

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Year Ended December 31, 2005



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

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**FREEBORN COUNTY
ALBERT LEA MINNESOTA**

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**FREEBORN COUNTY
ALBERT LEA MINNESOTA**

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2005

Office	Name	Term Expires
Board of County Commissioners		
District 1	Glen Mathiason	January 2009
District 2	Daniel Belshan	January 2007
District 3	James Nelson	January 2009
District 4	David Mullenbach*	January 2007
District 5	Mark Behrends	January 2009
County Officers		
Elected		
Attorney	Craig Nelson	January 2007
Auditor/Treasurer	Dennis A. Distad	January 2007
District Judge	John Chesterman	January 2007
District Judge	James Broberg	January 2007
Recorder	Kelly Callahan	January 2007
Registrar of Titles	Kelly Callahan	January 2007
Sheriff	Mark Harig	January 2007
Appointed		
Administrator	Ronald Gabrielsen	Indefinite
Assessor	Ryan Rasmussen	Indefinite
County Engineer	Susan Miller	Indefinite
Court Services	Tom Jensen	Indefinite
Court Administrator	Kristi Maiers	Indefinite
Finance Manager	William Helfritz	Indefinite
Veterans Service Officer	Jon Rhiger	Indefinite
Human Services		
Board		
Chair	David Mullenbach	January 2007
Vice Chair	Mark Behrends	January 2009
Member	Glen Mathiason	January 2009
Member	James Nelson	January 2009
Member	Daniel Belshan	January 2007
Appointed		
Director	Brian Buhmann	Indefinite
Accountant	Alan Olson	Indefinite

*Chair

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Freeborn County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Freeborn County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2005, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D. to the financial statements, the County's reporting entity changed in 2005. Also, as discussed in Note 1.E., the beginning net assets of the governmental activities were restated to correct the omission of the special assessment debt services activities.

The required supplementary information as listed in the table of contents and the Management's Discussion and Analysis are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Freeborn County's basic financial statements. The supplementary information and other schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Freeborn County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated 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 August 28, 2006, on our consideration of Freeborn County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005
(Unaudited)**

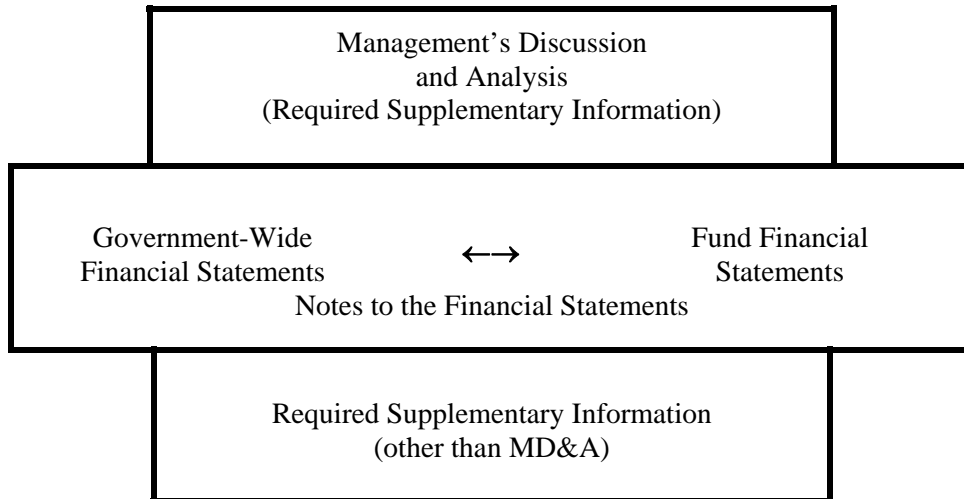
The Freeborn County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$64,903,730, of which \$52,649,750 is invested in capital assets, net of related debt, and \$5,211,568 is restricted to specific purposes.
- Freeborn County's net assets increased by \$3,071,861 for the year ended December 31, 2005.
- The net cost of governmental activities was \$12,344,772 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$15,416,633.
- During the year, Freeborn County issued no new bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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

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

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

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

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

Fund Financial Statements

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

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

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets which can only be used for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 10 and 11. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

The County's combined net assets increased from \$61,831,869 to \$64,903,730. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets
(in millions)

	Governmental Activities	
	2005	2004 (Restated)
Assets		
Current and other assets	\$ 18.1	\$ 22.2
Capital assets	77.8	73.8
Total Assets	\$ 95.9	\$ 96.0
Liabilities		
Long-term debt outstanding	\$ 28.6	\$ 29.9
Other liabilities	2.4	4.3
Total Liabilities	\$ 31.0	\$ 34.2
Net Assets		
Invested in capital assets, net of debt	\$ 52.6	\$ 49.6
Restricted	5.2	2.7
Unrestricted	7.1	9.5
Total Net Assets	\$ 64.9	\$ 61.8

Net assets of the County's governmental activities increased by 5.0 percent (\$64.9 million compared to \$61.8 million). Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from a \$9.5 million surplus at December 31, 2004, to \$7.1 million at the end of this year.

Table 2
Changes in Net Assets
(in millions)

	Governmental Activities	
	2005	2004
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 3.5	\$ 3.4
Operating grants and contributions	11.6	11.1
Capital grants and contributions	0.5	-
General revenues		
Property taxes	11.5	10.8
Grants and contributions	3.4	2.6
Other general revenues	0.5	0.5
Total Revenues	\$ 31.0	\$ 28.4

(Unaudited)

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	Governmental Activities	
	2005	2004
Program Expenses		
General government	\$ 4.2	\$ 2.4
Public safety	4.7	5.9
Highways and streets	4.9	5.5
Human services	8.4	8.2
Health	2.4	2.3
Sanitation	0.4	0.4
Culture and recreation	0.3	0.3
Conservation of natural resources	1.9	1.6
Economic development	0.1	0.1
Interest	0.6	1.4
Total Program Expenses	<u>\$ 27.9</u>	<u>\$ 28.1</u>
Increase (Decrease) in Net Assets	<u>\$ 3.1</u>	<u>\$ 0.3</u>

Governmental Activities

Revenues for the County's governmental activities were \$31.0 million, while total expenses were \$27.9 million. This resulted in a \$3.1 million increase in net assets in the year ended December 31, 2005.

The amount that our taxpayers ultimately financed for these activities through County taxes and other general sources was only \$12.3 million because some of the cost was paid by those who directly benefited from the programs (\$3.5 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$12.0 million). The County paid for the remaining "public benefit" portion of governmental activities with \$15.4 million in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as interest and general entitlements. The balance of \$3.1 million was added to existing net assets.

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

**Table 3
Governmental Activities
(in millions)**

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Human services	\$ 8.4	\$ 4.1	\$ 8.2	\$ 3.4
Highways and streets	4.9	(0.5)	5.5	0.9
Public safety	4.7	3.5	5.9	4.7
General government	4.2	3.1	2.4	1.2
Health	2.4	0.6	2.3	0.8
Conservation of natural resources	1.9	0.9	1.6	1.3
All others	1.4	0.6	2.2	1.3
Total	\$ 27.9	\$ 12.3	\$ 28.1	\$ 13.6

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet on Exhibit 3) reported a combined fund balance of \$12.5 million, which is below last year's total of \$15.4 million. Included in this year's total fund balance is a surplus of \$4.6 million in the County's General Fund. The General Fund's change in fund balance (a decrease of \$1.9 million from 2004) represented a 62 percent of the total decrease (\$2.9 million) in governmental fund balances. All of the General Fund's decrease is due to budgeted use of funds to keep the levy increase to a minimum. The Social Services Special Revenue Fund has a decrease of (\$1.2 million); this was also a budgeted use of existing funds. The Road and Bridge Special Revenue Fund shows an increase (\$0.3 million) due to not being able to complete projects.

General Fund Budgetary Highlights

The largest negative variance occurred in the General Fund. This was the same \$1.9 million mentioned in the fund balance comment. It consisted mainly of capital outlay for the new Government Center. The other large variance was the Ditch Special Revenue Fund (\$0.6). Ongoing reassessment of benefits on many of the ditch systems is incurring cost, which cannot be recovered until the new benefits can be finalized. These costs will be assessed directly to the landowners receiving the benefit and will have no monetary impact on the citizens of Freeborn County.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the County had \$77.8 million invested in a broad range of capital assets including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of just under \$4.0 million, or 5.4 percent, over last year.

