medical Assistance Program	93.778	551,442
Block Grants for Community Mental Health Services	93.958	7,022
Total U.S. Department of Health and Human Services		\$ 1,940,496
U.S. Department of Homeland Security		
Direct		
Emergency Food and Shelter National Board Program	97.024	\$ 484
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	74,061
Emergency Management Performance Grants	97.042	14,401
Homeland Security Grant Program	97.067	40,000
Passed Through Murray County		
Homeland Security Grant Program	97.067	26,056
Passed Through Minnesota Department of Transportation		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	25,045
Total U.S. Department of Homeland Security		\$ 180,047
Total Cash Federal Awards		\$ 2,770,784

**BROWN COUNTY
NEW ULM, MINNESOTA**

*EXHIBIT D-3
(Continued)*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
Non-Cash Awards		
U.S. Department of Transportation		
Passed Through Meeker County		
Formula Grants for Other Than Urbanized Areas Cluster		
Formula Grants for Other Than Urbanized Areas - ARRA	20.509	\$ <u>34,930</u>
Total Federal Awards		\$ <u><u>2,805,714</u></u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Reporting Entity

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Brown County under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Brown County, it is not intended to and does not present the financial position or changes in net assets of Brown County.

3. Summary of Significant Accounting Policies

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

4. Clusters

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

Formula Grants for Other Than Urbanized Areas Cluster	\$ 285,581
Temporary Assistance for Needy Families Cluster	248,134
Child Care and Development Fund Cluster	17,959

**BROWN COUNTY
NEW ULM, MINNESOTA**

5. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,782,994
Non-cash awards	34,930
Grants received more than 60 days after year-end, deferred in 2011	
Temporary Assistance for Needy Families	7,816
Grants received more than 60 days after year-end, deferred in 2010	
Special Supplemental Nutrition Program for Women, Infants, and Children	(16,763)
Immunization – ARRA	<u>(3,263)</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 2,805,714</u>

6. Subrecipients

During 2011, the County did not pass any federal money to subrecipients.

7. American Recovery and Reinvestment Act

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

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:

Temporary Assistance for Needy Families Cluster	
Temporary Assistance for Needy Families	CFDA #93.558
Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program - ARRA	CFDA #93.714
Medical Assistance	CFDA #93.778

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

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments (10-1)

Management and employees, in the normal course of performing their assigned functions, were not able to prevent, or detect and correct, misstatements of the financial statements on a timely basis.

Resolution

There were no material or significant audit adjustments required in our audit of the County's financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 County Ditch Special Revenue Fund - Deficit Fund Balances

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

Condition: As of December 31, 2011, the County had individual ditch systems where liabilities exceeded assets, resulting in individual deficit fund balance amounts.

Context: Nine of the 90 individual ditch systems had deficit fund balances as of December 31, 2011, totaling \$47,291, which is an increase from the \$35,648 deficit reported in the prior year.

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

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

Recommendation: We recommend the County eliminate the ditch 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 costs of a ditch system.

Client's Response:

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

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REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioners
Brown County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 24, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Brown County Economic Development Partners, Inc., as described in our report on Brown County's financial statements. The financial statements of Brown County Economic Development Partners, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of Brown County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Brown County's internal control over financial reporting as a basis for designing our auditing procedures 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our tests indicate that for the items tested, Brown County complied with the material terms and conditions of applicable legal provisions.

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

Brown County's written response to the management practices finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Brown County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2012

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REBECCA OTTO
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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of County Commissioners
Brown County

Compliance

We have audited Brown County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. Brown County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Brown County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Brown County complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of Brown County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of County Commissioners, management, and others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2012