

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

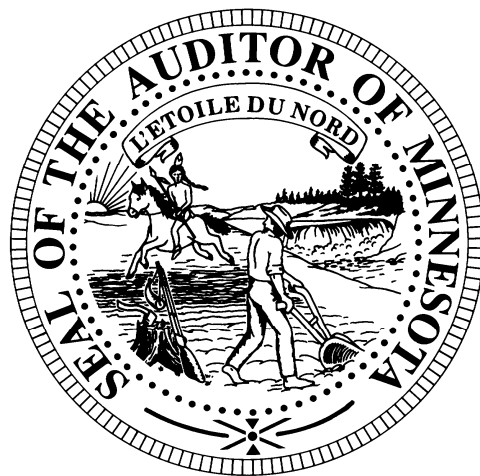
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Year Ended December 31, 2006



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

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2006

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Barb Steier	District 1	January 2009
Board Member	Loren Lein	District 2	January 2007
Chair	William Groskreutz, Jr.	District 3	January 2009
Board Member	Tom Loveall	District 4	January 2007
Vice Chair	Tom Warmka	District 5	January 2009
Attorney	Brian Roverud		January 2007
Auditor	John Thompson		January 2007
Judge	Douglas Richards		January 2007
County Recorder	Nancy Huff		January 2007
Registrar of Titles	Nancy Huff		January 2007
County Sheriff	Scott Campbell		January 2007
Treasurer	David Frank		January 2007
Appointed			
Assessor	Susan Wiltse		December 2008
County Engineer	John McDonald		April 2008
Veterans Service Officer	Bryan Schultz		Indefinite
Medical Examiner	Thomas Carpenter, M.D.		Indefinite
Economic Development Authority Board			
	Scott Johnson	Bricelyn	December 31, 2008
	Neil Eckles	Blue Earth	December 31, 2009
	Ann Schuster	Wells	December 31, 2010
	Rob Nelson	Winnebago	December 31, 2007
	Jake Anderson	Frost	December 31, 2007

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Faribault County

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 Faribault County Housing and Redevelopment Authority (HRA), which represent 6 percent, 5 percent, and 65 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Faribault County HRA, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of December 31, 2006, 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 budgetary comparison statements on Schedules 1 through 4 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 Faribault 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 of Faribault County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2008, on our consideration of Faribault County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 8, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006
(Unaudited)**

Faribault County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$47,595,677, of which \$40,713,431 is invested in capital assets, net of related debt; \$1,913,480 is restricted to specific purposes.
- Faribault County's net assets increased by \$719,660 for the year ended December 31, 2006. The net assets of the County's discretely presented component units increased by \$44,699.
- The net cost of governmental activities was \$6,658,220 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$7,377,880.
- Governmental funds' fund balances decreased by \$501,017. The General Fund and Human Services Special Revenue Fund increased \$109,083 and \$142,978, respectively. The Public Works Special Revenue Fund decreased \$523,311 due to less state road aid and planned use of reserves. The Ditch Special Revenue Fund decreased \$124,438 due to higher than expected repairs. The Debt Service Fund decreased \$105,329 due to scheduled debt payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were

financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

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

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

In the Statement of Net Assets and the Statement of Activities, we divide the County into two kinds of activities:

- Governmental activities--Most of the County's basic services are reported here, including general government, public safety, transportation, human services, sanitation, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Component units--The County includes two separate legal entities in its report. The Housing and Redevelopment Authority and the Faribault County Economic Development Authority are presented in separate columns. Although legally separate, these "component units" are important because the County is financially accountable for them.

Fund Financial Statements

Our analysis of the County's major funds begins on Exhibit 3 and provides detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some

funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's governmental funds use the modified accrual accounting method.

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

Reporting the County's Fiduciary Responsibilities

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

THE COUNTY AS A WHOLE

The County's combined net assets were increased from \$46,876,017 to \$47,595,677. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets

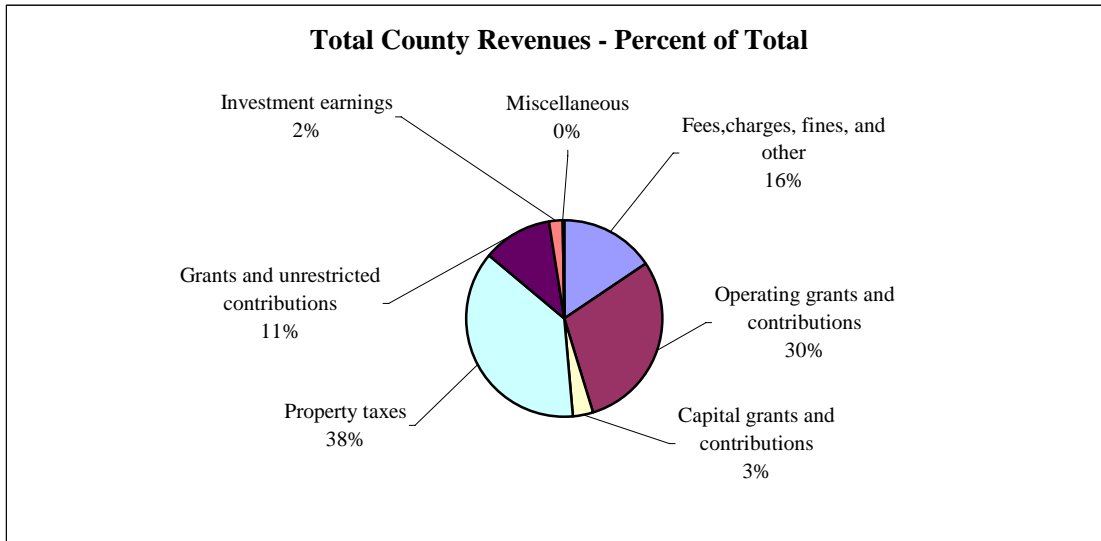
	2006	2005
Current and other assets	\$ 10,822,788	\$ 11,251,459
Capital assets	40,757,068	40,225,057
Total Assets	\$ 51,579,856	\$ 51,476,516
Long-term debt outstanding	\$ 3,463,093	\$ 4,057,265
Other liabilities	521,086	543,234
Total Liabilities	\$ 3,984,179	\$ 4,600,499