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

	Governmental Activities	
	2005	2004
Land	\$ 4.0	\$ 3.9
Land improvements	0.7	0.4
Construction in progress	3.3	18.0
Buildings and improvements	30.4	11.6
Machinery, vehicles, furniture, and equipment	2.3	2.3
Infrastructure	37.1	37.6
Total	\$ 77.8	\$ 73.8

This year's major additions included (in millions) the completion of the Government Center segment of construction (\$18.7 million).

Debt

At year-end, the County had \$27.5 million in bonds and notes outstanding versus \$29.3 million last year, a decrease of 6.0 percent, as shown in Table 5.

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

	Governmental Activities	
	2005	2004
General obligation bonds and notes (backed by the County)	\$ 11.0	\$ 12.0
Special assessment bonds	0.5	0.6
General obligation lease revenue	7.0	7.3
Lease revenue bonds	9.0	9.4
Total	\$ 27.5	\$ 29.3

The County's general obligation bond rating was "A3" at its last bond issuance in November 2002, and there has been no change since then. Other obligations include accrued vacation pay and sick leave payable. The County also has an agreement with the State of Minnesota to make annual payments for an armory until 2009. More detailed information about the County's long-term liabilities is presented in Note 3.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for the business-type activities.

- County General Fund expenditures for 2006 are budgeted to increase 4.96 percent over 2005.
- The combined budget for 2006 increased \$1,937,266, or 6.1 percent, over the 2005 budget.
- The state reinstated County aids for 2006 by \$677,000.
- Property tax levies have increased 9.7 percent for 2006.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and pooled investments	\$ 12,697,051
Petty cash and change funds	1,725
Taxes receivable	
Prior - net	236,701
Special assessments receivable	
Current - net	493
Prior - net	9,432
Noncurrent - net	1,669,121
Accounts receivable - net	377,580
Accrued interest receivable	72,515
Due from other governments	1,795,145
Inventories	125,027
Restricted assets	
Restricted cash and investments on deposit for debt service	996,728
Deferred charges	95,505
Capital assets	
Non-depreciable	8,028,544
Depreciable - net of accumulated depreciation	69,789,293
Total Assets	<u>\$ 95,894,860</u>
<u>Liabilities</u>	
Accounts payable	\$ 1,168,589
Salaries payable	486,970
Contracts payable	193,880
Due to other governments	31,015
Accrued interest payable	212,535
Payable from restricted assets	
Interest payable	318,780
Long-term liabilities	
Due within one year	1,879,438
Due in more than one year	26,699,923
Total Liabilities	<u>\$ 30,991,130</u>
<u>Net Assets</u>	
Invested in capital assets - net of related debt	\$ 52,649,750
Restricted for	
General government	3,234,719
Public safety	538,438
Highways and streets	987,498
Conservation of natural resources	364,419
Endowment - nonexpendable	86,494
Unrestricted	7,042,412
Total Net Assets	<u>\$ 64,903,730</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 4,164,095	\$ 745,277	\$ 290,720	\$ -	\$ (3,128,098)
Public safety	4,708,524	682,748	572,943	-	(3,452,833)
Highways and streets	4,899,906	117,619	4,793,939	471,437	483,089
Sanitation	396,885	1,080	313,484	-	(82,321)
Human services	8,455,347	346,798	4,162,171	-	(3,946,378)
Health	2,403,016	1,079,307	569,688	-	(754,021)
Culture and recreation	292,898	10,208	-	-	(282,690)
Conservation of natural resources	1,870,582	38,856	850,820	32,965	(947,941)
Economic development	74,909	466,325	-	-	391,416
Interest	624,995	-	-	-	(624,995)
Total governmental activities	\$ 27,891,157	\$ 3,488,218	\$ 11,553,765	\$ 504,402	\$ (12,344,772)
General Revenues					
Property taxes					\$ 11,470,337
Gravel taxes					69,733
Mortgage registry and deed tax					22,896
Payments in lieu of tax					24,927
Grants and contributions not restricted to specific programs					3,315,404
Unrestricted investment earnings					467,665
Miscellaneous					43,981
Gain on sale of capital assets					1,690
Total general revenues					\$ 15,416,633
Change in net assets					\$ 3,071,861
Net Assets - Beginning, restated (Note 1.E.)					61,831,869
Net Assets - Ending					\$ 64,903,730

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 2,006,011	\$ 2,781,484
Petty cash and change funds	1,725	-
Taxes receivable		
Prior	92,305	24,918
Special assessments receivable		
Current	-	-
Prior	-	-
Noncurrent	20,424	-
Accounts receivable	105,941	3,417
Accrued interest receivable	72,515	-
Due from other funds	14,122	2,042
Due from other governments	180,937	990,492
Inventories	-	125,027
Advances to other funds	2,741,038	-
	\$ 5,235,018	\$ 3,927,380
Total Assets	\$ 5,235,018	\$ 3,927,380

EXHIBIT 3

<u>Social Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,325,891	\$ 1,138,357	\$ 1,445,308	\$ 12,697,051
-	-	-	1,725
68,259	-	21,807	207,289
-	-	493	493
-	8,717	715	9,432
-	1,245,409	403,288	1,669,121
91,600	-	-	200,958
-	-	-	72,515
-	2,210	-	18,374
620,752	2,964	-	1,795,145
-	-	-	125,027
-	-	-	2,741,038
<u>\$ 6,106,502</u>	<u>\$ 2,397,657</u>	<u>\$ 1,871,611</u>	<u>\$ 19,538,168</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 282,778	\$ 225,761
Salaries payable	271,799	63,610
Contracts payable	-	193,880
Due to other funds	2,210	-
Due to other governments	21,219	2,085
Deferred revenue - unavailable	106,269	766,962
Advance from other funds	-	-
	\$ 684,275	\$ 1,252,298
Fund Balances		
Reserved for		
Debt service	\$ 9,803	\$ -
Inventories	-	125,027
Advances to other funds	2,741,038	-
Law library	82,659	-
Attorney's forfeited property	1,005	-
Endowments	-	-
Highway projects	-	107,344
Unreserved		
Designated for future expenditures	-	1,164,824
Designated for cash flows	639,079	1,104,000
Designated for compensated absences	538,243	173,887
Designated for contingencies	538,916	-
Undesignated	-	-
Unreserved, reported in nonmajor		
Debt service funds	-	-
Permanent funds	-	-
	\$ 4,550,743	\$ 2,675,082
Total Liabilities and Fund Balances	\$ 5,235,018	\$ 3,927,380

EXHIBIT 3
(Continued)

<u>Social Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 584,412	\$ 15,129	\$ 60,509	\$ 1,168,589
151,561	-	-	486,970
-	-	-	193,880
2,042	12,049	-	16,301
-	7,711	-	31,015
43,043	1,254,126	418,583	2,588,983
-	2,566,489	-	2,566,489
<u>\$ 781,058</u>	<u>\$ 3,855,504</u>	<u>\$ 479,092</u>	<u>\$ 7,052,227</u>
\$ -	\$ -	\$ 1,234,034	\$ 1,243,837
-	-	-	125,027
-	-	-	2,741,038
-	-	-	82,659
-	-	-	1,005
-	-	86,494	86,494
-	-	-	107,344
751,000	-	-	1,915,824
1,972,000	-	-	3,715,079
296,639	-	-	1,008,769
-	-	-	538,916
2,305,805	(1,457,847)	-	847,958
-	-	69,037	69,037
-	-	2,954	2,954
<u>\$ 5,325,444</u>	<u>\$ (1,457,847)</u>	<u>\$ 1,392,519</u>	<u>\$ 12,485,941</u>
<u>\$ 6,106,502</u>	<u>\$ 2,397,657</u>	<u>\$ 1,871,611</u>	<u>\$ 19,538,168</u>

