

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

STEARNS COUNTY
ST. CLOUD, 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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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Year Ended December 31, 2005



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

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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ST. CLOUD, MINNESOTA**

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**ORGANIZATION SCHEDULE
2005**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Larry Haws	January 2005	January 2009
2nd District	Mark Sakry	January 2003	January 2007
3rd District	Vince Schaefer*	January 2003	January 2007
4th District	Leigh Lenzmeier	January 2005	January 2009
5th District	Don Otte	January 2003	January 2007
Officers			
Elected			
Attorney	Janelle Kendall	January 2003	January 2007
Auditor/Treasurer	Randy Schreifels	January 2003	January 2007
County Recorder/Registrar of Titles	Diane Grundhoefer	January 2003	January 2007
Sheriff	John Sanner	January 2003	January 2007
Appointed			
Administrator	George Rindelaub		Indefinite
Agriculture Inspector	John Waldorf		Indefinite
Assessor	Gary Grossinger	January 2005	December 2009
Emergency Management	Marvin Klug		Indefinite
Extension	Debbie Botzek-Linn		Indefinite
Facilities Manager	Ralph Braegelmann		Indefinite
Highway Engineer	Mitch Anderson	May 2004	May 2008
Human Resources	Jennifer Thorsten		Indefinite
Medical Examiner	Dr. David Frederickson	January 2005	January 2006
Information Services	George McClure		Indefinite
Parks	Charles Wocken		Indefinite
Environmental Service	Don Adams		Indefinite
Purchasing	Bill Davison		Indefinite
Veterans Service Officer	Terry Ferdinandt	February 2004	March 2008
Human Services Director	Roma Steil		Indefinite

*Chair

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Stearns County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County, Minnesota, as of and for the year ended December 31, 2005, including the Housing and Redevelopment Authority (HRA) of Stearns County as of and for the year ended June 30, 2005, which collectively comprise Stearns County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Stearns County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the HRA of Stearns County, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA of Stearns County, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the

aggregate remaining fund information of Stearns County as of December 31, 2005, including the HRA of Stearns County as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, 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 Stearns County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 11, 2006, on our consideration of Stearns 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. It does not include the HRA of Stearns County, which was audited by other auditors.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: October 11, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

This section of Stearns County's annual financial report presents an overview and analysis of the County's financial performance during the fiscal year that ended on December 31, 2005.

FINANCIAL HIGHLIGHTS

- The assets of Stearns County exceeded its liabilities by \$210,132,846 (net assets). Of this amount, \$39,322,822 represents unrestricted net assets that may be used to meet the County's ongoing obligations to citizens and creditors. The unrestricted net assets increased by \$21,319,816 (118.4 percent) compared to December 31, 2004.
- The County's total net assets increased by \$29,595,669, or about 16.4 percent, over the prior year.
- As of the close of the fiscal year, Stearns County's governmental funds reported combined ending fund balances of \$35,299,292. Of this amount, \$28,821,210, or approximately 82 percent, is available for spending at the County's discretion.
- At the end of the year, unreserved fund balance for the General Fund was \$8,844,337. This is approximately 24.5 percent of total General Fund expenditures during the year and an increase of \$872,669 over the General Fund's 2004 unreserved fund balance. At the end of 2004, the General Fund's unreserved fund balance was approximately 23.6 percent of total expenditures.
- Total bonded debt at the end of the year was \$19,570,000. In 2005, the County issued \$6,085,000 in bonds and paid \$5,170,000 of bond principal, increasing bonded debt by 4.9 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

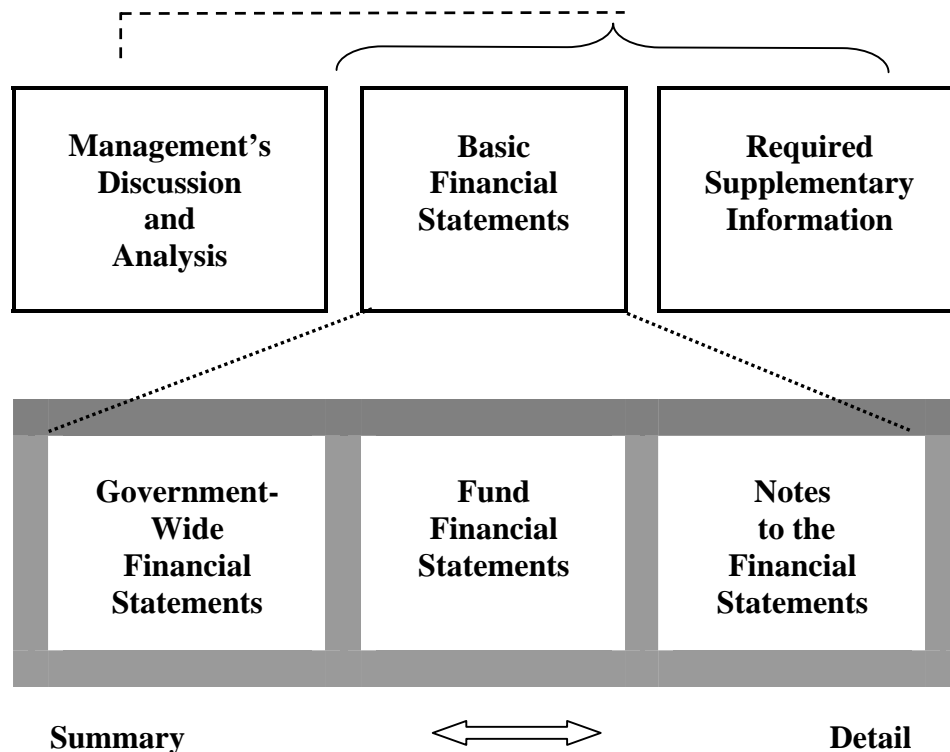
The financial section of the annual report consists of four parts--Independent Auditor's Report; required supplementary information, which includes the Management's Discussion and Analysis (MD&A) (this section) and certain budgetary comparison schedules; the basic financial statements; and supplemental information. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are County-wide financial statements which provide both short-term and long-term information about the County’s overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County’s operations in more detail than the County-wide statements.
- The governmental funds statements tell how basic services such as general government, human services, and highways and streets, were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



(Unaudited)

Figure A-2 summarizes the major features of the County’s financial statements, including the portion of the County’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and content of each of the statements.

Figure A-2			
Major Features of the County’s Government-Wide and Fund Financial Statements			
	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire County government (except fiduciary funds) and the County’s component unit	The activities of the County that are not fiduciary	Instances in which the County is the trustee or agent for someone else’s resources
Required financial statements	Statement of net assets and statement of activities	Balance sheet and operating statement	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both short-term and long-term; agency funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

County-Wide Statements

The County-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two County-wide statements report the County's net assets and how they have changed. Net assets--the difference between the County's assets and liabilities--are one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County, additional non-financial factors such as changes in the County's property tax base and the condition of county buildings and other facilities need to be considered.

In the County-wide financial statements, the County's activities are shown in one category:

- Governmental activities - The County's basic services are included here. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's funds--focusing on its most significant or "major" funds--not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The County establishes other funds to control and manage money for particular purposes (for example, repaying its long-term debts) or to show that it is properly using certain revenues (for example, federal grants).

The County has two kinds of funds:

- Governmental funds--The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not

encompass the additional long-term focus of the County-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds--The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the County-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$210,132,846 on December 31, 2005. (See Table A-1.)

	<u>2005</u>	<u>2004</u>	<u>Percent (%) Change</u>
Current and other assets	\$ 60,537,922	\$ 37,928,949	59.6
Capital and noncurrent assets	<u>183,300,213</u>	<u>176,108,717</u>	4.1
Total Assets	<u>\$ 243,838,135</u>	<u>\$ 214,037,666</u>	13.9
Current liabilities	\$ 8,112,909	\$ 9,767,258	(16.9)
Long-term liabilities	<u>25,592,380</u>	<u>23,733,231</u>	7.8
Total Liabilities	<u>\$ 33,705,289</u>	<u>\$ 33,500,489</u>	0.6
Net assets invested in capital assets - net of related debt	\$ 164,880,214	\$ 157,618,717	4.6
Restricted	5,929,810	4,915,454	20.6
Unrestricted	<u>39,322,822</u>	<u>18,003,006</u>	118.4
Total Net Assets	<u><u>\$ 210,132,846</u></u>	<u><u>\$ 180,537,177</u></u>	16.4

Changes in Net Assets

The County-wide total revenues were \$113,913,042 for the year ended December 31, 2005. Property taxes and intergovernmental revenues accounted for 91.1 percent of total revenue for the year. (See Figure A-3.)

Table A-2
Changes in Net Assets
Governmental Activities

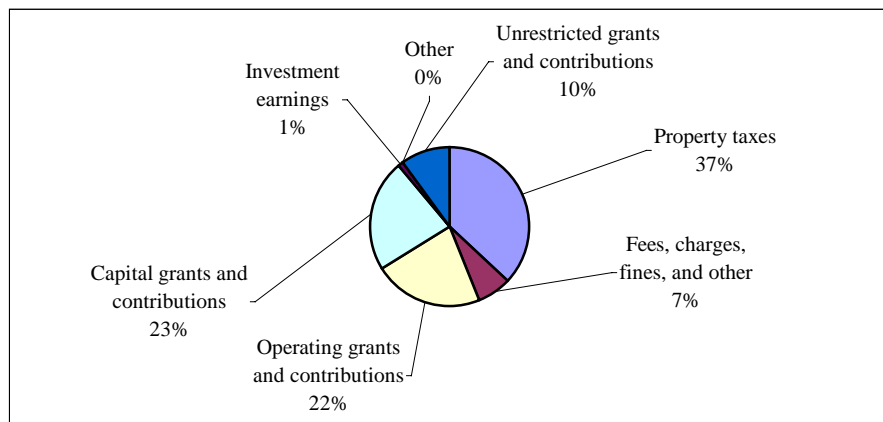
	2005	2004	Percent (%) Change
Revenues			
Program revenues			
Fees, charges, fines, and other	\$ 8,406,653	\$ 8,046,067	4.5
Operating grants and contributions	24,715,978	23,248,233	6.3
Capital grants and contributions	25,799,892	9,492,502	171.8
General revenues			
Property taxes	42,257,372	38,448,529	9.9
Unrestricted grants and contributions	11,026,720	8,305,527	32.8
Investment earnings	1,405,492	869,733	61.6
Other	300,935	333,250	(9.7)
Total Revenues	\$ 113,913,042	\$ 88,743,841	28.4
Expenses			
General government	\$ 16,074,070	\$ 13,196,792	21.8
Public safety	21,457,444	19,873,047	8.0
Highways and streets	9,497,273	7,823,712	21.4
Sanitation	500,905	873,256	(42.6)
Human services	27,777,977	27,278,471	1.8
Health	1,641,863	1,654,252	(0.7)
Culture and recreation	3,000,822	2,953,069	1.6
Conservation of natural resources	3,458,169	3,171,215	9.1
Economic development	86,334	73,984	16.7
Interest and fiscal charges on long-term liabilities	822,516	800,013	2.8
Total Expenses	\$ 84,317,373	\$ 77,697,811	8.5
Increase in Net Assets	\$ 29,565,669	\$ 11,046,030	167.7
Beginning Net Assets	180,537,177	169,491,147	6.5
Ending Net Assets	\$ 210,132,846	\$ 180,537,177	16.4

Total revenues surpassed expenses, increasing net assets \$29,565,669 over last year.

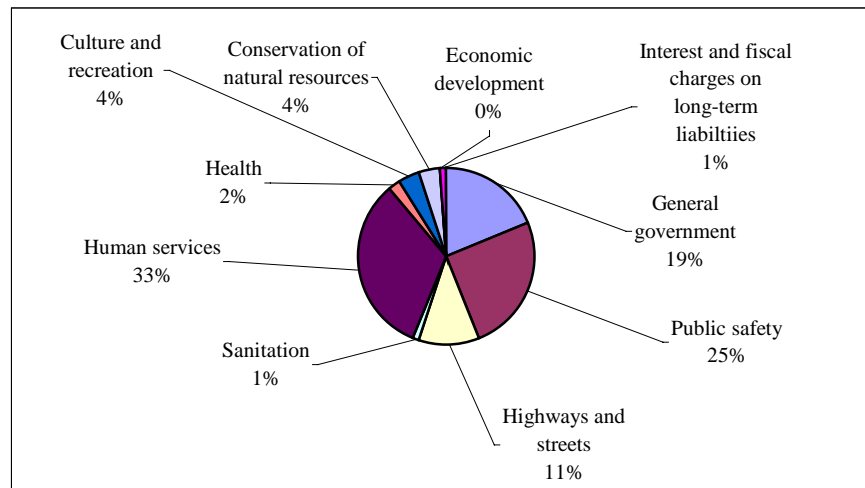
The County-wide cost of all governmental activities this year was \$84,317,373.

- Some of the cost was paid by the users of the County’s programs (\$8,406,653).
- The federal and state governments subsidized certain programs with grants and contributions (\$50,515,870).
- The remaining County costs (\$25,394,850), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$42,257,372 in property taxes, \$11,026,720 in state-aid, and \$1,706,427 with investment earnings and other general revenues.