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$	12,485,941
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.		77,817,837
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,588,983
Internal service funds are used by management to charge the costs of management of fleet maintenance and self-insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		
Total internal service fund net assets	\$ 1,885,529	
Net assets representing capital assets included above	<u>(17,041,256)</u>	(15,155,727)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (10,640,000)	
Notes payable	(315,000)	
Contract with State of Minnesota	(102,000)	
Compensated absences	(1,008,769)	
Accrued interest payable	(212,535)	
Special assessments debt payable	<u>(555,000)</u>	(12,833,304)
Net assets of governmental activities (Exhibit 1)		<u>\$ 64,903,730</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Road and Bridge
Revenues		
Taxes	\$ 3,637,745	\$ 1,923,582
Special assessments	316,348	-
Licenses and permits	106,156	8,200
Intergovernmental	4,507,512	4,827,444
Charges for services	1,881,863	99,577
Fines and forfeits	50,485	-
Gifts and contributions	1,590	-
Interest on investments	454,652	-
Miscellaneous	99,523	53,823
	\$ 11,055,874	\$ 6,912,626
Expenditures		
Current		
General government	\$ 4,099,339	\$ -
Public safety	4,342,161	-
Highways and streets	8,517	6,637,418
Sanitation	396,885	-
Human services	-	-
Health	1,180,280	-
Culture and recreation	292,898	-
Conservation of natural resources	519,444	-
Economic development	14,400	-
Capital outlay	2,067,329	-
Debt service		
Principal	34,000	-
Interest	-	-
Administrative (fiscal) charges	-	-
	\$ 12,955,253	\$ 6,637,418
Excess of Revenues Over (Under) Expenditures	\$ (1,899,379)	\$ 275,208
Other Financing Sources (Uses)		
Proceeds from sale of capital assets	1,690	-
	\$ (1,897,689)	\$ 275,208
Net Change in Fund Balances		
Fund Balances - January 1	\$ 6,448,432	\$ 2,360,492
Prior period adjustment	-	-
	\$ 6,448,432	\$ 2,360,492
Fund Balances - January 1, as restated		
Increase (decrease) in reserved for inventories	\$ -	\$ 39,382
Fund Balances - December 31	\$ 4,550,743	\$ 2,675,082

EXHIBIT 5

Social Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 3,484,404	\$ -	\$ 1,148,659	\$ 10,194,390
-	744,933	140,654	1,201,935
-	-	-	114,356
4,450,797	108,734	1,180	13,895,667
691,573	-	-	2,673,013
3,108	-	-	53,593
16,773	-	-	18,363
-	-	1,835	456,487
58,815	12,751	466,325	691,237
\$ 8,705,470	\$ 866,418	\$ 1,758,653	\$ 29,299,041
\$ -	\$ -	\$ -	\$ 4,099,339
229,353	-	-	4,571,514
-	-	-	6,645,935
-	-	-	396,885
8,431,957	-	-	8,431,957
1,217,205	-	-	2,397,485
-	-	-	292,898
-	1,343,344	-	1,862,788
-	-	60,509	74,909
-	-	-	2,067,329
-	-	1,135,000	1,169,000
-	95,743	533,003	628,746
-	-	3,237	3,237
\$ 9,878,515	\$ 1,439,087	\$ 1,731,749	\$ 32,642,022
\$ (1,173,045)	\$ (572,669)	\$ 26,904	\$ (3,342,981)
-	-	-	1,690
\$ (1,173,045)	\$ (572,669)	\$ 26,904	\$ (3,341,291)
\$ 6,498,489	\$ (885,178)	\$ 999,141	\$ 15,421,376
-	-	366,474	366,474
\$ 6,498,489	\$ (885,178)	\$ 1,365,615	\$ 15,787,850
\$ -	\$ -	\$ -	\$ 39,382
\$ 5,325,444	\$ (1,457,847)	\$ 1,392,519	\$ 12,485,941

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (3,341,291)**

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

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

Deferred revenue - December 31	\$ 2,588,983	
Deferred revenue - January 1	(2,340,226)	248,757

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.

Expenditures for general capital assets and infrastructure	\$ 6,600,800	
Current year depreciation	(2,235,921)	4,364,879

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

Principal repayments		
General obligation bonds	\$ 705,000	
General obligation notes	305,000	
Special assessment debt	125,000	
Contract with State of Minnesota	34,000	1,169,000

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

Change in accrued interest payable	\$ 19,099	
Change in inventories	39,382	
Change in compensated absences	(44,692)	13,789

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities.

Net income of the Internal Service Fund		616,727
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Change in net assets of governmental activities (Exhibit 2) **\$ 3,071,861**

PROPRIETARY FUND

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
DECEMBER 31, 2005**

Assets

Current assets

Taxes receivable	
Prior	<u>\$ 29,412</u>

Restricted assets

Cash and pooled investments on deposit for debt service	<u>\$ 996,728</u>
---	-------------------

Noncurrent assets

Deferred debt issuance costs	\$ 95,505
Capital assets	
Depreciable - net	<u>17,041,256</u>

Total noncurrent assets	<u>\$ 17,136,761</u>
--------------------------------	-----------------------------

Total Assets	<u>\$ 18,162,901</u>
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Liabilities

Current liabilities payable from restricted assets

Interest payable	\$ 318,780
Revenue bonds payable - current	<u>625,000</u>

Total current liabilities payable from restricted assets	<u>\$ 943,780</u>
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Noncurrent liabilities

Revenue bonds payable - long-term	<u>15,333,592</u>
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Total Liabilities	<u>\$ 16,277,372</u>
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Net Assets

Invested in capital assets - net of related debt	\$ 1,178,169
Restricted for debt service	996,728
Unrestricted	<u>(289,368)</u>

Total Net Assets	<u><u>\$ 1,885,529</u></u>
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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Expenses	
Depreciation	\$ 15,476
Operating Income (Loss)	<u>\$ (15,476)</u>
Nonoperating Revenues (Expenses)	
Property taxes	\$ 1,400,835
Intergovernmental	1,517
Interest income	11,178
Interest expense	(769,216)
Bond issue expense	(12,111)
Total Nonoperating Revenues (Expenses)	<u>\$ 632,203</u>
Change in Net Assets	<u>\$ 616,727</u>
Net Assets - January 1	<u>1,268,802</u>
Net Assets - December 31	<u><u>\$ 1,885,529</u></u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Noncapital Financing Activities	
Taxes	\$ 1,405,276
Intergovernmental	1,517
	<hr/>
Net cash provided by (used in) noncapital financing activities	\$ 1,406,793
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	\$ (610,000)
Interest paid on long-term debt	(777,831)
Investment earnings on invested construction funds	11,178
Purchases of capital assets	(926,214)
	<hr/>
Net cash provided by (used in) capital and related financing activities	\$ (2,302,867)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (896,074)
Cash and Cash Equivalents at January 1	1,892,802
	<hr/>
Cash and Cash Equivalents at December 31	\$ 996,728
	<hr/> <hr/>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (15,476)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	15,476
	<hr/>
Net cash provided by operating activities	\$ -
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FIDUCIARY FUNDS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005**

	Private-Purpose Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 11,434	\$ 812,085
Receivables		
Accounts - net	-	58,500
Interest	47	-
	\$ 11,481	\$ 870,585
Total Assets	\$ 11,481	\$ 870,585
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 2,754
Due to other funds	-	2,073
Due to other governments	-	691,209
Advance from governmental funds	-	174,549
	\$ -	\$ 870,585
Total Liabilities	\$ -	\$ 870,585
<u>Net Assets</u>		
Net assets, held in trust for other purposes	\$ 11,481	

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Private-Purpose Trust</u>
<u>Additions</u>	
Investment earnings	
Interest	\$ 193
<u>Deductions</u>	
Payments in accordance with trust agreements	<u>600</u>
Change in Net Assets	\$ (407)
Net Assets - Beginning of the Year	<u>11,888</u>
Net Assets - End of the Year	<u><u>\$ 11,481</u></u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005. 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 (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its proprietary funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

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

Blended Component Unit

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

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

The government-wide statement of net assets (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, net of related debt; (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.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental, proprietary, and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

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

The Road and Bridge Special Revenue Fund is used to account for revenues and expenditures of the County Highway Department, which is responsible for the construction and maintenance of roads, bridges, and other projects affecting County roadways.

The Social Services Special Revenue Fund is used to account for economic assistance and community social services programs.

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.

Additionally, the County reports the following fund types:

The Internal Service Fund accounts for HRA building facilities (jail and other general office space) activities provided to other departments and funds on a cost-reimbursement basis.

Private-Purpose Trust funds are used to account for resources legally held in trust for others.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

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

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$454,652.

3. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

4. Inventories and Prepaid Items

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

5. Restricted Assets

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

6. Capital Assets

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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

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

7. Compensated Absences

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

8. Deferred Revenue

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

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

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

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

11. Use of Estimates

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

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

1. Summary of Significant Accounting Policies

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

12. Change in Reporting Entity

Prior to 2005, the Shell Rock and Turtle Creek Watershed Districts were reported as discrete component units. After further review, it was determined that a financial benefit or burden did not exist. Accordingly, the Shell Rock and Turtle Creek Watershed Districts are no longer reported in the County's financial statements as component units.