**Figure A-3
Sources of County’s Revenues for 2005**



**Figure A-4
County’s Expenses for 2005**



**Table A-3
Change in Net Assets**

	Total Cost of Services			Net Cost of Services		
	2005	2004	Percent (%) Change	2005	2004	Percent (%) Change
General government	\$ 16,074,070	\$ 13,196,792	21.8	\$ 11,401,418	\$ 8,526,339	33.7
Public safety	21,457,444	19,873,047	8.0	14,712,227	12,742,346	15.5
Highways and streets	9,497,273	7,823,712	21.4	(17,285,102)	(2,657,120)	(550.5)
Sanitation	500,905	873,256	(42.6)	(176,395)	223,010	(179.1)
Human services	27,777,977	27,278,471	1.8	12,203,933	12,313,299	(0.9)
Health	1,641,863	1,654,252	(0.7)	247,971	200,366	23.8
Culture and recreation	3,000,822	2,953,069	1.6	2,763,912	2,762,824	-
Conservation of natural resources	3,458,169	3,171,215	9.1	729,795	2,029,411	(64.0)
Economic development	86,334	73,984	16.7	(25,425)	(29,479)	13.8
Interest	822,516	800,013	2.8	822,516	800,013	2.8
Total	\$ 84,317,373	\$ 77,697,811	8.5	\$ 25,394,850	\$ 36,911,009	(31.2)

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$35,299,292. Of this amount, \$28,821,210, or approximately 82 percent, is available for spending at the County’s discretion.

Revenues for the County’s governmental funds were \$98,715,032, while total expenditures were \$96,838,569.

General Fund

The General Fund includes the primary operations of the County in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund revenues:

**Table A-4
General Fund Revenues**

Source	Year Ended December 31		Change	
	2005	2004	Increase/ (Decrease)	Percent (%)
Taxes	\$ 17,721,305	\$ 15,846,931	\$ 1,874,374	11.8
Intergovernmental	10,432,858	9,981,728	451,130	4.5
Charges for services	4,046,569	3,486,297	560,272	16.1
Investment income	1,349,958	804,420	545,538	67.8
Miscellaneous and other	2,617,132	2,587,702	29,430	1.1
Total General Fund Revenues	\$ 36,167,822	\$ 32,707,078	\$ 3,460,744	10.6

Total General Fund revenues increased by \$3,460,744, or 10.6 percent, from the previous year. The mix of property tax and state-aid can change significantly from year to year without any net change in revenue.

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

Function	Year Ended December 31		Change	
	2005	2004	Increase/ (Decrease)	Percent (%)
General government	\$ 13,092,474	\$ 12,112,285	\$ 980,189	8.1
Public safety	16,369,701	16,475,203	(105,502)	(0.6)
Culture and recreation	2,225,488	2,112,528	112,960	5.4
Conservation of natural resources	3,376,379	3,113,518	262,861	8.4
Economic development	79,634	18,500	61,134	330.5
Intergovernmental	917,636	-	917,636	N/A
Total General Fund Expenditures	<u>\$ 36,061,312</u>	<u>\$ 33,832,034</u>	<u>\$ 2,229,278</u>	6.6

General Fund Budgetary Highlights

Over the course of the year, the County revised the annual operating budget.

- Actual revenues were \$5,420,042 more than expected.
- The actual expenditures were \$3,410,272 more than budget.

Construction Projects And Debt Service

The Capital Projects Fund is currently being used to track the capital notes and capital improvement bonds approved by the Board over the past years. The majority of the construction expenditures are for the construction of various capital improvements throughout the County.

An annual levy is made to fund the bond payments for all previous bond issues.

CAPITAL ASSETS

By the end of 2005, the County had invested over \$232,000,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure. (See Table A-6.) (More detailed information about capital assets can be found in Note 3.A.3. to the financial statements.) Total depreciation expense for the year was \$5,096,425.

**Table A-6
Capital Assets**

	2005	2004	Percent (%) Change
Land	\$ 8,554,219	\$ 8,519,103	0.4
Construction in progress	773,234	612,434	26.3
Infrastructure	163,957,675	154,144,365	6.4
Buildings	44,400,139	44,104,906	0.7
Machinery, furniture, and equipment	14,485,104	12,719,092	13.9
Less: accumulated depreciation	<u>(48,870,158)</u>	<u>(43,991,183)</u>	(11.1)
 Total	 <u>\$ 183,300,213</u>	 <u>\$ 176,108,717</u>	 4.1

LONG-TERM LIABILITIES

At year-end, the County had \$25,592,380 in long-term liabilities outstanding. The current portion of these liabilities is \$4,733,874.

**Table A-7
Long-Term Liabilities**

	2005	2004	Increase/ (Decrease)	Percent (%) Change
General obligation bonds	\$ 19,610,586	\$ 18,682,138	\$ 928,448	5.0
Loans payable	25,000	48,622	(23,622)	(48.6)
Compensated absences payable	<u>5,956,794</u>	<u>5,002,471</u>	<u>954,323</u>	19.1
 Total	 <u>\$ 25,592,380</u>	 <u>\$ 23,733,231</u>	 <u>\$ 1,859,149</u>	 7.8

FACTORS BEARING ON THE COUNTY'S FUTURE

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the Legislature may decrease revenues again.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Jim Stegura, Financial Manager, at 320-656-3914, or Randy Schreifels, County Auditor/Treasurer, at 320-656-3901.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Stearns County
<u>Assets</u>		
Cash and pooled investments	\$ 37,447,686	\$ 1,225,770
Petty cash and change funds	9,500	-
Departmental cash	23,680	-
Cash with fiscal agent	904,649	-
Delinquent taxes receivable	692,330	167,700
Special assessments receivable		
Delinquent	47,255	-
Deferred	1,012,666	-
Accounts receivable	449,484	8,673
Accrued interest receivable	124,426	2,946
Loans receivable	148,595	1,022,451
Due from other governments	19,119,603	121,292
Inventories	489,198	-
Prepaid items	-	3,993
Deferred charges	68,850	42,850
Capital assets		
Non-depreciable	9,327,453	328,894
Depreciable - net of accumulated depreciation	173,972,760	3,743,870
Total Assets	\$ 243,838,135	\$ 6,668,439
<u>Liabilities</u>		
Accounts payable	\$ 3,093,393	\$ 98,860
Salaries payable	2,313,509	23,088
Contracts payable	1,224,546	-
Due to other governments	853,555	-
Accrued interest payable	214,174	8,973
Unearned revenue	413,732	5,364
Long-term liabilities		
Due within one year	4,733,874	250,230
Due in more than one year	20,858,506	1,930,113
Total Liabilities	\$ 33,705,289	\$ 2,316,628

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Stearns County
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 164,880,214	\$ 2,103,003
Restricted for		
General government	207,827	-
Public safety	221,991	-
Highway and streets	336,952	-
Sanitation	57,339	-
Conservation of natural resources	106,398	-
Economic development	858,445	-
Debt service	4,140,858	115,339
Future projects	-	206,232
Unrestricted	39,322,822	1,927,237
Total Net Assets	\$ 210,132,846	\$ 4,351,811

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	Expenses	Fees, Charges, Fines and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 16,074,070	\$ 4,425,853
Public safety	21,457,444	1,152,275
Highways and streets	9,497,273	121,812
Sanitation	500,905	324,275
Human services	27,777,977	1,459,855
Health	1,641,863	125,321
Culture and recreation	3,000,822	68,640
Conservation of natural resources	3,458,169	635,869
Economic development	86,334	92,753
Interest	822,516	-
Total primary government	\$ 84,317,373	\$ 8,406,653
Component unit		
Housing and Redevelopment Authority of Stearns County	\$ 2,159,891	\$ 247,733

General Revenues

Property taxes
Tax increments
Gravel taxes
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment income
Miscellaneous
Gain (loss) on sale of capital assets

Total general revenues and other items

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Stearns County
\$ 246,799	\$ -	\$ (11,401,418)	
3,066,849	2,526,093	(14,712,227)	
3,386,764	23,273,799	17,285,102	
353,025	-	176,395	
14,114,189	-	(12,203,933)	
1,268,571	-	(247,971)	
168,270	-	(2,763,912)	
2,092,505	-	(729,795)	
19,006	-	25,425	
-	-	(822,516)	
\$ 24,715,978	\$ 25,799,892	\$ (25,394,850)	
\$ 1,610,282	\$ 71,089		\$ (230,787)
		\$ 42,257,372	\$ 221,556
		-	154,336
		24,211	-
		83,627	-
		11,026,720	27,068
		1,405,492	27,021
		193,097	-
		-	(3,728)
		\$ 54,990,519	\$ 426,253
		\$ 29,595,669	\$ 195,466
		180,537,177	4,156,345
		\$ 210,132,846	\$ 4,351,811

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 11,918,822	\$ 1,877,893
Petty cash and change funds	8,950	-
Departmental cash	23,680	-
Cash with fiscal agent	-	-
Delinquent taxes receivable	283,955	60,260
Special assessments receivable		
Delinquent	-	-
Deferred	-	-
Accounts receivable	411,454	-
Accrued interest receivable	117,535	-
Loans receivable	-	-
Due from other funds	1,251	-
Due from other governments	747,952	16,307,250
Inventories	27,087	462,111
Advance to other funds	59,074	-
	\$ 13,599,760	\$ 18,707,514
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 1,829,614	\$ 210,379
Salaries payable	1,187,317	182,027
Contracts payable	49,484	1,175,062
Due to other funds	-	-
Due to other governments	727,163	102,650
Deferred revenue - unavailable	200,784	15,763,369
Deferred revenue - unearned	245,082	-
Advance from other funds	-	-
	\$ 4,239,444	\$ 17,433,487
Fund Balances		
Reserved (Note 3.D.)	\$ 515,979	\$ 799,063
Unreserved		
Designated (Note 3.D.)	8,844,337	474,964
Unreserved, reported in nonmajor		
Special revenue funds	-	-
	\$ 9,360,316	\$ 1,274,027
Total Liabilities and Fund Balances	\$ 13,599,760	\$ 18,707,514

EXHIBIT 3

Human Services	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 9,618,561	\$ 3,253,913	\$ 7,798,759	\$ 2,979,738	\$ 37,447,686
330	-	-	220	9,500
-	-	-	-	23,680
-	904,649	-	-	904,649
248,380	88,021	-	11,714	692,330
-	11,874	-	35,381	47,255
-	932,095	-	80,571	1,012,666
9,022	-	-	29,008	449,484
-	6,891	-	-	124,426
-	-	-	148,595	148,595
-	-	-	-	1,251
2,042,821	1,159	-	20,421	19,119,603
-	-	-	-	489,198
-	-	-	-	59,074
\$ 11,919,114	\$ 5,198,602	\$ 7,798,759	\$ 3,305,648	\$ 60,529,397
\$ 975,632	\$ 1,179	\$ 7,050	\$ 69,539	\$ 3,093,393
919,836	-	-	24,329	2,313,509
-	-	-	-	1,224,546
1,251	-	-	-	1,251
12,914	-	5	10,823	853,555
175,117	1,007,491	-	124,284	17,271,045
20,055	-	-	148,595	413,732
-	49,074	-	10,000	59,074
\$ 2,104,805	\$ 1,057,744	\$ 7,055	\$ 387,570	\$ 25,230,105
\$ -	\$ 4,140,858	\$ -	\$ 1,022,182	\$ 6,478,082
9,814,309	-	7,791,704	55,283	26,980,597
-	-	-	1,840,613	1,840,613
\$ 9,814,309	\$ 4,140,858	\$ 7,791,704	\$ 2,918,078	\$ 35,299,292
\$ 11,919,114	\$ 5,198,602	\$ 7,798,759	\$ 3,305,648	\$ 60,529,397

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**STEARNS COUNTY
ST. CLOUD, 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)	\$	35,299,292
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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.		183,300,213
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Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		17,271,045
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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 and notes - net of premium	\$	(19,610,586)	
Loans payable		(25,000)	
Compensated absences		(5,956,794)	
Accrued interest payable		(214,174)	
Deferred debt issuance charges		68,850	
		68,850	(25,737,704)

Net assets of governmental activities (Exhibit 1)	\$	<u>210,132,846</u>
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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>
Revenues		
Taxes	\$ 17,721,305	\$ 3,697,486
Special assessments	-	-
Licenses and permits	527,100	-
Intergovernmental	10,432,858	12,707,673
Charges for services	4,046,569	52,341
Fines and forfeits	107,310	-
Gifts and contributions	-	-
Investment income	1,349,958	-
Miscellaneous	1,982,722	69,471
	<hr/>	<hr/>
Total Revenues	\$ 36,167,822	\$ 16,526,971
Expenditures		
Current		
General government	\$ 13,092,474	\$ -
Public safety	16,369,701	-
Highways and streets	-	15,822,065
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	2,225,488	-
Conservation of natural resources	3,376,379	67,219
Economic development	79,634	-
Intergovernmental		
General government	-	-
Public safety	917,636	-
Highways and streets	-	514,428
Capital outlay	-	-
Debt service		
Principal	-	-
Interest	-	-
Bond issuance costs	-	-
	<hr/>	<hr/>
Total Expenditures	\$ 36,061,312	\$ 16,403,712
Excess of Revenues Over (Under) Expenditures	\$ 106,510	\$ 123,259

EXHIBIT 5

Human Services	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 15,124,781	\$ 5,056,980	\$ -	\$ 723,803	\$ 42,324,355
-	255,842	-	401,120	656,962
-	-	-	48,744	575,844
19,490,507	813,939	-	1,202,690	44,647,667
551,811	-	-	311,497	4,962,218
-	-	-	257,371	364,681
-	-	-	58,405	58,405
-	54,338	-	20,202	1,424,498
1,347,479	174,839	421	125,470	3,700,402
\$ 36,514,578	\$ 6,355,938	\$ 421	\$ 3,149,302	\$ 98,715,032
\$ -	\$ 15,000	\$ -	\$ 259,780	\$ 13,367,254
4,862,340	-	-	7,153	21,239,194
-	-	-	-	15,822,065
-	-	-	499,899	499,899
28,639,834	-	-	15,217	28,655,051
1,638,890	-	-	-	1,638,890
-	-	-	842,362	3,067,850
-	-	-	681	3,444,279
-	-	-	6,700	86,334
-	1,054,921	-	-	1,054,921
-	-	-	-	917,636
-	-	-	-	514,428
-	-	458,472	-	458,472
-	5,120,000	-	73,622	5,193,622
-	801,375	-	8,174	809,549
-	31,357	37,768	-	69,125
\$ 35,141,064	\$ 7,022,653	\$ 496,240	\$ 1,713,588	\$ 96,838,569
\$ 1,373,514	\$ (666,715)	\$ (495,819)	\$ 1,435,714	\$ 1,876,463

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	General	Road and Bridge
Other Financing Sources (Uses)		
Transfers in	\$ 1,989,734	\$ 839,869
Transfers out	(1,052,560)	(60,650)
Bonds and notes issued	-	-
Proceeds from sale of capital assets	17,837	-
Premium on bonds and notes issued	-	-
	\$ 955,011	\$ 779,219
Net Change in Fund Balances	\$ 1,061,521	\$ 902,478
Fund Balances - January 1	8,298,795	358,538
Increase (decrease) in reserved for inventories	-	13,011
	\$ 9,360,316	\$ 1,274,027
Fund Balances - December 31	\$ 9,360,316	\$ 1,274,027

EXHIBIT 5
(Continued)

Human Services	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 653,124 (330,947)	\$ - -	\$ 1,010,446 (1,937,122)	\$ 7,476 (1,119,370)	\$ 4,500,649 (4,500,649)
-	1,090,000	4,995,000	-	6,085,000
-	-	-	-	17,837
-	7,996	21,425	-	29,421
\$ 322,177	\$ 1,097,996	\$ 4,089,749	\$ (1,111,894)	\$ 6,132,258
\$ 1,695,691	\$ 431,281	\$ 3,593,930	\$ 323,820	\$ 8,008,721
8,118,618	3,709,577	4,197,774	2,594,258	27,277,560
-	-	-	-	13,011
\$ 9,814,309	\$ 4,140,858	\$ 7,791,704	\$ 2,918,078	\$ 35,299,292

**STEARNS COUNTY
ST. CLOUD, 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) \$ 8,008,721

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 12,287,921	
Current year depreciation	(5,096,425)	7,191,496

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		16,201,405
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities.

Debt issued		
General obligation bonds and notes	\$ (6,085,000)	
Principal repayments		
General obligation bonds and notes	5,170,000	
Loans	23,622	
Issuance costs and premiums	39,704	
Current year amortization of issuance costs	2,019	(849,655)

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	\$ (14,986)	
Change in compensated absences	(954,323)	
Change in inventories	13,011	(956,298)

Change in net assets of governmental activities (Exhibit 2) \$ 29,595,669

FIDUCIARY FUNDS

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STEARNS COUNTY
ST. CLOUD, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency Fund</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 4,441,032</u>
<u>Liabilities</u>	
Accounts payable	\$ 38,846
Due to other governments	<u>4,402,186</u>
Total Liabilities	<u>\$ 4,441,032</u>

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**STEARNS COUNTY
ST. CLOUD, 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 issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Stearns County was established February 23, 1854, 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 Stearns County and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discrete Component Unit

The Housing and Redevelopment Authority (HRA) of Stearns County is a component unit of Stearns County and is reported in a separate column in the County's government-wide financial statements to emphasize that the HRA is legally separate from Stearns County. The HRA operates as a local governmental unit for the purpose of providing housing and redevelopment services to Stearns County. The governing body consists of a five-member Board of Commissioners appointed by the Stearns County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended June 30, 2005.

The complete financial statements of the HRA of Stearns County can be obtained by writing to the Housing and Redevelopment Authority of Stearns County, 312 North First Street, Suite 2, Cold Spring, Minnesota 56320.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in a joint venture described in Note 4.C. The County also participates in a jointly governed organization described in Note 4.E.

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 unit. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported in a single column.

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

**STEARNS COUNTY
ST. CLOUD, 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 fund. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements.

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

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, principal, interest, and related costs of general long-term debt.

The Capital Projects Fund is used to account for the financial resources to be used for capital acquisition, construction, or improvement of capital facilities.

Additionally, the County reports the following fund type:

The Agency fund is custodial in nature and does not present results of operations or have a measurement focus. This fund accounts for assets that the County holds for others in an agent capacity.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Stearns 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 long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled 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 \$1,349,958.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Stearns County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

2. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of 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 they are not available for appropriation and are not expendable available financial resources.

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. The inventory in the General Fund and the Road and Bridge Special Revenue Fund consists of expendable supplies held for consumption. The inventory in the County Park Special Revenue Fund consists of items held for resale. The cost of the inventory is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by reserved fund balance to indicate that they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), are reported in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the County is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 - 50
Office furniture and equipment	5 - 10
Machinery and automotive equipment	3 - 12
Infrastructure	50 - 75

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. 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 to be available to liquidate liabilities of the current period.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities 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 an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Fund Equity

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

9. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

The following funds had expenditures in excess of budget at the function level for the year ended December 31, 2005:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
General government	\$ 13,092,474	\$ 12,675,665	\$ 416,809
Public safety	16,369,701	14,085,694	2,284,007
Intergovernmental			
Public safety	917,636	-	917,636

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations (Continued)

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
Special Revenue Funds			
Road and Bridge			
Current			
Highways and streets	15,822,065	13,094,665	2,727,400
Intergovernmental			
Highways and streets	514,428	-	514,428
County Building			
Current			
Human services	15,217	-	15,217
Culture and recreation	1,438	-	1,438
Law Library			
Current			
General government	136,484	130,000	6,484
Economic Development			
Current			
Economic development	6,700	-	6,700
Debt service			
Interest	27	-	27
Debt Service Fund			
Current			
General government	1,054,921	-	1,054,921
Debt service			
Principal	5,120,000	5,065,000	55,000
Bond issuance costs	31,357	-	31,357

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-wide statement of net assets	
Governmental activities	
Cash and investments	\$ 37,447,686
Petty cash and change funds	9,500
Departmental cash	23,680
Cash with escrow agent	904,649
Discrete component unit	
Cash and pooled investments	1,225,770
Statement of fiduciary net assets	
Cash and pooled investments	<u>4,441,032</u>
 Total Cash and Investments	 <u>\$ 44,052,317</u>

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.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the County's deposits may not be returned to it.

The County will minimize custodial credit risk for its deposits by monitoring the collateral balances on a daily basis and obtaining monthly updates on the par and market value of collateral pledged from financial institutions. As of December 31, 2005, the County's deposits were not exposed to custodial credit risk.

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;
- (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;

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

Custodial Credit Risk

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

The County will minimize custodial credit risk by limiting investments to the types of securities listed in their investment policy, and obtaining the necessary documentation from the financial institutions, broker/dealers, intermediaries, and advisors, with which the County will do investment business. At December 31, 2005, none of the County's investments were exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 will minimize their exposure to interest rate risk by (1) structuring their investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

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 in instruments, which are guaranteed or direct issues of the United States or was rated in the highest quality category by at least two nationally recognized rating agencies.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity	
U.S. government agency securities					
Federal Farm Credit Bank	AAA	S&P	N/A	1-3 years	\$ 495,800
Federal Home Loan Bank	AAA	S&P		<1 year	\$ 3,186,108
Federal Home Loan Bank	AAA	S&P		1-3 years	3,294,783
Federal Home Loan Bank	AAA	S&P		3-5 years	780,527
Federal Home Loan Bank	AAA	S&P		7-10 years	3,223,615
Federal Home Loan Bank	AAA	S&P		>10 years	857,763
Total Federal Home Loan Bank			35.0%		\$ 11,342,796
Federal Home Loan Mortgage Corporation	AAA	S&P		<1 year	\$ 7,009
Federal Home Loan Mortgage Corporation	AAA	S&P		1-3 years	575,049
Federal Home Loan Mortgage Corporation	AAA	S&P		3-5 years	493,855
Total Federal Home Loan Mortgage Corporation			N/A		\$ 1,075,913
Federal National Mortgage Association	AAA	S&P		7-10 years	\$ 50,891
Federal National Mortgage Association	AAA	S&P		>10 years	32,716
Total Federal National Mortgage Association			N/A		\$ 83,607
Government National Mortgage Association	AAA	S&P	N/A	>10 years	\$ 110,410
Total U.S. government agency securities					\$ 13,108,526
Commercial paper					
Cedar Springs funding	A1F1	S&P, Fitch	9.2%	<1year	\$ 2,983,620
MICA funding	A1P1	S&P, Moody's	N/A	<1year	248,500
Rhineland funding	PIF1	Moody's, Fitch	26.2%	<1year	8,472,642
Sunbelt funding	PIF1	Moody's, Fitch	N/A	<1year	1,496,955
Three Crowns funding	A1	S&P,			
	PIF1	Moody's, Fitch	N/A	<1year	1,495,530
Total commercial paper					\$ 14,697,247

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity	
Negotiable certificates of deposit	N/A	N/A		<1year	\$ 100,000
Negotiable certificates of deposit	N/A	N/A		1-3 years	574,526
Negotiable certificates of deposit	N/A	N/A		3-5 years	287,392
Negotiable certificates of deposit	N/A	N/A		5-7 years	188,635
Negotiable certificates of deposit	N/A	N/A		7-10 years	95,893
Total negotiable certificates of deposit			N/A		\$ 1,246,446
MAGIC Fund	N/A	N/A	10.3%	N/A	\$ 3,331,471
Total investments					\$ 32,383,690
Deposits					9,505,028
Petty cash and change funds					9,500
Departmental cash					23,680
Cash with escrow agent					904,649
Total cash and investments - primary government					\$ 42,826,547
Component unit					1,225,770
Total Cash and Investments					\$ 44,052,317

N/A - Not Applicable
N/R - Not Rated
S&P - Standard & Poor's

2. Receivables

Property Taxes and Special Assessments

Property taxes and special assessments which remain unpaid at December 31 are delinquent. No allowance for uncollectible taxes/assessments has been provided because such amounts are not expected to be material.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

The following economic development loans made to private enterprises under the County's economic development loan program were outstanding at December 31, 2005:

	Original Loan Amount	Balance Repaid at December 31, 2005	Outstanding Balance at December 31, 2005	Term (Years)	Interest Rate (%)
Royal Tire, Inc.	\$ 125,000	\$ 64,664	\$ 60,336	20	2
Gold 'N Plump Poultry, Inc.	200,000	200,000	-	10	2
Cabinet Components and Distribution Company, Inc.	55,000	32,913	22,087	7	6
Bayer Built Woodworks, Inc.	99,500	79,091	20,409	7	5
Stymie Industries, Inc.	50,000	50,000	-	10	5
Pride of Main Street Dairy, LLC	20,000	13,151	6,849	7	6
Wenner Gas Company	50,000	11,086	38,914	8	1
Total Loans Receivable	<u>\$ 599,500</u>	<u>\$ 450,905</u>	<u>\$ 148,595</u>		

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 8,519,103	\$ 35,116	\$ -	\$ 8,554,219
Construction in progress	612,434	674,897	514,097	773,234
Total capital assets not depreciated	<u>\$ 9,131,537</u>	<u>\$ 710,013</u>	<u>\$ 514,097</u>	<u>\$ 9,327,453</u>
Capital assets depreciated				
Buildings	\$ 44,104,906	\$ 295,233	\$ -	\$ 44,400,139
Machinery and automotive	7,733,281	1,696,968	99,333	9,330,916
Office furniture and equipment	4,985,811	266,542	98,165	5,154,188
Infrastructure	154,144,365	10,810,906	997,596	163,957,675
Total capital assets depreciated	<u>\$ 210,968,363</u>	<u>\$ 13,069,649</u>	<u>\$ 1,195,094</u>	<u>\$ 222,842,918</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings	\$ 8,518,492	\$ 932,657	\$ -	\$ 9,451,149
Machinery and automotive	4,181,756	851,804	99,333	4,934,227
Office furniture and equipment	3,749,796	336,990	98,165	3,988,621
Infrastructure	<u>27,541,139</u>	<u>2,974,974</u>	<u>19,952</u>	<u>30,496,161</u>
Total accumulated depreciation	<u>\$ 43,991,183</u>	<u>\$ 5,096,425</u>	<u>\$ 217,450</u>	<u>\$ 48,870,158</u>
Total capital assets depreciated, net	<u>\$ 166,977,180</u>	<u>\$ 7,973,224</u>	<u>\$ 977,644</u>	<u>\$ 173,972,760</u>
Governmental Activities Capital Assets, Net	<u>\$ 176,108,717</u>	<u>\$ 8,683,237</u>	<u>\$ 1,491,741</u>	<u>\$ 183,300,213</u>

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

Governmental Activities	
General government	\$ 795,931
Public safety	629,217
Highways and streets, including depreciation of infrastructure assets	3,565,268
Human services	51,874
Culture and recreation	52,281
Conservation of natural resources	<u>1,854</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 5,096,425</u>

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

The Human Services Special Revenue Fund owed the General Fund \$1,251 at December 31, 2005, for health costs incurred by inmates at the jail.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Advance From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue Fund	\$ 10,000
	Debt Service Fund	49,074
Total Advance From/To Other Funds		<u>\$ 59,074</u>

The General Fund advanced County Ditch 37 funds to make needed repairs. The advance is being paid off with special assessments on the benefited properties.