E. Prior Period Adjustments and Reclassifications

Turtle Creek Watershed District Debt Service Fund

In prior years, debt incurred for the Turtle Creek Watershed District was included as debt of the watershed district. This debt is Freeborn County debt since it is in the County's name. As a result, a debt service fund was set up to account for the payments on this debt. The Turtle Creek Watershed District Debt Service Fund's restated fund balance at January 1, 2005, was \$366,474.

Government-Wide Net Assets

Governmental activities' net assets were restated at January 1, 2005, to include the net assets of the Turtle Creek Watershed District debt service activities. The difference between the restatement of the debt service fund and the restated net assets is unavailable deferred revenue of \$512,186, less bonds and interest payable of \$687,793.

Net Assets - January 1, as previously reported	\$ 61,641,002
Net Assets of Turtle Creek Watershed District	<u>(190,867)</u>
Net Assets - January 1, as restated	<u>\$ 61,831,869</u>

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Balance

The Ditch Special Revenue Fund had a deficit fund balance of \$1,457,847 as of December 31, 2005. The individual ditch system deficits will be eliminated with the collection of deferred special assessment levies against benefited properties.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

B. Excess of Expenditures Over Budget

For the year ended December 31, 2005, expenditures exceeded budgeted amounts in the following funds:

	Final Budget	Expenditures	Excess
General Fund	\$ 10,688,526	\$ 12,955,253	\$ 2,266,727
Ditch Special Revenue Fund	573,530	1,439,087	865,557

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental Funds	
Cash and pooled investments	\$ 12,697,051
Petty cash and change funds	1,725
Internal Service Fund	
Cash and pooled investments on deposit for debt service	996,728
Fiduciary Funds	
Cash and pooled investments	
Private-Purpose Trust Fund	11,434
Agency funds	812,085
Total Cash and Investments	\$ 14,519,023

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2005, the carrying amount of the County's deposits totaled \$8,554,081. The bank balance deposit amount was \$9,229,197. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all County deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have custodial credit risk as of December 31, 2005.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both shorter and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk.

Concentration of Credit Risk

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

The following table presents the County's investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 % of Portfolio	Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association Note	AAA	S&P	8.3%	07/21/2008	\$ 495,500
Federal Home Loan Mortgage Corporation Note	AAA	S&P	<5%	12/29/2006	\$ 199,448

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 % of Portfolio	Maturity Date	
Federal Home Loan Bank Note	AAA	S&P		05/21/2007	\$ 489,050
Federal Home Loan Bank Note	AAA	S&P		08/27/2007	489,400
Federal Home Loan Bank Note	AAA	S&P		01/24/2007	488,500
Federal Home Loan Bank Note	AAA	S&P		02/02/2007	488,450
Federal Home Loan Bank Step Up Note	AAA	S&P		10/29/2007	495,600
Federal Home Loan Bank Bonds	AAA	S&P		12/15/2006	99,604
Total Federal Home Loan Bank			42.8%		\$ 2,550,604
Commercial paper					
Golden Fish	A1P1	S&P	16.7%	01/13/2006	\$ 993,333
Northwest Natural Gas	A1P1	S&P	8.3%	02/15/2006	495,504
Total Commercial Paper					\$ 1,488,837
Municipal bonds					
Freeborn County, Minnesota, G.O. Taxable Tax Increment Bonds	A3	Moody's	<5%	02/01/2009	\$ 228,294
Investment pools/mutual funds					
Wells Fargo Advantage Government Money Market	AAA	S&P	N/A	N/A	\$ 1,000,000
Wells Fargo Advantage 100% Treasury Money Market Fund	AAA	S&P	N/A	N/A	534
Total investment pools/mutual funds					\$ 1,000,534
Total investments					\$ 5,963,217
Deposits					8,554,081
Petty cash					1,725
Total Cash and Investments					\$ 14,519,023

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$	379,501
Less: allowance for uncollectible Nursing services		(1,921)
Total Receivables	\$	377,580

Receivables are expected to be collected within the next year.

3. Capital Assets

Governmental capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land				
General	\$ 322,142	\$ 172,544	\$ -	\$ 494,686
Highway infrastructure	3,534,332	-	-	3,534,332
Improvements other than buildings	387,067	431,980	147,111	671,936
Construction in progress				
General	16,834,429	-	16,834,429	-
Highway infrastructure	1,185,613	2,368,818	226,841	3,327,590
Total capital assets not depreciated	\$ 22,263,583	\$ 2,973,342	\$ 17,208,381	\$ 8,028,544
Capital assets depreciated				
Buildings and improvements	\$ 14,369,640	\$ 19,973,951	\$ 2,456,958	\$ 31,886,633
Machinery, furniture, and equipment	4,632,275	481,752	237,790	4,876,237
Infrastructure - sewer	374,579	-	-	374,579
Infrastructure - highway	76,718,196	935,409	211,156	77,442,449
Total capital assets depreciated	\$ 96,094,690	\$ 21,391,112	\$ 2,905,904	\$ 114,579,898

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

B. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings and improvements	\$ 2,772,726	\$ 360,231	\$ 1,633,750	\$ 1,499,207
Machinery, furniture, and equipment	2,252,286	545,017	237,790	2,559,513
Infrastructure - sewer	76,164	14,983	-	91,147
Infrastructure - highway	39,406,704	1,331,166	97,132	40,640,738
Total accumulated depreciation	\$ 44,507,880	\$ 2,251,397	\$ 1,968,672	\$ 44,790,605
Total capital assets depreciated, net	\$ 51,586,810	\$ 19,139,715	\$ 937,232	\$ 69,789,293
Capital Assets, Net	\$ 73,850,393	\$ 22,113,057	\$ 18,145,613	\$ 77,817,837

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 420,419
Public safety	109,656
Highways and streets, including depreciation of infrastructure assets	1,704,459
Human services	12,027
Conservation of natural resources	4,836
Total Depreciation Expense - Governmental Activities	\$ 2,251,397

B. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2005, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 12,049
	Turtle Creek Watershed Agency Fund	2,073
Total Due to General Fund		\$ 14,122
Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	2,042
Ditch Special Revenue Fund	General Fund	2,210
Total Due To/From Other Funds		\$ 18,374

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables and Payables (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund Turtle Creek Watershed District Agency Fund Insurance Agency Fund	\$ 2,566,489 58,500 116,049
Total Advances To/From Other Funds		\$ 2,741,038

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following (amounts in thousands):

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Government center	\$ 18,261	\$ 316
Roads and bridges	3,328	194

2. Other Postemployment Benefits

Retirees

The County provides postemployment health care benefits for certain retirees and their dependents. The County contributes \$113.02 a month per participant for health insurance. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. This benefit is not available to anyone hired after April 7, 1987.

As of year-end, the County has 74 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2005, the County expended \$100,303 for these benefits.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits

Retirees (Continued)

The County also offered a one-time early retirement incentive in 1999. Eligible retirees can maintain their health insurance at the same cost formula as current employees. This benefit is funded on a pay-as-you-go basis. Freeborn County has two retirees eligible for this benefit. The County expended \$8,228 for this benefit in 2005.

Elected Officials

The County offers the same benefit to elected officials. This benefit is funded on a pay-as-you-go basis. Freeborn County has 11 former elected officials eligible for this benefit. The County expended \$14,919 for this benefit in 2005.

3. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
General Obligation Bonds					
1998 G.O. Tax Increment Bonds	2009	\$280,000 - \$450,000	5.90 - 6.40	\$ 3,220,000	\$ 1,650,000
2002 G.O. Criminal Justice Bonds	2023	\$255,000 - \$695,000	3.00 - 5.00	<u>9,600,000</u>	<u>8,990,000</u>
Total General Obligation Bonds				<u>\$ 12,820,000</u>	<u>\$ 10,640,000</u>
2001 G.O. Capital Notes	2006	\$85,000 - \$315,000	2.50 - 3.70	<u>\$ 1,000,000</u>	<u>\$ 315,000</u>
Special Assessment Refunding Bonds with government commitment	2010	\$120,000 - \$105,000	2.25 - 3.35	<u>\$ 800,000</u>	<u>\$ 555,000</u>
2002 Law Enforcement Center G.O. Lease Revenue Bonds	2023	\$190,000 - \$550,000	3.25 - 5.00	<u>\$ 7,470,000</u>	\$ 7,010,000
Less: unamortized discount					<u>(29,999)</u>
Lease Revenue Bonds, Net					<u>\$ 6,980,001</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
2002 Criminal Justice Lease Revenue Bonds	2023	\$230,000 - \$720,000	3.50 - 5.50	<u>\$ 9,630,000</u>	\$ 9,060,000
Less: unamortized discount					(81,409)
Lease Revenue Bonds, Net					<u>\$ 8,978,591</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2005, were as follows:

Year Ending December 31	General Obligation Bonds		Capital Notes	
	Principal	Interest	Principal	Interest
2005	\$ 740,000	\$ 465,346	\$ 315,000	\$ 5,828
2006	775,000	429,927	-	-
2007	810,000	391,953	-	-
2008	845,000	350,890	-	-
2009	410,000	321,890	-	-
2010 - 2014	2,285,000	1,348,622	-	-
2015 - 2019	2,785,000	811,364	-	-
2020 - 2023	1,990,000	148,981	-	-
Total	<u>\$ 10,640,000</u>	<u>\$ 4,268,973</u>	<u>\$ 315,000</u>	<u>\$ 5,828</u>

Year Ending December 31	Law Enforcement G.O. Lease Revenue Bonds		Criminal Justice Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 275,000	\$ 293,704	\$ 350,000	\$ 460,775
2006	285,000	284,240	360,000	447,450
2007	295,000	274,098	375,000	432,281
2008	305,000	263,597	390,000	415,537
2009	315,000	252,354	405,000	397,143
2010 - 2014	1,780,000	1,059,455	2,280,000	1,654,261
2015 - 2019	2,180,000	639,586	2,840,000	970,790
2020 - 2023	1,575,000	118,032	2,060,000	173,525
Total	<u>\$ 7,010,000</u>	<u>\$ 3,185,066</u>	<u>\$ 9,060,000</u>	<u>\$ 4,951,762</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Special Assessment Refunding Bonds	
	Principal	Interest
2005	\$ 115,000	\$ 14,567
2006	115,000	11,750
2007	110,000	8,606
2008	110,000	5,236
2009	105,000	1,759
2010 - 2014	-	-
2015 - 2019	-	-
2020 - 2023	-	-
Total	<u>\$ 555,000</u>	<u>\$ 41,918</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
General Obligation Bonds	\$ 11,345,000	\$ -	\$ 705,000	\$ 10,640,000	\$ 740,000
G.O. Capital Notes	620,000	-	305,000	315,000	315,000
Special Assessment Refunding Bonds	680,000	-	125,000	555,000	115,000
G.O. Lease Revenue	7,280,000	-	270,000	7,010,000	275,000
Lease Revenue Bonds	9,400,000	-	340,000	9,060,000	350,000
Less: deferred amounts for issuance discounts	(117,929)	-	(6,521)	(111,408)	-
Total bonds payable	\$ 29,207,071	\$ -	\$ 1,738,479	\$ 27,468,592	\$ 1,795,000
Compensated absences	964,077	44,692	-	1,008,769	50,438
Armory commitment to state	136,000	-	34,000	102,000	34,000
Long-Term Liabilities	<u>\$ 30,307,148</u>	<u>\$ 44,692</u>	<u>\$ 1,772,479</u>	<u>\$ 28,579,361</u>	<u>\$ 1,879,438</u>

Payments on the General Obligation Bonds are made from the TIF #1 Debt Service Fund and payments on the G.O. Capital Notes are made from the Capital Equipment Debt Service Fund.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

All full-time and certain part-time employees of Freeborn County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and 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.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All 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 and have direct contact with inmates are covered by the Public Employees Correctional Fund.

The 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 and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for 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 of service and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

For all Public Employees Retirement Fund members 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. 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.

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. 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. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County is required to contribute the following percentages of annual covered payroll in 2005 and 2006:

	2005	2006
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

The County's contributions for the years ending December 31, 2005, 2004, and 2003, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 473,661	\$ 90,944	\$ 91,017
2004	471,425	85,801	73,712
2003	481,422	80,383	52,358

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

5. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance 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.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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 \$760,000 and \$390,000 per claim in 2005 and 2006, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The County has entered into a joint powers agreement with the cooperative to authorize the Board to exercise the common powers of the participating governmental units in connection with certain matters pertaining to the administration and funding of group employee benefits and other financial risk management services. The County may choose to participate in any of the services offered. The County may withdraw from the pool at any time giving a 90-day written notice. There is no contingent liability after withdrawal.

B. Contingent Liabilities

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

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

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

C. Joint Ventures

Family Services Collaborative

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

Control of the Collaborative is vested in a Board of Directors. Freeborn County appoints two members to this 13-member Board. The Freeborn County Department of Human Services acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2005, Freeborn County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of termination shall be distributed by the Minnesota Department of Education.

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

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. The agreement was in accordance with Section 256B.692, which allows the formation of a Board of Directors to operate, control, and manage all matters concerning the nine participating member counties' health care functions, referred to as county-based purchasing.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Joint Ventures

South Country Health Alliance (Continued)

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 aforementioned member counties.

While the SCHA was created in July 1998, it did not begin providing health maintenance services until November 1, 2001. At that time, the SCHA began coverage of the beneficiaries enrolled under Medicaid and General Assistance Medical Care in the specified counties. Funding is provided from the State of Minnesota based on eligible participants within the member counties. Freeborn County's contribution for start-up costs through October 31, 2001, was \$117,972. In the event the SCHA incurs operating deficits, the member counties would maintain the SCHA's reserves to meet statutory and regulatory reserve requirements. Minnesota statutes require the SCHA to maintain capital surplus equal to or greater than one month's expenditures, but less than three months' expenditures. The SCHA was in compliance with these requirements at December 31, 2004. During 2005, Freeborn County made no payments to the SCHA.

Complete financial statements for the SCHA can be obtained from its fiscal agent at 630 Florence Avenue, P. O. Box 890, Owatonna, Minnesota 55060-0890.

D. Jointly-Governed Organizations

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

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Freeborn County expended \$83,461 to the Cooperative.

South Central Minnesota County Comprehensive Water Planning Project

This Joint Powers was established to provide regional water quality to Minnesota River Basin member counties. During the year, Freeborn County expended \$500 to the Project.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Southeast Minnesota Emergency Management Services (EMS)

This Joint Powers was established to provide various health services to member counties. During the year, Freeborn County made no payments to the EMS.

Southeast Minnesota Water Quality Board

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

Southeastern Minnesota Library

This Joint Powers was established to provide library services to member counties. During the year, Freeborn County expended \$226,000 to the Library.

Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force was established to provide drug investigation services to member counties. During the year, Freeborn County expended \$4,506 to the Task Force.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

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

E. Tax Increment Financing

The Freeborn County Housing and Redevelopment Authority is the administrative authority for the following tax increment financing district:

Tax Increment Financing District #1-1	
An Economic Development District	
Authorizing Law: Minn. Stat. §§ 469.174-469.179	
Year Established	1989
Duration of District	11 years
Original Net Tax Capacity	\$ 320
Current Net Tax Capacity	77,232
Captured Net Tax Capacity	76,912
Retained by Authority	76,912
Shared with Other Taxing Districts	-
Total General Obligation Bonds issued	\$ 3,220,000
Total loans incurred	-
Amounts redeemed (principal only)	<u>(1,570,000)</u>
Outstanding Bonds and Loans at December 31, 2005	<u>\$ 1,650,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,675,087	\$ 3,675,087	\$ 3,637,745	\$ (37,342)
Special assessments	305,000	305,000	316,348	11,348
Licenses and permits	77,000	77,000	106,156	29,156
Intergovernmental	4,413,550	4,413,550	4,507,512	93,962
Charges for services	1,363,350	1,363,350	1,881,863	518,513
Fines and forfeits	36,500	36,500	50,485	13,985
Gifts and contributions	1,100	1,100	1,590	490
Investment earnings	801,000	801,000	454,652	(346,348)
Miscellaneous	154,150	154,150	99,523	(54,627)
Total Revenues	\$ 10,826,737	\$ 10,826,737	\$ 11,055,874	\$ 229,137
Expenditures				
Current				
General government				
Commissioners	\$ 173,981	\$ 173,981	\$ 190,366	\$ (16,385)
Courts	89,000	89,000	102,999	(13,999)
County administration	1,211,541	1,211,541	1,023,238	188,303
County auditor/treasurer	446,578	446,578	454,606	(8,028)
License bureau	235,037	235,037	232,981	2,056
County assessor	373,615	373,615	385,595	(11,980)
Elections	21,000	21,000	18,122	2,878
Attorney	471,325	471,325	448,737	22,588
Law library	29,500	29,500	12,467	17,033
Recorder	246,610	246,610	272,001	(25,391)
Surveyor	20,000	20,000	6,819	13,181
Planning and zoning	116,539	116,539	134,781	(18,242)
Buildings and plant	473,357	473,357	680,211	(206,854)
Veterans service officer	129,685	129,685	128,964	721
Other	50,000	50,000	7,452	42,548
Total general government	\$ 4,087,768	\$ 4,087,768	\$ 4,099,339	\$ (11,571)
Public safety				
Sheriff	\$ 1,471,048	\$ 1,471,048	\$ 1,706,578	\$ (235,530)
Boat and water safety	4,970	4,970	4,656	314
Ambulance	3,500	3,500	7,000	(3,500)
Coroner	22,428	22,428	35,619	(13,191)
E-911 system	60,000	60,000	3,517	56,483
County jail	1,324,545	1,324,545	1,686,266	(361,721)
Law enforcement center	133,500	133,500	177,032	(43,532)
Community corrections	517,542	517,542	648,293	(130,751)
DARE program	5,200	5,200	534	4,666
Civil defense	13,731	13,731	72,429	(58,698)
Other public safety	6,100	6,100	237	5,863
Total public safety	\$ 3,562,564	\$ 3,562,564	\$ 4,342,161	\$ (779,597)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Highways and streets				
Administration	\$ -	\$ -	\$ 8,517	\$ (8,517)
Sanitation				
Recycling	\$ 406,956	\$ 406,956	\$ 396,885	\$ 10,071
Health				
Community health services	\$ 284,984	\$ 284,984	\$ 307,233	\$ (22,249)
Maternal and child health	76,606	76,606	71,798	4,808
Administration	244,046	244,046	230,636	13,410
Health education	27,716	27,716	34,970	(7,254)
WIC	51,045	51,045	80,064	(29,019)
Disease prevention	64,516	64,516	35,011	29,505
Child and teen checkups	42,727	42,727	29,159	13,568
Home health	464,101	464,101	391,409	72,692
Total health	\$ 1,255,741	\$ 1,255,741	\$ 1,180,280	\$ 75,461
Culture and recreation				
Parks	\$ 33,550	\$ 33,550	\$ 18,753	\$ 14,797
Museums	20,650	20,650	25,754	(5,104)
Regional library	226,000	226,000	226,000	-
Other	25,000	25,000	22,391	2,609
Total culture and recreation	\$ 305,200	\$ 305,200	\$ 292,898	\$ 12,302
Conservation of natural resources				
Cooperative extension	\$ 126,935	\$ 126,935	\$ 118,110	\$ 8,825
Soil and water conservation	110,152	110,152	125,152	(15,000)
Agricultural inspections	48,667	48,667	32,166	16,501
Agricultural society/County fair	20,000	20,000	60,000	(40,000)
Water planning	94,082	94,082	70,508	23,574
Water quality	54,621	54,621	57,397	(2,776)
Environmental services	25,400	25,400	56,111	(30,711)
Total conservation of natural resources	\$ 479,857	\$ 479,857	\$ 519,444	\$ (39,587)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 4,500	\$ 4,500	\$ 4,500	\$ -
Tourism	900	900	900	-
Other	10,000	10,000	9,000	1,000
Total economic development	\$ 15,400	\$ 15,400	\$ 14,400	\$ 1,000
Capital outlay				
General government	\$ 364,040	\$ 364,040	\$ 2,034,611	\$ (1,670,571)
Public safety	93,000	93,000	16,049	76,951
Highways and streets	30,000	30,000	16,669	13,331
Human services	25,000	25,000	-	25,000
Health	28,000	28,000	-	28,000
Conservation of natural resources	35,000	35,000	-	35,000
Total capital outlay	\$ 575,040	\$ 575,040	\$ 2,067,329	\$ (1,492,289)
Debt service				
Principal	\$ -	\$ -	\$ 34,000	\$ (34,000)
Total Expenditures	\$ 10,688,526	\$ 10,688,526	\$ 12,955,253	\$ (2,266,727)
Excess of Revenues Over (Under) Expenditures	\$ 138,211	\$ 138,211	\$ (1,899,379)	\$ (2,037,590)
Other Financing Sources (Uses)				
Proceeds from sale of assets	700	700	1,690	990
Net Change in Fund Balance	\$ 138,911	\$ 138,911	\$ (1,897,689)	\$ (2,036,600)
Fund Balance - January 1	6,448,432	6,448,432	6,448,432	-
Fund Balance - December 31	\$ 6,587,343	\$ 6,587,343	\$ 4,550,743	\$ (2,036,600)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,925,000	\$ 1,925,000	\$ 1,923,582	\$ (1,418)
Licenses and permits	-	-	8,200	8,200
Intergovernmental	4,648,552	4,648,552	4,827,444	178,892
Charges for services	14,250	14,250	99,577	85,327
Miscellaneous	6,500	6,500	53,823	47,323
Total Revenues	\$ 6,594,302	\$ 6,594,302	\$ 6,912,626	\$ 318,324
Expenditures				
Current				
Highways and streets				
Administration	\$ 321,722	\$ 321,722	\$ 241,005	\$ 80,717
Maintenance	1,930,826	1,930,826	2,249,281	(318,455)
Construction	3,798,989	3,798,989	3,379,981	419,008
Equipment maintenance and shop	729,101	729,101	767,151	(38,050)
Total Expenditures	\$ 6,780,638	\$ 6,780,638	\$ 6,637,418	\$ 143,220
Net Change in Fund Balance	\$ (186,336)	\$ (186,336)	\$ 275,208	\$ 461,544
Fund Balance - January 1	2,360,492	2,360,492	2,360,492	-
Increase (decrease) in reserved for inventories	-	-	39,382	39,382
Fund Balance - December 31	\$ 2,174,156	\$ 2,174,156	\$ 2,675,082	\$ 500,926

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
SOCIAL SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,493,900	\$ 3,493,900	\$ 3,484,404	\$ (9,496)
Intergovernmental	5,259,288	5,259,288	4,450,797	(808,491)
Charges for services	662,800	662,800	691,573	28,773
Fines and forfeits	4,000	4,000	3,108	(892)
Gifts and contributions	40,300	40,300	16,773	(23,527)
Miscellaneous	2,000	2,000	58,815	56,815
Total Revenues	\$ 9,462,288	\$ 9,462,288	\$ 8,705,470	\$ (756,818)
Expenditures				
Current				
Public safety				
Victim crisis	\$ 266,682	\$ 266,682	\$ 229,353	\$ 37,329
Human services				
Income maintenance	\$ 2,456,920	\$ 2,456,920	\$ 1,981,459	\$ 475,461
Social services	6,331,074	6,331,074	6,450,498	(119,424)
Total human services	\$ 8,787,994	\$ 8,787,994	\$ 8,431,957	\$ 356,037
Health				
Mental health center	\$ 1,218,840	\$ 1,218,840	\$ 1,217,205	\$ 1,635
Total Expenditures	\$ 10,273,516	\$ 10,273,516	\$ 9,878,515	\$ 395,001
Net Change in Fund Balance	\$ (811,228)	\$ (811,228)	\$ (1,173,045)	\$ (361,817)
Fund Balance - January 1	6,498,489	6,498,489	6,498,489	-
Fund Balance - December 31	\$ 5,687,261	\$ 5,687,261	\$ 5,325,444	\$ (361,817)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 575,030	\$ 575,030	\$ 744,933	\$ 169,903
Intergovernmental	-	-	108,734	108,734
Miscellaneous	-	-	12,751	12,751
Total Revenues	\$ 575,030	\$ 575,030	\$ 866,418	\$ 291,388
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 573,530	\$ 573,530	\$ 1,343,344	\$ (769,814)
Debt service				
Interest	-	-	95,743	(95,743)
Total Expenditures	\$ 573,530	\$ 573,530	\$ 1,439,087	\$ (865,557)
Net Change in Fund Balance	\$ 1,500	\$ 1,500	\$ (572,669)	\$ (574,169)
Fund Balance - January 1	(885,178)	(885,178)	(885,178)	-
Fund Balance - December 31	<u>(883,678)</u>	<u>(883,678)</u>	<u>(1,457,847)</u>	<u>(574,169)</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, all special revenue funds, and all the debt service funds other than the Tax Increment District #1 Fund. All annual appropriations lapse at fiscal year-end.

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

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no supplemental budgetary appropriations.

Encumbrance accounting is employed in governmental funds. Encumbrances (for example, purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the General Fund by \$2,266,727 and the Ditch Special Revenue Fund by \$865,557.

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SUPPLEMENTARY INFORMATION

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

Debt service funds are used to account for the resources used to pay the County's long-term debt principal and interest.