The General Fund has advanced the Debt Service Fund funds for various projects undertaken by the Clearwater River Watershed District. The advance will be repaid with special assessments on the benefited properties within the Watershed District.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

	Transfers In	Description
Transfers to General Fund from		
Road and Bridge Fund	\$ 60,650	Present value cost savings
Human Services Fund	5,995	Insurance premium allocation
Human Services Fund	107,968	Salaries adjustment
Human Services Fund	216,984	Present value cost savings
Capital Projects Fund	1,578,767	Purchase of capital equipment
Nonmajor governmental funds	19,058	Present value cost savings
Nonmajor governmental funds	312	Insurance premium allocation
Total transfers to General Fund	<u>\$ 1,989,734</u>	
Transfers to Road and Bridge Fund from		
General Fund	\$ 49,445	Salaries adjustment
General Fund	36,984	Insurance premium allocation
General Fund	16,068	Information services budget changes
General Fund	278,895	Road project funding
General Fund	122	Unemployment/severance adjustment
Capital Projects Fund	358,355	Purchase of capital projects
Nonmajor governmental funds	100,000	Gravel tax
Total transfers to Road and Bridge Fund	<u>\$ 839,869</u>	

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

3. Interfund Transfers (Continued)

	Transfers In	Description
Transfers to Human Services Fund from		
General Fund	\$ 345,540	Salaries adjustment
General Fund	246,304	Information services budget changes
General Fund	61,280	Unemployment/severance adjustment
Total transfers to Human Services Fund	\$ 653,124	
Transfers to Capital Projects Fund from		
General Fund	\$ 10,446	Energy system upgrade
Nonmajor governmental funds	1,000,000	Land purchase
Total transfers to Capital Projects Fund	\$ 1,010,446	
Transfers to nonmajor governmental funds from		
General Fund	\$ 2,508	Insurance premium allocation
General Fund	4,006	Salaries adjustment
General Fund	305	Information services budget changes
General Fund	657	Unemployment/severance adjustment
Total transfers to nonmajor governmental funds	\$ 7,476	
Total Interfund Transfers	\$ 4,500,649	

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities
Accounts	\$ 3,093,393
Salaries	2,313,509
Contracts	1,224,546
Due to other governments	853,555
Accrued interest	214,174
Total Payables	\$ 7,699,177

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state grants that are not collected soon enough after year-end to pay liabilities of the current period, state and federal grants received but not yet earned, and long-term loans receivable. Deferred revenue at December 31, 2005, is summarized below by fund:

	Taxes and Special Assessments	Grants	Loans	Other	Total
Major governmental funds					
General	\$ 200,784	\$ 245,082	\$ -	\$ -	\$ 445,866
Road and Bridge	43,071	-	-	15,720,298	15,763,369
Human Services	175,117	20,055	-	-	195,172
Debt Service	1,007,491	-	-	-	1,007,491
Other governmental funds					
County Building	1,513	-	-	-	1,513
County Park	6,819	-	-	-	6,819
Solid Waste	33,366	-	-	-	33,366
Economic Development	-	-	148,595	-	148,595
Ditch	82,586	-	-	-	82,586
Total	<u>\$ 1,550,747</u>	<u>\$ 265,137</u>	<u>\$ 148,595</u>	<u>\$ 15,720,298</u>	<u>\$ 17,684,777</u>
Deferred revenue					
Unavailable	\$ 1,550,747	\$ -	\$ -	\$ 15,720,298	\$ 17,271,045
Unearned	-	265,137	148,595	-	413,732
Total	<u>\$ 1,550,747</u>	<u>\$ 265,137</u>	<u>\$ 148,595</u>	<u>\$ 15,720,298</u>	<u>\$ 17,684,777</u>

3. Vacation and Sick Leave

County employees are granted paid time off, in varying amounts, depending on union/non-union status and length of service.

The County pays unused accumulated paid time off to employees upon termination based on two different severance plans. Unvested paid time off valued at \$1,922,989 at December 31, 2005, is available to employees in the event of an absence but is not paid to them at termination.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt - Bonds and Notes

Bond and note payments are typically made from the debt service funds. Information on individual bonds and notes payables were as follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General obligation bonds and notes					
1991 G.O. Drainage Ditch Bonds	2006	\$20,000 - \$25,000	5.20 - 6.80	\$ 330,000	\$ 20,000
2005A G.O. Drainage Bonds	2024	\$40,000 - \$75,000	3.50 - 4.375	1,090,000	1,050,000
1993B G.O. Drainage Ditch Refunding Bonds	2008	\$20,000 - \$55,000	2.90 - 5.50	510,000	80,000
1999 G.O. Capital Improvement Bonds	2013	\$105,000 - \$240,000	4.00 - 4.375	2,670,000	1,640,000
2002A G.O. Capital Improvement Bonds	2012	\$385,000 - \$545,000	2.75 - 7.20	4,560,000	3,370,000
2002B G.O. Refunding Bonds	2009	\$460,000 - \$610,000	3.00 - 4.00	3,810,000	2,305,000
2003 G.O. Capital Notes	2006	\$1,540,000 - \$1,630,000	2.00 - 2.00	4,775,000	1,630,000
1998A HRA Lease Revenue Refunding Bonds	2011	\$650,000 - \$925,000	4.25 - 4.80	8,675,000	4,930,000
2005B G.O. Capital Improvement Bonds	2010	\$450,000 - \$970,000	2.70 - 3.25	<u>4,995,000</u>	<u>4,545,000</u>
Total General Obligation Bonds and Notes				<u>\$ 31,415,000</u>	\$ 19,570,000
Add: Unamortized premium					<u>40,586</u>
Total General Obligation Bonds and Notes, Net					<u>\$ 19,610,586</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Economic Development Loans

The County has entered into loan agreements with the Minnesota Department of Employment and Economic Development. The loans are interest free, payable from the Economic Development Fund. Loans payable at December 31, 2005, were as follows:

<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>
1993 Royal Tire	2014	\$632/month	0.00	\$ 125,000	\$ 25,000

6. Debt Service Requirements

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

<u>Year Ending December 31</u>	<u>General Obligation Bonds and Notes</u>		<u>Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 4,450,000	\$ 725,909	\$ -	\$ -
2007	2,900,000	588,799	-	-
2008	2,995,000	478,806	-	-
2009	3,110,000	358,135	-	-
2010	2,605,000	230,690	-	-
2011 - 2015	2,920,000	283,840	19,979	-
2016 - 2020	300,000	101,200	5,021	-
2021 - 2025	290,000	31,998	-	-
Total	\$ 19,570,000	\$ 2,799,377	\$ 25,000	\$ -

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds and notes payable	\$ 18,655,000	\$ 6,085,000	\$ 5,170,000	\$ 19,570,000	\$ 4,450,000
Loans payable	48,622	-	23,622	25,000	-
Compensated absences	5,002,471	4,812,140	3,857,817	5,956,794	283,874
Bond premiums	27,138	29,421	15,973	40,586	-
 Total Long-Term Liabilities	 \$ 23,733,231	 \$ 10,926,561	 \$ 9,067,412	 \$ 25,592,380	 \$ 4,733,874

D. Reserved and Designated Fund Balances

Fund balances are reserved to show amounts segregated from available spendable resources. Fund balances designated show amounts that reflect tentative managerial plans or intent.

	General	Road and Bridge	Debt Service	Other Governmental Funds	Total
Reserved for					
Attorney's forfeited property	\$ 17,766	\$ -	\$ -	\$ -	\$ 17,766
DARE	63,676	-	-	-	63,676
Sheriff's contingency	5,000	-	-	-	5,000
Sheriff's forfeited property	18,421	-	-	-	18,421
Inventories	27,087	462,111	-	-	489,198
Advances to other funds	59,074	-	-	-	59,074
Recorder's equipment	190,061	-	-	-	190,061
E-911	100,482	-	-	-	100,482
DWI vehicle forfeiture	34,412	-	-	-	34,412
Highway projects	-	336,952	-	-	336,952
Economic development	-	-	-	858,445	858,445
Gravel pits	-	-	-	106,398	106,398
Landfill	-	-	-	57,339	57,339
Debt service	-	-	3,236,209	-	3,236,209
Cash with fiscal agent	-	-	904,649	-	904,649
 Total Reserved	 \$ 515,979	 \$ 799,063	 \$ 4,140,858	 \$ 1,022,182	 \$ 6,478,082

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

D. Reserved and Designated Fund Balances (Continued)

	General	Road and Bridge	Human Services	Capital Projects	Other Governmental Funds	Total
Designated for						
Working capital cash flow	\$ 8,353,741	\$ -	\$ -	\$ -	\$ -	\$ 8,353,741
Subsequent years' expenditures	443,109	474,964	9,814,309	7,791,704	-	18,524,086
Sheriff's conceal and carry	47,487	-	-	-	-	47,487
Park's contingency	-	-	-	-	9,500	9,500
Wellness activities	-	-	-	-	25,689	25,689
Sheriff's equipment	-	-	-	-	9,344	9,344
K9 unit	-	-	-	-	10,750	10,750
Total Designated	<u>\$ 8,844,337</u>	<u>\$ 474,964</u>	<u>\$ 9,814,309</u>	<u>\$ 7,791,704</u>	<u>\$ 55,283</u>	<u>\$ 26,980,597</u>

4. 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. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County is self-insured for its health benefits plan and purchases commercial insurance for other risks of loss. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance for any of the past three years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$760,000 per claim in 2005 and \$390,000 per claim in 2006. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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.

On February 1, 2002, the County contracted with Health Partners and Resource Training & Solutions to administer health benefits plans for its employees as provided by plans accepted from Health Partners and Blue Cross/Blue Shield, respectively. The County sets annual premiums for the plans based on the recommendation of the plan administrators and accumulates premiums collected from all participating funds in the General Fund. Claims processing is handled differently between the two plans.

Claims against the Health Partners account are processed through Health Partners, which bills the County for the actual medical costs incurred. Claims against the Blue Cross/Blue Shield account are processed through Resource Training & Solutions. At the beginning of each month, the County remits to Resource Training & Solutions the anticipated costs for that month as established by the plan in the current plan year. All costs incurred by the County for a plan year in regard to the Blue Cross/Blue Shield plan are then paid from funds collected by Resource Training & Solutions during the plan year. The fee the County pays Resource Training & Solutions includes coverage for any shortfalls in funding versus actual costs for a plan year. Any funds that may remain in the account from a plan year after all costs for that plan year are paid are returned to the County. Changes in the balances of claims liabilities for the past two years are:

	2005	2004
Unpaid claims - January 1	\$ 612,910	\$ 604,377
Current year claims	4,415,222	3,685,995
Claim payments	(4,292,262)	(3,677,462)
Unpaid claims - December 31	<u>\$ 735,870</u>	<u>\$ 612,910</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

B. Contingent Liabilities

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

C. Joint Ventures

The Stearns-Benton Employment and Training Council was created for the purpose of undertaking, implementing, and maintaining the programs established under the Job Training Partnership Act of 1982 and other federal and state laws and regulations governing the establishment and implementation of programs within areas governed by Stearns and Benton Counties. The Council is an organized joint venture having the duties, powers, and privileges granted joint powers by Minn. Stat. § 471.59. The Council is governed by a Joint Powers Board and a Workforce Development Council. The Joint Powers Board is composed of two commissioners each from Stearns and Benton Counties and one Workforce Development Council member. As of June 30, 2005, the Workforce Development Council was composed of 27 members from local business, industry, agriculture, labor organizations, public or private education, and community service groups. Included in the Joint Powers Board's duties and powers is the authority to approve the Council's budget and enter into any necessary contracts or leases.

Stearns County contributed \$82,500 for its share of the Council's operating costs in 2005.

Complete financial statements of the Stearns-Benton Employment and Training Council can be obtained by writing to the administrative offices at 3333 West Division Street, Suite 210, St. Cloud, Minnesota 56301-1718.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

D. Related Organization

The South Two River Watershed District is governed by a five-member Watershed District Board of Managers appointed by the Stearns County Board of Commissioners. A watershed district is composed of a geographic area, which is affected by the watershed from a particular source. The Watershed District Board is responsible for initiating and overseeing certain actions such as ditching, ditch maintenance, engineering, and ditch repair. The costs of these actions, plus the associated administrative costs, must be borne by the “benefited” property owners within each district through a special assessment against the benefited property.

The County maintains an account in its agency fund into which collections of Watershed District special assessments are deposited. Periodically, these funds are paid to the Watershed District.

E. Jointly-Governed Organization

The Tri-County Solid Waste Commission was established in July 1983 by a joint powers agreement among Stearns, Benton, and Sherburne Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the duties, powers, and privileges granted joint powers by Minn. Stat. § 471.59. A Board of Directors governs the Commission. Each member county is entitled to no less than two, and no more than four, of its own County Commissioners on the Board. Population of the member counties determines how many of their County Commissioners sit on the Board. The Board of Directors is currently composed of eight members: four County Commissioners from Stearns County and two each from Benton and Sherburne Counties.

Each county’s proportionate share of the net operating costs is based on the usage of the household hazardous waste facility and the solid waste picked up in each county.

The Commission will remain in existence so long as two or more counties remain as parties to the agreement. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the member counties in the ratio that the total contributions made by each of them bears to the sum total of contributions made by all.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organization (Continued)

Complete financial statements for the Tri-County Solid Waste Commission can be obtained by writing to its administrative offices at 601 North 20th Avenue, St. Cloud, Minnesota 56303.

5. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Stearns 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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

For all 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.

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 were required to contribute 9.10 and

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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 were 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.

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	\$ 1,639,044	\$ 273,439	\$ 269,077
2004	1,562,575	252,590	262,699
2003	1,519,162	240,492	239,058

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans (Continued)

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$9,397, \$9,027, and \$8,806, respectively, equal to the contractually required contributions for each year as set by state statute.

6. Housing and Redevelopment Authority of Stearns County

A. Summary of Significant Accounting Policies

Reporting Entity

The Housing and Redevelopment Authority (HRA) of Stearns County is a component unit of Stearns County and is reported in a separate column in the County's financial statements to emphasize that the HRA is a legally separate entity from Stearns County. The HRA operates as a public agency created by Stearns County under the Minnesota Housing and Redevelopment Authority Act of 1947. The primary purpose is to provide housing and redevelopment services to the County. The governing body consists of a five-member Board of Commissioners appointed by the Stearns County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended June 30, 2005.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

A. Summary of Significant Accounting Policies (Continued)

Deposits and Investments

The HRA's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

Minnesota statutes authorize the HRA to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are obligations guaranteed by the United States or its agencies. Investments are stated at fair value.

The investment in the broker money market is an external investment pool. The reported value of the pool is equal to the value of the pool shares.

Property Taxes

The HRA annually adopts a levy and certifies it to the County for collection. The County is responsible for collecting all property taxes for the HRA. Real property taxes are paid by taxpayers of the County in two equal installments on May 15 and October 15. The County provides tax settlements to the HRA four times per year, in January, June, July, and December.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

A. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are defined by the HRA as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. 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. Capital assets used in operations are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	40
Improvements other than buildings	10
Furniture and equipment	3 - 10

Compensated Absences

It is the HRA's policy to permit certain employees to accumulate paid time off (PTO). After an employee has successfully completed probation, an employee who leaves the employment of the HRA in good standing shall be compensated for previously credited unused PTO at the current rate of pay up to a limited amount, based on years of service. A liability of \$39,449 represents accrued PTO time unused at year-end and is recognized as expense in the year it is earned.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type 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 effective interest 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.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County (Continued)

B. Stewardship, Compliance, and Accountability

Budgetary Information

Fiscal year budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. All fiscal appropriations lapse at year-end. The HRA Board can modify or amend the budgets at any time. The HRA does not use encumbrance accounting. The budgetary control level is at the fund level.

C. Detailed Notes on All Funds

Deposits and Investments

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (140 percent in the case of mortgage notes pledged). At year-end, the HRA's carrying amount of deposits was \$1,225,716, and the bank balance was \$1,112,262. As of June 30, 2005, the HRA's deposits were not subject to custodial credit risk.

At year-end, the HRA's investment balance, which is not subject to custodial credit risk, is as follows:

	<u>Fair Value and Carrying Amount</u>
Broker money market fund	<u>\$ 54</u>

The investment in the broker money market fund is an external investment pool. The reported value of the pool is equal to the value of pool shares.

A reconciliation of cash and pooled investments as shown on the Statement of Net Assets for the HRA follows:

Deposits	\$ 1,225,716
Investments	<u>54</u>
Total Cash and Pooled Investments	<u>\$ 1,225,770</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds (Continued)

Accounts Receivable

Accounts receivable include amounts billed for services provided before year-end. All accounts are deemed collectible.

Loans Receivable

The following is a summary of the loans receivable at June 30, 2005:

Down payment assistance loans	\$	39,636
Revolving loan		10,109
DEED Melrose		449,955
DEED Holdingford		259,504
DEED Kimball		263,247
Total Loans Receivable	\$	1,022,451

Loans have been issued by the HRA to provide mortgage or down payment assistance to the County property owners. These loans are secured by property mortgages. In addition, loans are receivable from property owners that have been provided rehabilitation assistance. These loans are forgivable based on the number of years the owner lives in the rehabilitated property.

The revolving loan is payable over a period of 16 years and bears interest at three percent per annum.

Due From Other Governments

Due from other governments consists of the following:

	State	Federal	Total
General Fund	\$ 13,159	\$ -	\$ 13,159
DEED Albany Fund	-	74,582	74,582
Nonmajor governmental funds	-	33,551	33,551
Total	\$ 13,159	\$ 108,133	\$ 121,292

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds (Continued)

Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital assets not depreciated				
Land	\$ 24,379	\$ -	\$ -	\$ 24,379
Capital assets depreciated				
Buildings	\$ 8,037	\$ 483,562	\$ -	\$ 491,599
Machinery and equipment	67,647	2,824	16,982	53,489
Total capital assets depreciated	\$ 75,684	\$ 486,386	\$ 16,982	\$ 545,088
Less: accumulated depreciation for Machinery and equipment	46,220	8,256	13,380	41,096
Total capital assets depreciated, net	\$ 29,464	\$ 478,130	\$ 3,602	\$ 503,992
Governmental Activities Capital Assets, Net	<u>\$ 53,843</u>	<u>\$ 478,130</u>	<u>\$ 3,602</u>	<u>\$ 528,371</u>
Business-Type Activities				
Capital assets not depreciated				
Land	\$ 304,515	\$ -	\$ -	\$ 304,515
Capital assets depreciated				
Land improvements	\$ 127,155	\$ -	\$ -	\$ 127,155
Buildings	2,907,852	627,002	-	3,534,854
Machinery and equipment	177,708	10,237	381	187,564
Total capital assets depreciated	\$ 3,212,715	\$ 637,239	\$ 381	\$ 3,849,573
Less: accumulated depreciation for Land improvements	\$ 34,038	\$ 4,407	\$ -	\$ 38,445
Buildings	430,652	75,161	-	505,813
Machinery and equipment	56,921	8,771	255	65,437
Total accumulated depreciation	\$ 521,611	\$ 88,339	\$ 255	\$ 609,695
Total capital assets depreciated, net	\$ 2,691,104	\$ 548,900	\$ 126	\$ 3,239,878
Business-Type Activities Capital Assets, Net	<u>\$ 2,995,619</u>	<u>\$ 548,900</u>	<u>\$ 126</u>	<u>\$ 3,544,393</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds

Capital Assets (Continued)

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

Governmental Activities		
General government		
Housing and economic development	\$	8,256
Business-Type Activities		
Public housing	\$	46,261
Heading for home		39,578
Section 8 housing		182
The bell		2,318
Total Depreciation Expense - Business-Type Activities	\$	88,339

Deferred Revenue/Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Also, governmental funds and business-type activities defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2005, the various components of deferred revenue/unearned revenue reported were as follows:

Fund	Unavailable	Unearned	Total
General			
Taxes receivable	\$ 110,052	\$ -	\$ 110,052
Loans receivable	49,745	-	49,745
Market value homestead credit	13,159	-	13,159
DEED Melrose			
Loans receivable	449,955	-	449,955
DEED Holdingford			
Loans receivable	259,504	-	259,504
DEED Kimball			
Loans receivable	263,247	-	263,247
Enterprise			
Prepaid rents	-	5,364	5,364
Total	\$ 1,145,662	\$ 5,364	\$ 1,151,026

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds (Continued)

Long-Term Debt

Housing Development Bonds

The following bonds were issued to finance the construction of rental buildings and will be repaid from rental income.

	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year-End</u>
Housing Development Revenue Bonds, Series 2001A	\$ 1,070,000	4.65 - 5.40	July 19, 2001	February 1, 2031	<u>\$ 1,015,000</u>

Loans

The following loans are through the state's Economic Development and Housing Challenge Program used in the production of housing.

	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year-End</u>
MHFA loan	\$ 555,500	-	March 15, 2002	May 1, 2032	\$ 555,500
Bell Apartment loan	400,000	4.32	April 28, 2005	May 15, 2020	<u>399,261</u>
Total Loans					<u>\$ 954,761</u>

Tax Increment Revenue Note

The following note was issued by a local bank to finance the Cold Spring granite projects and will be repaid from future tax increment revenue. Final payment on the tax increment revenue note will be made in February 2006, and will include interest of \$7,612.

	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year-End</u>
Tax Increment Revenue Note, Series 1998	\$ 730,000	5.25	February 20, 1998	February 1, 2006	<u>\$ 171,133</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds

Long-Term Debt (Continued)

Debt Service Requirements

Annual debt service requirements for business-type activities are as follows:

Year Ending June 30	MHFA Loans		Bell Apartment Loan		Housing Redevelopment Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ -	\$ -	\$ 19,648	\$ 16,862	\$ 20,000	\$ 52,625
2007	-	-	20,514	15,996	20,000	51,695
2008	-	-	21,418	15,092	20,000	50,765
2009	-	-	22,362	14,149	25,000	49,835
2010	-	-	23,347	13,163	25,000	48,673
2011 - 2015	-	-	133,104	49,447	135,000	225,325
2016 - 2020	-	-	158,868	17,430	175,000	187,537
2021 - 2025	-	-	-	-	230,000	136,405
2026 - 2030	-	-	-	-	295,000	68,040
2031 - 2032	555,500	-	-	-	70,000	3,780
Total	\$ 555,500	\$ -	\$ 399,261	\$ 142,139	\$ 1,015,000	\$ 874,680

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Tax Increment Revenue Note, Series 1998	\$ 275,862	\$ -	\$ 104,729	\$ 171,133	\$ 171,133
Compensated absences	13,930	18,565	10,009	22,486	22,486
Governmental Activities Long-Term Liabilities	<u>\$ 289,792</u>	<u>\$ 18,565</u>	<u>\$ 114,738</u>	<u>\$ 193,619</u>	<u>\$ 193,619</u>
Business-Type Activities					
Bonds payable Housing Development Revenue Bonds, Series 2001A	\$ 1,035,000	\$ -	\$ 20,000	\$ 1,015,000	\$ 20,000

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds

Long-Term Debt

Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Loans					
MHFA	\$ 555,500	\$ -	\$ -	\$ 555,500	\$ -
Bell apartment	-	400,000	739	399,261	19,648
Total loans	\$ 555,500	\$ 400,000	\$ 739	\$ 954,761	\$ 19,648
Compensated absences	\$ 10,510	\$ 14,004	\$ 7,551	\$ 16,963	\$ 16,963
Business-Type Activities					
Long-Term Liabilities	\$ 1,601,010	\$ 414,004	\$ 28,290	\$ 1,986,724	\$ 56,611

Pay-As-You-Go Tax Increment Notes

The HRA issues Limited Revenue Pay-As-You-Go Revenue Notes to finance various tax increment projects; these projects are financed through loans from participating banks. The notes through these participating banks are not general obligations of the HRA as they are payable only to the extent of future tax increments received. As such, these obligations do not appear on the HRA's financial statements. The outstanding balances of these loans at June 30, 2005, apply to the Rheumes Project.

Rheumes Project	\$ <u>255,333</u>
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D. Defined Contribution Pension Plans

On October 1, 1998, the HRA adopted a defined contribution plan for all employees working at least 20 hours per week for at least five months out of the year. The employer contributes 5.53 percent annually of the employee's base rate of pay to the plan. Participating employees shall vest in employer contributions at the rate of 50 percent for each full year of continuous employment. For the years ended June 30, 2005 and 2004, employer contributions total \$15,892 and \$15,022, respectively.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County (Continued)

E. Other Information

Risk Management

The HRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the HRA carries insurance through the Minnesota Counties Insurance Trust. The HRA retains risk for the deductible portions of the insurance. The amount of these deductibles is considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNR). The HRA's management is not aware of any IBNR claims.

Joint Powers Agreement

A Joint Powers Agreement has been entered into between the Housing and Redevelopment Authorities of Carver County, Northwest Minnesota Multi-County, Olmsted County, the City of St. Cloud, Scott County, Southeastern Minnesota Multi-County, and Stearns County (the Members) pursuant to Minn. Stat. § 471.59 and ch. 462C. The purpose of this agreement is to preserve the quality of life in these jurisdictions through the maintenance provision and preservation of adequate housing stock, to encourage new housing construction, and to provide affordable housing to persons of low and moderate income.