The Capital Equipment Fund accounts for the accumulation of resources for, and the payment of principal, interest, and related costs of, general long-term debt for the acquisition of capital equipment.

The Tax Increment District (TIF) #1 Fund accounts for the accumulation of resources used for the retirement of the 1998 General Obligation Taxable Tax Increment Bonds and related interest costs.

The Courthouse Improvement Fund accounts for the accumulation of resources used for the retirement of the 2002 General Obligation Criminal Justice Bonds and related interest costs.

The Turtle Creek Watershed District Fund accounts for the accumulation of resources used for the retirement of the 2002 Turtle Creek Watershed District Special Assessment Refunding Bonds and related interest costs.

PERMANENT FUND

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

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

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	Capital Equipment	Debt TIF #1
<u>Assets</u>		
Cash and pooled investments	\$ 387,395	\$ 70,858
Taxes receivable		
Prior	6,246	-
Special assessments receivable		
Current	-	-
Noncurrent	-	-
Delinquent	-	-
	\$ 393,641	\$ 70,858
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ -	\$ 60,509
Deferred revenue - unavailable	3,776	-
	\$ 3,776	\$ 60,509
Fund Balances		
Reserved for		
Debt service	\$ 320,828	\$ 10,349
Endowments	-	-
Unreserved		
Undesignated	69,037	-
	\$ 389,865	\$ 10,349
Total Liabilities and Fund Balances	\$ 393,641	\$ 70,858

Statement 1

<u>Service</u>	<u>Courthouse Improvement</u>	<u>Turtle Creek Watershed District</u>	<u>Permanent U.S. Fish and Wildlife</u>	<u>Total (Exhibit 3)</u>
	\$ 533,188	\$ 364,419	\$ 89,448	\$ 1,445,308
	15,561	-	-	21,807
	-	493	-	493
	-	403,288	-	403,288
	-	715	-	715
	<u>\$ 548,749</u>	<u>\$ 768,915</u>	<u>\$ 89,448</u>	<u>\$ 1,871,611</u>
	\$ -	\$ -	\$ -	\$ 60,509
	10,311	404,496	-	418,583
	<u>\$ 10,311</u>	<u>\$ 404,496</u>	<u>\$ -</u>	<u>\$ 479,092</u>
	\$ 538,438	\$ 364,419	\$ -	\$ 1,234,034
	-	-	86,494	86,494
	-	-	2,954	71,991
	<u>\$ 538,438</u>	<u>\$ 364,419</u>	<u>\$ 89,448</u>	<u>\$ 1,392,519</u>
	<u>\$ 548,749</u>	<u>\$ 768,915</u>	<u>\$ 89,448</u>	<u>\$ 1,871,611</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Capital Equipment</u>	<u>TIF #1</u>	<u>Debt</u>
Revenues			
Taxes	\$ 348,159	\$ 60,509	
Special assessments	-	-	
Intergovernmental	378	-	
Investment earnings	-	-	
Miscellaneous	-	466,325	
	<hr/>	<hr/>	
Total Revenues	\$ 348,537	\$ 526,834	
Expenditures			
Current			
Conservation of natural resources	\$ -	\$ -	
Economic development	-	60,509	
Intergovernmental			
Debt service			
Principal	305,000	350,000	
Interest	16,992	115,275	
Administrative (fiscal) charges	374	2,100	
	<hr/>	<hr/>	
Total Expenditures	\$ 322,366	\$ 527,884	
Excess of Revenues Over (Under)			
Expenditures	\$ 26,171	\$ (1,050)	
Fund Balance - January 1	\$ 363,694	\$ 11,399	
Prior period adjustment	-	-	
	<hr/>	<hr/>	
Fund Balance - January 1, as restated	\$ 363,694	\$ 11,399	
Fund Balance - December 31	\$ 389,865	\$ 10,349	

Statement 2

<u>Service</u>	<u>Courthouse Improvement</u>	<u>Turtle Creek Watershed District</u>	<u>Permanent U.S. Fish and Wildlife</u>	<u>Total (Exhibit 5)</u>		
\$	739,991	\$	-	\$	1,148,659	
	-	140,654	-	140,654		
	802	-	-	1,180		
	-	-	1,835	1,835		
	-	-	-	466,325		
\$	740,793	\$	140,654	\$	1,758,653	
\$	-	-	\$	-	\$	-
	-	-	-	-	60,509	
	355,000	125,000	-	1,135,000		
	383,440	17,296	-	533,003		
	350	413	-	3,237		
\$	738,790	\$	142,709	\$	1,731,749	
\$	2,003	\$	(2,055)	\$	26,904	
\$	536,435	\$	-	\$	999,141	
	-	366,474	-	-	366,474	
\$	536,435	\$	366,474	\$	1,365,615	
\$	538,438	\$	364,419	\$	1,392,519	

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
CAPITAL EQUIPMENT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 350,000	\$ 350,000	\$ 348,159	\$ (1,841)
Intergovernmental	-	-	378	378
Total Revenues	\$ 350,000	\$ 350,000	\$ 348,537	\$ (1,463)
Expenditures				
Debt service				
Principal	\$ 305,000	\$ 305,000	\$ 305,000	\$ -
Interest	27,000	27,000	16,992	10,008
Administrative (fiscal) charges	2,000	2,000	374	1,626
Total Expenditures	\$ 334,000	\$ 334,000	\$ 322,366	\$ 11,634
Net Change in Fund Balance	\$ 16,000	\$ 16,000	\$ 26,171	\$ 10,171
Fund Balance - January 1	363,694	363,694	363,694	-
Fund Balance - December 31	\$ 379,694	\$ 379,694	\$ 389,865	\$ 10,171

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 6

**BUDGETARY COMPARISON SCHEDULE
COURTHOUSE IMPROVEMENT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 748,000	\$ 748,000	\$ 739,991	\$ (8,009)
Intergovernmental	-	-	802	802
Total Revenues	\$ 748,000	\$ 748,000	\$ 740,793	\$ (7,207)
Expenditures				
Debt service				
Principal	\$ 355,000	\$ 355,000	\$ 355,000	\$ -
Interest	383,000	383,000	383,440	(440)
Administrative (fiscal) charges	1,500	1,500	350	1,150
Total Expenditures	\$ 739,500	\$ 739,500	\$ 738,790	\$ 710
Net Change in Fund Balance	\$ 8,500	\$ 8,500	\$ 2,003	\$ (6,497)
Fund Balance - January 1	536,435	536,435	536,435	-
Fund Balance - December 31	\$ 544,935	\$ 544,935	\$ 538,438	\$ (6,497)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
TURTLE CREEK WATERSHED DISTRICT DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 171,987	\$ 171,987	\$ 140,654	\$ (31,333)
Expenditures				
Debt service				
Principal	\$ 115,000	\$ 115,000	\$ 125,000	\$ (10,000)
Interest	56,987	56,987	17,296	39,691
Administrative (fiscal) charges	1,500	1,500	413	1,087
Total Expenditures	\$ 173,487	\$ 173,487	\$ 142,709	\$ 30,778
Net Change in Fund Balance	\$ (1,500)	\$ (1,500)	\$ (2,055)	\$ (555)
Fund Balance - January 1	\$ -	\$ -	\$ -	\$ -
Prior period adjustment	366,474	366,474	366,474	-
Fund Balance - January 1, as restated	\$ 366,474	\$ 366,474	\$ 366,474	\$ -
Fund Balance - December 31	\$ 364,974	\$ 364,974	\$ 364,419	\$ (555)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

AGENCY FUNDS

The Agency Collections Fund accounts for the following:

The Assurance Section accounts for fees collected in accordance with Minn. Stat. § 508.74.

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

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

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

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

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

The Refunding Section accounts for the refunding of property taxes.

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

The Armory Debt Service Section accounts for funds received for repayment of armory debt.

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

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

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

AGENCY FUNDS
(Continued)

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

The Court Administration - Clearing Fund accounts for funds collected by the courts for other governments.

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

The Payroll Clearing Fund accounts for payroll withholdings.

The Insurance Fund accounts for insurance payments.