The Members have obtained allocations of tax-exempt bonding authority to be used for issuance of qualified mortgage bonds and have previously issued certain single-family mortgage revenue refunding bonds, which they have determined to refund. The bonds shall be special limited obligations of the Members, payable solely from proceeds, revenues, and other amounts pledged thereto, and more fully described in the indenture. The bonds and interest thereon shall neither constitute nor give rise to indebtedness; pecuniary liability; general or moral obligation; or a pledge of the faith or loan of credit of the Members, the state, or any other political subdivision thereof.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

E. Other Information (Continued)

Conduit Debt Obligations

The HRA has issued Law Enforcement Revenue Refunding Bonds and Stearns County Administrative Center Refunding Bonds to provide financial assistance to the County for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from revenues derived by the County and shall not constitute debt for which the full faith and credit or taxing powers of the HRA will be pledged. Upon repayment of the bonds, ownership of the acquired facilities transfers to the County. Neither the HRA nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

F. Capital Grant Program

The HRA receives capital grant funds from the U.S. Department of Housing and Urban Development. The following schedule reconciles the grants with the current activity:

	Grant Year		
	2002	2003	2004
Funds approved	\$ 41,779	\$ 39,287	\$ 39,811
Funds expended	(41,779)	(36,287)	(34,516)
Excess of Funds Approved	\$ -	\$ 3,000	\$ 5,295
Funds Advanced	\$ 41,779	\$ 36,287	\$ 34,516
2005 Revenue	\$ 286	\$ 36,287	\$ 34,516

REQUIRED SUPPLEMENTARY INFORMATION

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 17,471,217	\$ 17,471,217	\$ 17,721,305	\$ 250,088
Licenses and permits	515,700	515,700	527,100	11,400
Intergovernmental	7,376,503	7,625,703	10,432,858	2,807,155
Charges for services	3,254,895	3,317,018	4,046,569	729,551
Fines and forfeits	-	46,842	107,310	60,468
Investment income	750,000	750,000	1,349,958	599,958
Miscellaneous	1,020,600	1,021,300	1,982,722	961,422
Total Revenues	\$ 30,388,915	\$ 30,747,780	\$ 36,167,822	\$ 5,420,042
Expenditures				
Current				
General government				
Commissioners	\$ 335,671	\$ 353,462	\$ 571,385	\$ (217,923)
Courts	87,500	89,100	88,110	990
County administration	607,689	577,287	567,308	9,979
Auditor/Treasurer	3,549,164	3,782,430	3,623,768	158,662
Assessor	1,109,832	1,124,051	1,122,637	1,414
Purchasing	275,072	212,367	236,053	(23,686)
Information services	557,662	97,394	136,921	(39,527)
Human resources	611,448	568,227	554,449	13,778
Attorney	3,410,931	3,432,219	3,469,159	(36,940)
Recorder	749,717	830,801	777,935	52,866
Maintenance	1,437,465	1,477,063	1,808,086	(331,023)
Veterans service officer	132,224	131,264	136,663	(5,399)
Total general government	\$ 12,864,375	\$ 12,675,665	\$ 13,092,474	\$ (416,809)
Public safety				
Sheriff	\$ 6,766,034	\$ 6,169,731	\$ 6,628,154	\$ (458,423)
Boat and water safety	28,080	28,168	42,436	(14,268)
Emergency services	120,000	120,000	96,841	23,159
Coroner	189,680	189,875	201,081	(11,206)
County jail	7,454,667	7,406,730	6,942,415	464,315
Civil defense	217,901	171,190	2,458,774	(2,287,584)
Total public safety	\$ 14,776,362	\$ 14,085,694	\$ 16,369,701	\$ (2,284,007)
Culture and recreation				
Historical society	\$ 510,000	\$ 510,000	\$ 510,000	\$ -
County library	1,714,988	1,714,988	1,714,988	-
Other	500	500	500	-
Total culture and recreation	\$ 2,225,488	\$ 2,225,488	\$ 2,225,488	\$ -

**STEARNS COUNTY
ST. CLOUD, 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)				
Conservation of natural resources				
Cooperative extension	\$ 309,290	\$ 300,190	\$ 298,821	\$ 1,369
Soil and water conservation	610,000	610,000	610,000	-
Agricultural society	25,000	25,000	40,000	(15,000)
Environmental services	2,434,767	2,645,019	2,427,558	217,461
Total conservation of natural resources	\$ 3,379,057	\$ 3,580,209	\$ 3,376,379	\$ 203,830
Economic development				
Community development	\$ 38,850	\$ 83,984	\$ 79,634	\$ 4,350
Intergovernmental				
Public safety	\$ -	\$ -	\$ 917,636	\$ (917,636)
Total Expenditures	\$ 33,284,132	\$ 32,651,040	\$ 36,061,312	\$ (3,410,272)
Excess of Revenues Over (Under) Expenditures	\$ (2,895,217)	\$ (1,903,260)	\$ 106,510	\$ 2,009,770
Other Financing Sources (Uses)				
Transfers in	\$ 2,050,000	\$ 2,536,027	\$ 1,989,734	\$ (546,293)
Transfers out	-	(1,052,560)	(1,052,560)	-
Proceeds from sale of capital assets	14,000	14,000	17,837	3,837
Total Other Financing Sources (Uses)	\$ 2,064,000	\$ 1,497,467	\$ 955,011	\$ (542,456)
Net Change in Fund Balance	\$ (831,217)	\$ (405,793)	\$ 1,061,521	\$ 1,467,314
Fund Balance - January 1	8,298,795	8,298,795	8,298,795	-
Fund Balance - December 31	\$ 7,467,578	\$ 7,893,002	\$ 9,360,316	\$ 1,467,314

**STEARNS COUNTY
ST. CLOUD, 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	\$ 3,653,496	\$ 3,653,496	\$ 3,697,486	\$ 43,990
Intergovernmental	9,347,473	9,347,473	12,707,673	3,360,200
Charges for services	23,000	23,000	52,341	29,341
Miscellaneous	12,000	12,000	69,471	57,471
Total Revenues	\$ 13,035,969	\$ 13,035,969	\$ 16,526,971	\$ 3,491,002
Expenditures				
Current				
Highways and streets				
Administration	\$ 577,768	\$ 601,216	\$ 895,301	\$ (294,085)
Maintenance	3,511,160	3,621,692	3,109,915	511,777
Construction	7,400,309	7,368,165	9,962,016	(2,593,851)
Equipment, maintenance, and shops	1,480,143	1,503,592	1,854,833	(351,241)
Total highways and streets	\$ 12,969,380	\$ 13,094,665	\$ 15,822,065	\$ (2,727,400)
Conservation of natural resources				
Agricultural inspector	66,589	67,409	67,219	190
Intergovernmental				
Highways and streets	-	-	514,428	(514,428)
Total Expenditures	\$ 13,035,969	\$ 13,162,074	\$ 16,403,712	\$ (3,241,638)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (126,105)	\$ 123,259	\$ 249,364
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 481,514	\$ 839,869	\$ 358,355
Transfers out	-	(60,650)	(60,650)	-
Total Other Financing Sources (Uses)	\$ -	\$ 420,864	\$ 779,219	\$ 358,355
Net Change in Fund Balance	\$ -	\$ 294,759	\$ 902,478	\$ 607,719
Fund Balance - January 1	358,538	358,538	358,538	-
Increase (decrease) in reserved for inventories	(82,883)	(82,883)	13,011	95,894
Fund Balance - December 31	\$ 275,655	\$ 570,414	\$ 1,274,027	\$ 703,613

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 15,126,662	\$ 15,126,662	\$ 15,124,781	\$ (1,881)
Intergovernmental	18,298,042	18,484,694	19,490,507	1,005,813
Charges for services	534,858	524,258	551,811	27,553
Miscellaneous	1,036,622	1,047,222	1,347,479	300,257
Total Revenues	\$ 34,996,184	\$ 35,182,836	\$ 36,514,578	\$ 1,331,742
Expenditures				
Current				
Public safety				
Community corrections	\$ 4,932,926	\$ 4,915,442	\$ 4,862,340	\$ 53,102
Human services				
Income maintenance	\$ -	\$ -	\$ 63,146	\$ (63,146)
Administrative services	2,657,632	2,608,304	2,583,869	24,435
Gateway services	5,715,415	5,813,605	5,481,211	332,394
Community supports	8,463,844	8,251,057	7,975,858	275,199
Family and children services	6,125,352	6,255,826	6,319,204	(63,378)
Finance and technology	5,394,067	5,881,349	6,216,546	(335,197)
Total human services	\$ 28,356,310	\$ 28,810,141	\$ 28,639,834	\$ 170,307
Health				
Nursing service	\$ 1,706,948	\$ 1,695,249	\$ 1,638,890	\$ 56,359
Total Expenditures	\$ 34,996,184	\$ 35,420,832	\$ 35,141,064	\$ 279,768
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ (237,996)	\$ 1,373,514	\$ 1,611,510
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 653,124	\$ 653,124	\$ -
Transfers out	-	(330,947)	(330,947)	-
Total Other Financing Sources (Uses)	\$ -	\$ 322,177	\$ 322,177	\$ -
Net Change in Fund Balance	\$ -	\$ 84,181	\$ 1,695,691	\$ 1,611,510
Fund Balance - January 1	8,118,618	8,118,618	8,118,618	-
Fund Balance - December 31	\$ 8,118,618	\$ 8,202,799	\$ 9,814,309	\$ 1,611,510

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,054,211	\$ 5,054,211	\$ 5,056,980	\$ 2,769
Special assessments	-	-	255,842	255,842
Intergovernmental	808,149	808,149	813,939	5,790
Investment income	-	-	54,338	54,338
Miscellaneous	174,804	174,804	174,839	35
Total Revenues	\$ 6,037,164	\$ 6,037,164	\$ 6,355,938	\$ 318,774
Expenditures				
Current				
General government				
Other	\$ 124,000	\$ 124,000	\$ 15,000	\$ 109,000
Intergovernmental				
General government	-	-	1,054,921	(1,054,921)
Debt service				
Principal	4,615,000	5,065,000	5,120,000	(55,000)
Interest	920,164	972,164	801,375	170,789
Bond issuance costs	-	-	31,357	(31,357)
Total Expenditures	\$ 5,659,164	\$ 6,161,164	\$ 7,022,653	\$ (861,489)
Excess of Revenues Over (Under) Expenditures	\$ 378,000	\$ (124,000)	\$ (666,715)	\$ (542,715)
Other Financing Sources (Uses)				
Bonds issued	\$ -	\$ -	\$ 1,090,000	\$ 1,090,000
Premium on bonds	-	-	7,996	7,996
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 1,097,996	\$ 1,097,996
Net Change in Fund Balance	\$ 378,000	\$ (124,000)	\$ 431,281	\$ 555,281
Fund Balance - January 1	3,709,577	3,709,577	3,709,577	-
Fund Balance - December 31	\$ 4,087,577	\$ 3,585,577	\$ 4,140,858	\$ 555,281

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

1. Budgetary Information

Budget Policies

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, certain special revenue funds, and the Debt Service Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action. Expenditures may not exceed budgeted appropriations at the function level within each individual fund.

Budgets can be amended or modified during the year only by the County Board, County Auditor/Treasurer, or Financial Manager. All transfers of budgeted amounts within departments (except capital outlay) can be made by the County Auditor/Treasurer or the Financial Manager. Any other transfer, additional appropriations, or capital outlay changes or additions require County Board approval. Additional appropriations would be allowed only to the extent that resources are currently available or attainable to cover expenditures.

Encumbrances

Encumbrance accounting, under which commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the governmental funds. Encumbrances outstanding at year-end are reported as reserved fund balances since they do not constitute expenditures or actual liabilities. Encumbrances lapse at year-end and are re-budgeted the following year.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

2. Excess of Expenditures Over Budget

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2005.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
General government	\$ 13,092,474	\$ 12,675,665	\$ 416,809
Public safety	16,369,701	14,085,694	2,284,007
Intergovernmental			
Public safety	917,636	-	917,636
Road and Bridge Special Revenue Fund			
Current			
Highways and streets	15,822,065	13,094,665	2,727,400
Intergovernmental			
Highways and streets	514,428	-	514,428
Debt Service Fund			
Intergovernmental			
General government	1,054,921	-	1,054,921
Debt service			
Principal	5,120,000	5,065,000	55,000
Bond issuance costs	31,357	-	31,357

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes.

County Building - to account for funds being accumulated for future building construction and capital acquisition. Financing is provided primarily by an annual property tax levy.

County Park - to account for the operations of the County's park system. Financing is provided primarily by an annual property tax levy and state grants.

Law Library - to account for funds used to maintain the law library. Financing is provided by the assessment of fees according to state statute.

Solid Waste - to account for revenues and expenditures related to County-wide solid waste management. Financing is provided by a County-wide solid waste management fee.

Economic Development - to account for the revenues and expenditures associated with economic development loans issued to the business community to spur growth. Financing is provided by repayments of loans originally financed by intergovernmental revenues.

Ditch - to account for the costs for maintaining County ditches. Financing is provided by special assessments against the benefited property owners.

Miscellaneous - to account for County gravel tax, missing heirs, forfeited tax sale, and other activities.

AGENCY FUND

Agency Fund - to account for assets held by the County as an agent for other governmental units, individuals, private organizations, or other funds.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	<u>County Building</u>	<u>County Park</u>	<u>Law Library</u>
<u>Assets</u>			
Cash and pooled investments	\$ 63,709	\$ 507,876	\$ 298,475
Petty cash and change funds	-	220	-
Taxes receivable delinquent	2,109	9,605	-
Special assessments receivable			
Delinquent	-	-	-
Deferred	-	-	-
Accounts receivable	-	-	-
Loans receivable	-	-	-
Due from other governments	-	-	20,421
Total Assets	<u>\$ 65,818</u>	<u>\$ 517,701</u>	<u>\$ 318,896</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ 18	\$ 7,484	\$ 6,066
Salaries payable	-	17,395	2,872
Due to other governments	-	10,823	-
Deferred revenue - unavailable	1,513	6,819	-
Deferred revenue - unearned	-	-	-
Advance from other funds	-	-	-
Total Liabilities	<u>\$ 1,531</u>	<u>\$ 42,521</u>	<u>\$ 8,938</u>
Fund Balances			
Reserved for economic development	\$ -	\$ -	\$ -
Reserved for gravel pit closure	-	-	-
Reserved for landfill closure	-	-	-
Unreserved			
Designated for K9 unit	-	-	-
Designated for sheriff's equipment	-	-	-
Designated for parks' contingency	-	-	-
Designated for wellness activities	-	-	-
Undesignated	64,287	475,180	309,958
Total Fund Balances	<u>\$ 64,287</u>	<u>\$ 475,180</u>	<u>\$ 309,958</u>
Total Liabilities and Fund Balances	<u>\$ 65,818</u>	<u>\$ 517,701</u>	<u>\$ 318,896</u>

Statement 1

Special Revenue Funds				Total Nonmajor Governmental Funds
Solid Waste	Economic Development	Ditch	Miscellaneous	
\$ 747,065	\$ 858,445	\$ 229,355	\$ 274,813	\$ 2,979,738
-	-	-	-	220
-	-	-	-	11,714
33,366	-	2,015	-	35,381
-	-	80,571	-	80,571
29,008	-	-	-	29,008
-	148,595	-	-	148,595
-	-	-	-	20,421
\$ 809,439	\$ 1,007,040	\$ 311,941	\$ 274,813	\$ 3,305,648
\$ 178	\$ -	\$ -	\$ 55,793	\$ 69,539
4,062	-	-	-	24,329
-	-	-	-	10,823
33,366	-	82,586	-	124,284
-	148,595	-	-	148,595
-	-	10,000	-	10,000
\$ 37,606	\$ 148,595	\$ 92,586	\$ 55,793	\$ 387,570
\$ -	\$ 858,445	\$ -	\$ -	\$ 858,445
-	-	-	106,398	106,398
-	-	-	57,339	57,339
-	-	-	10,750	10,750
-	-	-	9,344	9,344
-	-	-	9,500	9,500
-	-	-	25,689	25,689
771,833	-	219,355	-	1,840,613
\$ 771,833	\$ 858,445	\$ 219,355	\$ 219,020	\$ 2,918,078
\$ 809,439	\$ 1,007,040	\$ 311,941	\$ 274,813	\$ 3,305,648

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	<u>County Building</u>	<u>County Park</u>	<u>Law Library</u>
Revenues			
Taxes	\$ 123,341	\$ 576,251	\$ -
Special assessments	-	-	-
Licenses and permits	-	48,744	-
Intergovernmental	13,819	1,188,871	-
Charges for services	-	-	43
Fines and forfeits	-	-	257,371
Gifts and contributions	-	42,970	-
Investment income	-	1,196	-
Miscellaneous	-	10,396	-
Total Revenues	\$ 137,160	\$ 1,868,428	\$ 257,414
Expenditures			
Current			
General government	\$ 123,269	\$ -	\$ 136,484
Public safety	-	-	-
Sanitation	-	-	-
Human services	15,217	-	-
Culture and recreation	1,438	840,924	-
Conservation of natural resources	-	-	-
Economic development	-	-	-
Debt service			
Principal retirement	-	-	-
Interest	-	-	-
Total Expenditures	\$ 139,924	\$ 840,924	\$ 136,484
Excess of Revenues Over (Under)			
Expenditures	\$ (2,764)	\$ 1,027,504	\$ 120,930
Other Financing Sources (Uses)			
Transfers in	\$ -	\$ 7,476	\$ -
Transfers out	-	(1,019,058)	-
Total Other Financing Sources (Uses)	\$ -	\$ (1,011,582)	\$ -
Net Change in Fund Balance	\$ (2,764)	\$ 15,922	\$ 120,930
Fund Balance - January 1	67,051	459,258	189,028
Fund Balance - December 31	\$ 64,287	\$ 475,180	\$ 309,958

Statement 2

Special Revenue Funds				Total Nonmajor Governmental Funds
Solid Waste	Economic Development	Ditch	Miscellaneous	
\$ -	\$ -	\$ -	\$ 24,211	\$ 723,803
352,412	-	48,708	-	401,120
-	-	-	-	48,744
-	-	-	-	1,202,690
311,454	-	-	-	311,497
-	-	-	-	257,371
-	-	-	15,435	58,405
-	19,006	-	-	20,202
12,821	92,753	-	9,500	125,470
\$ 676,687	\$ 111,759	\$ 48,708	\$ 49,146	\$ 3,149,302
\$ -	\$ -	\$ -	\$ 27	\$ 259,780
-	-	-	7,153	7,153
499,899	-	-	-	499,899
-	-	-	-	15,217
-	-	-	-	842,362
-	-	681	-	681
-	6,700	-	-	6,700
-	23,622	50,000	-	73,622
-	301	7,873	-	8,174
\$ 499,899	\$ 30,623	\$ 58,554	\$ 7,180	\$ 1,713,588
\$ 176,788	\$ 81,136	\$ (9,846)	\$ 41,966	\$ 1,435,714
\$ -	\$ -	\$ -	\$ -	\$ 7,476
(312)	-	-	(100,000)	(1,119,370)
\$ (312)	\$ -	\$ -	\$ (100,000)	\$ (1,111,894)
\$ 176,476	\$ 81,136	\$ (9,846)	\$ (58,034)	\$ 323,820
595,357	777,309	229,201	277,054	2,594,258
\$ 771,833	\$ 858,445	\$ 219,355	\$ 219,020	\$ 2,918,078

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 5

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 123,323	\$ 123,323	\$ 123,341	\$ 18
Intergovernmental	13,677	13,677	13,819	142
Total Revenues	\$ 137,000	\$ 137,000	\$ 137,160	\$ 160
Expenditures				
Current				
General government	\$ 137,000	\$ 137,000	\$ 123,269	\$ 13,731
Human services	-	-	15,217	(15,217)
Culture and recreation	-	-	1,438	(1,438)
Total Expenditures	\$ 137,000	\$ 137,000	\$ 139,924	\$ (2,924)
Net Change in Fund Balance	\$ -	\$ -	\$ (2,764)	\$ (2,764)
Fund Balance - January 1	67,051	67,051	67,051	-
Fund Balance - December 31	\$ 67,051	\$ 67,051	\$ 64,287	\$ (2,764)

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 6

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 575,748	\$ 575,748	\$ 576,251	\$ 503
Licenses and permits	50,000	50,000	48,744	(1,256)
Intergovernmental	1,487,914	1,487,914	1,188,871	(299,043)
Gifts and contributions	-	30,000	42,970	12,970
Investment income	-	-	1,196	1,196
Miscellaneous	17,000	17,000	10,396	(6,604)
Total Revenues	\$ 2,130,662	\$ 2,160,662	\$ 1,868,428	\$ (292,234)
Expenditures				
Current				
Culture and recreation				
Parks	2,130,662	1,180,780	840,924	339,856
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 979,882	\$ 1,027,504	\$ 47,622
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 7,476	\$ 7,476	\$ -
Transfers out	-	(1,019,058)	(1,019,058)	-
Total Other Financing Sources (Uses)	\$ -	\$ (1,011,582)	\$ (1,011,582)	\$ -
Net Change in Fund Balance	\$ -	\$ (31,700)	\$ 15,922	\$ 47,622
Fund Balance - January 1	459,258	459,258	459,258	-
Fund Balance - December 31	\$ 459,258	\$ 427,558	\$ 475,180	\$ 47,622

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 7

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 2,000	\$ 2,000	\$ 43	\$ (1,957)
Fines and forfeits	128,000	128,000	257,371	129,371
Total Revenues	\$ 130,000	\$ 130,000	\$ 257,414	\$ 127,414
Expenditures				
Current				
General government				
Law library	130,000	130,000	136,484	(6,484)
Net Change in Fund Balance	\$ -	\$ -	\$ 120,930	\$ 120,930
Fund Balance - January 1	189,028	189,028	189,028	-
Fund Balance - December 31	\$ 189,028	\$ 189,028	\$ 309,958	\$ 120,930

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 8

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 325,000	\$ 325,000	\$ 352,412	\$ 27,412
Charges for services	225,000	225,000	311,454	86,454
Investment income	-	-	-	-
Miscellaneous	5,000	5,000	12,821	7,821
Total Revenues	\$ 555,000	\$ 555,000	\$ 676,687	\$ 121,687
Expenditures				
Current				
Sanitation				
Solid waste	555,000	555,000	499,899	55,101
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 176,788	\$ 176,788
Other Financing Sources (Uses)				
Transfers out	-	-	(312)	(312)
Net Change in Fund Balance	\$ -	\$ -	\$ 176,476	\$ 176,476
Fund Balance - January 1	595,357	595,357	595,357	-
Fund Balance - December 31	\$ 595,357	\$ 595,357	\$ 771,833	\$ 176,476

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 9

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment income	\$ 16,632	\$ 16,632	\$ 19,006	\$ 2,374
Miscellaneous	73,368	73,368	92,753	19,385
Total Revenues	\$ 90,000	\$ 90,000	\$ 111,759	\$ 21,759
Expenditures				
Current				
Economic development				
Community development	\$ -	\$ -	\$ 6,700	\$ (6,700)
Debt service				
Principal	89,726	89,726	23,622	66,104
Interest	274	274	301	(27)
Total Expenditures	\$ 90,000	\$ 90,000	\$ 30,623	\$ 59,377
Net Change in Fund Balance	\$ -	\$ -	\$ 81,136	\$ 81,136
Fund Balance - January 1	777,309	777,309	777,309	-
Fund Balance - December 31	\$ 777,309	\$ 777,309	\$ 858,445	\$ 81,136

FIDUCIARY FUNDS

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
 <u>Assets</u>				
Cash and pooled investments	<u>\$ 4,634,405</u>	<u>\$ 281,066,571</u>	<u>\$ 281,259,944</u>	<u>\$ 4,441,032</u>
 <u>Liabilities</u>				
Accounts payable	\$ 27,030	\$ 38,846	\$ 27,030	\$ 38,846
Due to other governments	<u>4,607,375</u>	<u>281,027,725</u>	<u>281,232,914</u>	<u>4,402,186</u>
Total Liabilities	<u>\$ 4,634,405</u>	<u>\$ 281,066,571</u>	<u>\$ 281,259,944</u>	<u>\$ 4,441,032</u>

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OTHER SCHEDULES

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 10

TAX CAPACITY, TAX CAPACITY RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS

	2004		2005		2006	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 80,658,813		\$ 96,944,506		\$ 108,618,162	
Personal property	1,383,116		1,440,956		1,478,943	
Net Tax Capacity	\$ 82,041,929		\$ 98,385,462		\$ 110,097,105	
Taxes Levied for County Purposes						
General	\$ 19,072,758	18.882	\$ 21,292,969	18.421	\$ 23,943,397	16.774
Road and Bridge	2,894,134	3.528	4,943,288	4.205	5,472,961	5.209
Human Services	15,969,359	19.465	16,786,581	17.903	18,165,529	17.288
County Building	40,000	0.049	137,000	0.146	155,000	0.148
County Park	554,858	0.676	1,638,662	0.681	698,672	0.665
Regional Library	1,618,028	1.972	1,714,988	1.829	1,826,870	1.739
Debt Service	5,549,891	6.765	5,862,360	5.982	6,240,213	5.700
Total Levy for County Purposes	\$ 45,699,028	51.337	\$ 52,375,848	49.167	\$ 56,502,642	47.523
Less Credits Payable by State	3,582,001		6,274,225		6,568,321	
Net Levy Certified to State	\$ 42,117,027		\$ 46,101,623		\$ 49,934,321	
Less Market Value Credits Payable by State	4,502,345		4,531,498		4,422,437	
Net Levy for County Purposes	\$ 37,614,682		\$ 41,570,125		\$ 45,511,884	
Percentage of Tax Collections for All Purposes	98.84%		98.97%		N/A	

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**BALANCE SHEET - BY DITCH
(ACCRUAL BASIS)
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2005**

	Assets			
	Cash and Pooled Investments	Special Assessments Receivable		Total
		Delinquent	Deferred	
Judicial Ditches				
1 Grove Lake	\$ 3,248	\$ -	\$ -	\$ 3,248
3	1,962	25	610	2,597
County Ditches				
7 Lateral A	43,366	940	13,568	57,874
9	44,928	-	-	44,928
17	3,790	-	8,103	11,893
29	16,908	195	-	17,103
32	81,935	43	16,163	98,141
37	496	280	12,779	13,555
50	7,640	-	-	7,640
51	25,082	532	29,348	54,962
Total	\$ 229,355	\$ 2,015	\$ 80,571	\$ 311,941
Reconciliation				
Add (Deduct)	-	-	-	-
Modified Accrual Per Statement 1	\$ 229,355	\$ 2,015	\$ 80,571	\$ 311,941