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

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

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY COLLECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 97,550	\$ 4,073,130	\$ 4,073,454	\$ 97,226
<u>Liabilities</u>				
Due to other governments	\$ 97,550	\$ 4,073,130	\$ 4,073,454	\$ 97,226
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 270,924	\$ 310,451	\$ 266,914	\$ 314,461
<u>Liabilities</u>				
Due to other governments	\$ 270,924	\$ 310,451	\$ 266,914	\$ 314,461
 <u>COURT ADMINISTRATION - CLEARING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,711	\$ 51,131	\$ 50,457	\$ 2,385
<u>Liabilities</u>				
Due to other governments	\$ 1,711	\$ 51,131	\$ 50,457	\$ 2,385

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAX COLLECTION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 200,295	\$ 28,195,977	\$ 28,135,143	\$ 261,129
<u>Liabilities</u>				
Due to other funds	\$ -	\$ 11,592,751	\$ 11,592,751	\$ -
Due to other governments	200,295	16,603,226	16,542,392	261,129
Total Liabilities	\$ 200,295	\$ 28,195,977	\$ 28,135,143	\$ 261,129
<u>PAYROLL CLEARING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,015	\$ 94,087	\$ 101,257	\$ (1,155)
<u>Liabilities</u>				
Accounts payable	\$ 6,015	\$ 94,087	\$ 101,257	\$ (1,155)
<u>INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 116,049	\$ 1,788,246	\$ 1,784,337	\$ 119,958
<u>Liabilities</u>				
Accounts payable	\$ -	\$ 1,788,246	\$ 1,784,337	\$ 3,909
Advance from governmental funds	116,049	-	-	116,049
Total Liabilities	\$ 116,049	\$ 1,788,246	\$ 1,784,337	\$ 119,958

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

***Statement 3
(Continued)***

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MOTOR VEHICLE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 6,021,564	\$ 6,021,564	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 6,021,564	\$ 6,021,564	\$ -
 <u>TURTLE CREEK WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 28,614	\$ 217,650	\$ 228,183	\$ 18,081
Accounts receivable	-	58,500	-	58,500
Total Assets	\$ 28,614	\$ 276,150	\$ 228,183	\$ 76,581
<u>Liabilities</u>				
Due to other funds	\$ 2,073	-	-	\$ 2,073
Due to other governments	26,541	217,650	228,183	16,008
Advance from governmental funds	-	58,500	-	58,500
Total Liabilities	\$ 28,614	\$ 276,150	\$ 228,183	\$ 76,581

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 3
(Continued)

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 721,158	\$ 40,752,236	\$ 40,661,309	\$ 812,085
Accounts receivable	-	58,500	-	58,500
Total Assets	<u>\$ 721,158</u>	<u>\$ 40,810,736</u>	<u>\$ 40,661,309</u>	<u>\$ 870,585</u>
<u>Liabilities</u>				
Accounts payable	\$ 6,015	\$ 1,882,333	\$ 1,885,594	\$ 2,754
Due to other funds	2,073	11,592,751	11,592,751	2,073
Due to other governments	597,021	27,277,152	27,182,964	691,209
Advance from governmental funds	116,049	58,500	-	174,549
Total Liabilities	<u>\$ 721,158</u>	<u>\$ 40,810,736</u>	<u>\$ 40,661,309</u>	<u>\$ 870,585</u>

OTHER SCHEDULE

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 8

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Shared Revenue

State

Highway users tax	\$	4,596,651
Homestead credit		1,679,438
Market value credit		1,543,382
PERA rate reimbursement		44,126
Disparity reduction aid		46,015
Family preservation aid		2,443
Police aid		85,801
Enhanced 911		85,482
		85,482

Total Shared Revenue **\$ 8,083,338**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,841,612
		1,841,612

Payments

Local

Payments in lieu of taxes	\$	24,927
		24,927

Grants

State

Minnesota Department of		
Corrections	\$	186,567
Public Safety		43,042
Health		154,114
Natural Resources		22,075
Human Services		1,308,051
Veterans Services		4,200
Office of Environmental Assistance		36,359
Pollution Control Agency		46,726
Peace Officer Standards and Training Board		7,755
		7,755

Total State **\$ 1,808,889**

Federal

Department of		
Agriculture	\$	118,663
Justice		75,578
Transportation		3,622
Health and Human Services		1,553,464
Homeland Security		387,091
		387,091

Total Federal **\$ 2,138,418**

Total State and Federal Grants **\$ 3,947,307**

Total Intergovernmental Revenue **\$ 13,897,184**

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 9

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Freeborn County.
- B. No matters involving internal control over financial reporting were reported in the "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*."
- C. No instances of noncompliance material to the financial statements of Freeborn County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Freeborn County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Child Care Mandatory and Matching Funds	CFDA #93.596
Public Assistance Grants	CFDA #97.036
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Freeborn County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Controls Over the Electronic Data Processing System (00-2)

Several of the security settings on the AS400 were set below the recommended minimums.

Resolution

The County has separate security measures in place before the AS400 can be accessed. These security settings are stricter than those recommended for the AS400.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Ditch Deficit Balances

Under the modified accrual basis of accounting, 31 of the 97 active individual ditch systems had deficit fund balances totaling \$2,277,184 at December 31, 2005. Under the full accrual basis of accounting, which recognizes special assessment levies as revenue when levied, 20 ditches have fund balance deficits totaling \$1,283,173, with the largest at \$775,076. The Ditch Special Revenue Fund has long-term advances payable to the General Fund of \$2,566,489, an increase of \$799,157, or 45 percent, from 2004.

Minn. Stat. § 103E.735, subd. 1, provides that a ditch system fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend the County Board eliminate the individual ditch system deficits by levying assessments pursuant to Minn. Stat. § 103E.735.

PREVIOUSLY REPORTED ITEM RESOLVED

Financial Statement Preparation (02-2)

Minn. Stat. § 375.17 states that the County is responsible for preparing the financial statements by the first part of March.

Resolution

The County is working with the auditors to prepare financial data in a timely manner.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-5 Disaster Recovery Plan

Freeborn County has an informal disaster recovery agreement with another county but does not have a formal disaster recovery plan. A disaster recovery plan gives assurance the County is prepared for a disaster or major computer breakdown. The County needs to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;

Schedule 9
(Continued)

- a plan as to how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they would be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to off-site back-up storage facilities;
- a list of vendor contracts;
- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

We again recommend the County develop, implement, and test a disaster recovery plan. The Board should approve the formal plan. A copy should be stored at an off-site facility and with the leader of each recovery team. All County employees should understand the steps to be taken to continue operations in the event of a disaster. We also recommend the County periodically determine if the alternative computer system is compatible with the County's system.

PREVIOUSLY REPORTED ITEM RESOLVED

County Ditch 99 (02-4)

The County was using CD 99 as a holding account until the County allocates costs to the appropriate operating ditches.

Resolution

Costs were allocated to the appropriate operating ditches in a timely manner.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the County Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the County Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the County Board determines that the establishment of a trust is desirable in order to fund the OPEB, the County Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the County Board will have to decide whether to hire an actuary.

Schedule 9
(Continued)

If applicable for Freeborn County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2007 and 2008, respectively.

OTHER REQUIRED REPORTS

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OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

**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
Freeborn County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 28, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Freeborn County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Freeborn 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 Local Government*, 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 Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Freeborn County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 99-1.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 28, 2006



STATE OF MINNESOTA
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PATRICIA ANDERSON
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of County Commissioners
Freeborn County

Compliance

We have audited the compliance of Freeborn County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. Freeborn County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. 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 Freeborn County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Freeborn County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of Freeborn 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 28, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 28, 2006

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 100,083
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	11,724
Total U.S. Department of Agriculture		\$ 111,807
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Crime Victim Assistance Grant	16.575	\$ 75,578
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Interagency Hazardous Materials Planning Grant	20.703	\$ 3,622
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 39,709
Maternal and Child Health Services Block Grant	93.994	41,625
Passed Through Minnesota Department of Education Child Care Mandatory and Matching Funds	93.596	495,475
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families	93.558	479,046
Children's Justice Grants to States	93.643	2,600
Child Welfare Services - State Grants	93.645	14,177
Foster Care Title IV-E	93.658	218,263
Social Services Block Grant Title XX	93.667	226,169
Community Mental Health Block Grant	93.958	36,400
Total U.S. Department of Health and Human Services		\$ 1,553,464
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness	97.004	\$ 24,899
Public Assistance Grants	97.036	338,147
Homeland Security Grant Program	97.067	24,045
Total U.S. Department of Homeland Security		\$ 387,091
Total Federal Awards		\$ 2,131,562

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

**Schedule 10
(Continued)**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

I. REPORTING ENTITY

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

II. BASIS OF PRESENTATION

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**III. RECONCILIATION TO SCHEDULE OF INTERGOVERNMENTAL REVENUE
(SCHEDULE 8)**

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 2,138,418
Special Supplemental Nutrition for Women, Infants, and Children grant deferred in 2004 and recognized in 2005	<u>(6,856)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 2,131,562</u>