Schedule 11

Liabilities							
Deferred Revenue	Advance from Other Funds	General Obligation Bonds Payable	Total	Undesignated Fund Balance	Total Liabilities and Fund Balance		
\$ -	\$ -	\$ 2,856	\$ 2,856	\$ 392	\$ 3,248		
-	-	1,712	1,712	885	2,597		
-	-	20,056	20,056	37,818	57,874		
-	-	8,904	8,904	36,024	44,928		
-	-	10,480	10,480	1,413	11,893		
-	-	7,800	7,800	9,303	17,103		
-	-	29,312	29,312	68,829	98,141		
-	10,000	-	10,000	3,555	13,555		
-	-	6,680	6,680	960	7,640		
-	-	12,200	12,200	42,762	54,962		
\$ -	\$ 10,000	\$ 100,000	\$ 110,000	\$ 201,941	\$ 311,941		
82,586	-	(100,000)	(17,414)	17,414	-		
\$ 82,586	\$ 10,000	\$ -	\$ 92,586	\$ 219,355	\$ 311,941		

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 12

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

	Total Governmental Funds
Shared Revenue	
State	
Highway users tax	\$ 8,594,875
County program aid	6,274,225
Market value credit	4,558,966
PERA rate reimbursement	145,954
Disparity reduction aid	47,575
Police aid	234,526
State financing revenue	376,858
Enhanced 911	190,765
	190,765
Total Shared Revenue	\$ 20,423,744
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 6,177,635
	6,177,635
Payments	
Local	
Local contributions	\$ 541,719
Payments in lieu of taxes	83,627
	83,627
Total Payments	\$ 625,346
Grants	
State	
Minnesota Department of	
Corrections	\$ 2,360,417
Public Safety	11,319
Transportation	57,434
Health	474,030
Natural Resources	165,082
Human Services	4,739,573
Water and Soil Resources Board	289,053
Office of Environmental Assistance	467,057
Pollution Control Agency	44,147
Peace Officer Standards and Training Board	20,797
	20,797
Total State	\$ 8,628,909

STEARNS COUNTY
ST. CLOUD, MINNESOTA

Schedule 12
(Continued)

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

	Total Governmental Funds
Grants (Continued)	
Federal	
Department of/Agency	
Agriculture	\$ 400,275
Justice	192,579
Transportation	2,159,525
Energy	58,484
Health and Human Services	3,413,189
Homeland Security	2,567,981
Total Federal	\$ 8,792,033
Total State and Federal Grants	\$ 17,420,942
Total Intergovernmental Revenue	\$ 44,647,667

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 13

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 Stearns County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Stearns County and are 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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Stearns 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 Stearns 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:

Special Supplemental Nutrition Program for Women, Infants and Children	CFDA #10.557
Highway Planning and Construction	CFDA #20.205
State Domestic Preparedness Equipment Support Program	CFDA #97.004
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Stearns 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 ITEMS NOT RESOLVED

96-6 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various County offices, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Offices that do not have sufficient segregation of duties include Sheriff, Jail, Environmental Services, and Parks. These offices may have only one employee to receive and account for departmental collections. This is not unusual in small departmental situations; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control perspective.

Examples of incompatible duties that should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making bank deposits;
- signing checks and reconciling the bank accounts;
- receipting collections and posting collections to the accounts receivable records;
- approving receivable write-offs/write-downs and posting adjustments to the accounts receivable records; and
- data entry, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the County's management may wish to consider to strengthen controls in these offices include:

- Departmental collections should be remitted to the County Auditor/Treasurer more frequently than once each month, perhaps weekly or even daily, to reduce the amount of funds on hand.

- Department heads should monitor operations within their office to determine that reports are submitted properly and are in agreement with cash balances and grant expenditures.
- When an office has only a department head and one other employee, the department head should perform some of the accounting functions.

We recommend that County management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that adequate controls are in place over cash, receivables, and other items.

Client's Response:

We are aware of problems with segregation of duties in certain areas. In many of these areas, we feel it would be cost-prohibitive to ensure total segregation. Thereby, other accounting techniques and methods are used to verify the reasonableness of these areas of concern.

The County's intent is to continually monitor the internal controls and establish new controls where feasible and economically reasonable to do so.

04-1 Jail Internal Controls

The Resident II checking account is used to account for the inmates' money at the jail. An automated system is in place which tracks all monetary transactions related to the inmates. As inmates are checked into the jail, their cash is fed into a money machine which counts the cash and posts the balance to the inmate's account. The correctional officers are authorized to post transactions against the inmates' accounts for site charges such as booking fees, lockers, Huber Law, and medical co-pays. The system automatically keeps track of how much each inmate has and how much the jail has collected in site charges. Checks are written to inmates from the Resident II account by jail staff as they are released. The program coordinator writes checks out of the Resident II account to turn over site charges to the County Auditor/Treasurer's Office on a monthly basis.

While maintaining this automated system, correctional officers may, on occasion, incorrectly post transactions for the wrong amount, to the wrong inmate, or to the wrong site charge. When this occurs, a refund must be entered. Eight officers are currently authorized to enter refunds. When refunds are entered on the system, they automatically post to the proper inmate's account; however, they do not automatically post against the site charge they are refunding. Instead, a separate refund report is generated. At the end

of the month, before site charges are remitted to the County, the Jail Programmer must first manually adjust all site charges for refunds issued during the month based on the refund report. Since this report provides very little information, it is often times difficult for the Jail Programmer to determine which site charges were refunded and why. We were, therefore, unable to determine that refunds are being applied to the correct site charge and that the correct amounts are subsequently being turned over to the Auditor/Treasurer's Office each month.

To ensure that the proper amount of site charges are being remitted to the County Auditor/Treasurer each month, we recommend that any refunds be accounted for in a manner that is more easily traceable to the site charges. This may be done manually by the officers posting the refunds or through system software changes. We further recommend jail staff take appropriate steps to decrease the number of refunds that need to be entered on the system.

Client's Response:

We will work with the software vendor to make changes where possible and introduce policies and procedures to minimize the number of refunds and/or corrections that are currently being made.

PREVIOUSLY REPORTED ITEM RESOLVED

Jail Internal Controls (04-1)

During our previous audit, we noted the following regarding jail accounts:

- The Jail Revolving checking account had very little activity during the year. Its main purpose was to account for fees that were collected and turned over to the County Auditor/Treasurer at the end of the month. The Jail Resident checking account had no monthly activity during the year and was kept open only to cover old outstanding checks. Both of these accounts contained outstanding checks dating as far back as 1992.
- The jail had approximately \$250 in a cash box that was occasionally used as a petty cash fund. Jail staff was unable to tell us how or why this money accumulated.

Resolution

During 2006, both the Jail Revolving and Jail Resident checking accounts were closed, and the money in the jail cash box was turned in to the Auditor/Treasurer's Office and recorded in the General Fund.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-1 Annual Financial Report

Stearns County has a responsibility to prepare financial statements and publish them for its citizens and others. In previous years, the Office of the State Auditor (OSA) has helped the County to prepare its annual financial report. The annual financial report includes financial statements, related notes to the financial statements, and schedules.

Currently, Stearns County staff prepares a portion of the information for the financial statements. This includes summarizing cash transactions in the format for financial statement presentation in a trial balance, summarizing capital assets, and determining year-end receivables and payables. OSA staff provided nonaudit services for other information necessary for preparation of the annual financial report such as converting cash basis information to modified or full accrual, completing the trial balances, and preparing the financial statements, notes to the financial statements, and schedules.

Changes to *Government Auditing Standards*, issued by the Comptroller General of the United States, required the OSA to reassess the nonaudit services it provides to its audit clients. The primary effect of the change in *Government Auditing Standards* on the County is that the County needs to prepare the trial balances and financial statements for audit and make all policy decisions as they relate to financial reporting. The OSA may provide technical assistance in this process.

We recognize that the County has made progress in preparing information needed for the audit, and we acknowledge the County for its improvement in this area. We recommend that the County Board direct County staff to prepare the trial balances. We also recommend the County Board agree to ensure that staff assigned to prepare this information have a good understanding of generally

accepted accounting principles for government and the time necessary to complete the information needed for the annual financial report by the date mutually agreed to with the OSA.

Client's Response:

In previous years, the Office of the State Auditor did much of the work as it related to the preparation of the annual financial statements. Complying with the new GASB 34 reporting requirements implemented for financial year ending December 31, 2003, created even more work as it related to the preparation of the annual financial statements. County staff has done a greater and greater percentage of the work on the financial statements as a whole since implementation of GASB 34. One of the problems in preparing the statements is becoming familiar with the software the State Auditor's Office uses in preparation of the financial statements. It is the intention of the County to internally prepare the financial statements beginning with calendar year ending December 31, 2006. This is assuming that some assistance will be needed from the State Auditor's Office in understanding the software they provide as it relates to compiling the annual financial statements.

PREVIOUSLY REPORTED ITEM RESOLVED

County Vehicles Used for Employee Commuting (04-2)

State statute allows certain County employees to use County-owned vehicles to commute from home to work on a daily basis. During our payroll audit, we noted the County was not reporting this added benefit as income for these employees.

Resolution

During 2006, the County began reporting County vehicle use as a fringe benefit to the appropriate employees based on IRS guidelines.

B. 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 the 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 the services of an actuary.

If applicable for Stearns County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2006 and 2007, respectively.

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OTHER REQUIRED REPORTS

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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
Stearns County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County as of and for the year ended December 31, 2005, and have issued our report thereon dated October 11, 2006. Those financial statements include the discretely presented component unit activities of the Housing and Redevelopment Authority (HRA) of Stearns County for the year ended June 30, 2005. Those financial statements were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. A separate report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards* issued by other auditors is available for the HRA.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stearns County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data

consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 96-6 and 04-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stearns 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, Stearns County complied with the material terms and conditions of applicable legal provisions.

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: October 11, 2006

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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
Stearns County

Compliance

We have audited the compliance of Stearns 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. Stearns 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.

Stearns County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Stearns County, a component unit, which received \$1,475,089 in federal awards for the year ended June 30, 2005. This amount is not included in the County's Schedule of Expenditures of Federal Awards for the year ended December 31, 2005. Our audit, described below, did not include the operations of the HRA of Stearns County because it had a separate Single Audit in accordance with OMB Circular A-133.

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 Stearns 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, Stearns 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 Stearns 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County as of and for the year ended December 31, 2005, and have issued our report thereon dated October 11, 2006. We did not audit the financial statements of the HRA of Stearns County's discretely presented component unit for the year ended June 30, 2005. Those financial statements were audited by other auditors. 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: October 11, 2006

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 14

**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	\$ 364,130
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	36,145
Total U.S. Department of Agriculture		\$ 400,275
U.S. Department of Justice		
Direct		
State Criminal Alien Assistance Program	16.606	\$ 38,207
Edward Byrne Memorial Justice Assistance Grant	16.738	500
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Incentive Block Grant	16.523	24,407
Crime Victim Assistance Grant	16.575	38,433
Local Law Enforcement Block Grant	16.592	10,332
Passed Through Minnesota Trial Courts Drug Court Discretionary Grant	16.585	80,700
Total U.S. Department of Justice		\$ 192,579
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 2,119,785
Passed Through City of Waite Park State and Community Highway Safety	20.600	4,864
Passed Through Minnesota Department of Public Safety Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	34,876
Total U.S. Department of Transportation		\$ 2,159,525
U.S. Department of Energy		
Passed Through Stearns County Soil and Water Conservation District Regional Biomass Energy Program	81.079	\$ 58,484
U.S. Department of Health and Human Services		
Direct		
Substance Abuse and Mental Health Services - Access to Recovery	93.275	\$ 85,420
Passed Through Central Minnesota Council on Aging Special Programs for the Aging - Title IIIB	93.044	17,084

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

***Schedule 14
(Continued)***

**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 Health and Human Services (Continued)		
Passed Through Minnesota Department of Health		
Immunization Grant	93.268	25,760
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	171,774
Temporary Assistance for Needy Families	93.558	79,799
Maternal and Child Health Services Block Grant	93.994	146,335
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	9,917
Temporary Assistance for Needy Families	93.558	630,344
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	1,474,228
Foster Care Title IV-E	93.658	100,966
Social Services Block Grant Title XX	93.667	625,210
Chafee Foster Care Independence Program	93.674	11,286
Block Grants for Prevention and Treatment of Substance Abuse	93.959	35,066
Total U.S. Department of Health and Human Services		\$ 3,413,189
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	\$ 2,526,093
Homeland Security Grant	97.067	36,921
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	4,967
Total U.S. Department of Homeland Security		\$ 2,567,981
Total Federal Awards		\$ 8,792,033

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Stearns County. The County's reporting entity is defined in Note 1 to the basic financial statements. This schedule does not include \$1,475,089 of federal awards expended by the Housing and Redevelopment Authority of Stearns County, a component unit.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2005, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.