	<u>2006</u>	<u>2005</u>
Net Assets		
Invested in capital assets, net of debt	\$ 40,713,431	\$ 40,151,626
Restricted	1,913,480	1,637,692
Unrestricted	<u>4,968,766</u>	<u>5,086,699</u>
 Total Net Assets	 <u>\$ 47,595,677</u>	 <u>\$ 46,876,017</u>

Net assets of the County's governmental activities increased by 1.5 percent (\$719,660). Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from \$5,086,699 at December 31, 2005, to \$4,968,766 at the end of this year.

Table 2
Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 2,249,542	\$ 1,883,245
Operating grants and contributions	4,270,150	4,510,340
Capital grants and contributions	494,120	1,464,031
General revenues		
Property taxes	5,390,758	4,984,607
Grants and unrestricted contributions	1,610,642	1,604,527
Unrestricted investment earnings	317,749	222,923
Miscellaneous	<u>58,731</u>	<u>239,382</u>
 Total Revenues	 <u>\$ 14,391,692</u>	 <u>\$ 14,909,055</u>
Expenses		
General government	\$ 2,810,036	\$ 2,436,529
Public safety	2,252,879	2,205,394
Transportation	5,458,404	5,093,051
Sanitation	90,424	92,780
Human services	1,326,215	1,570,639
Conservation of natural resources	1,113,461	796,340
Culture and recreation	379,260	289,015
Economic development	117,316	113,242
Interest	<u>124,037</u>	<u>168,653</u>
 Total Expenses	 <u>\$ 13,672,032</u>	 <u>\$ 12,765,643</u>
 Net Change	 <u>\$ 719,660</u>	 <u>\$ 2,143,412</u>



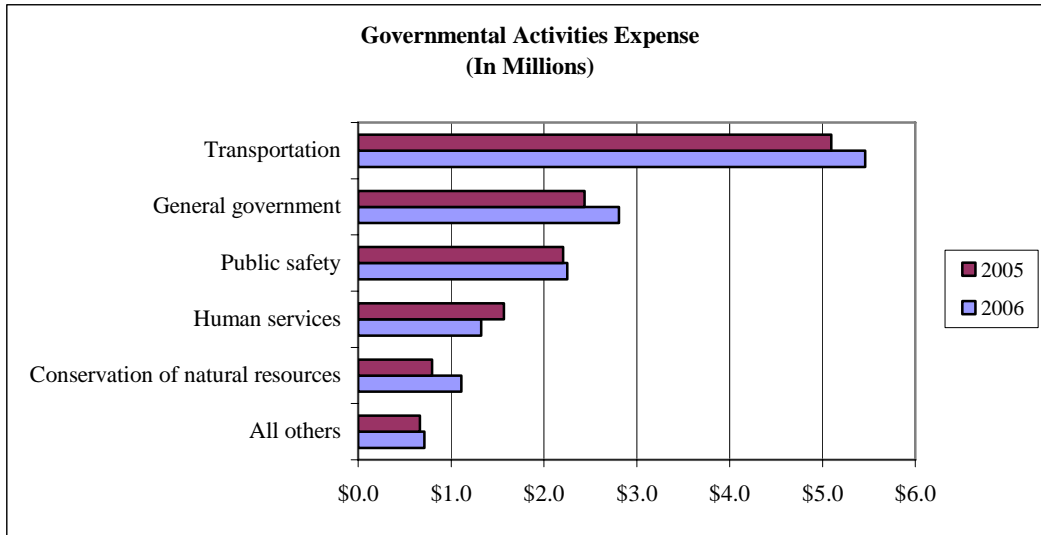
Governmental Activities

Revenues for the County’s governmental activities were \$14,391,692, while total expenses were \$13,672,032. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was \$5,390,758 because some of the cost was paid by those who directly benefited from the programs (\$2,249,542) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,764,270). Overall, the County’s governmental program revenues, including intergovernmental aid and fees for services, totaled \$7,013,812. The County paid for the remaining “public benefit” portion of governmental activities with \$7,377,880 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as interest and general entitlements.

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Transportation	\$ 5,458,404	\$ 5,093,051	\$ 840,449	\$ (826,325)
General government	2,810,036	2,436,529	2,009,483	1,752,470
Public safety	2,252,879	2,205,394	1,878,266	1,668,038
Human services	1,326,215	1,570,639	1,326,215	1,570,639
Conservation of natural resources	1,113,461	796,340	221,657	180,482
All others	711,037	663,690	382,150	562,723
Total Expenses	\$ 13,672,032	\$ 12,765,643	\$ 6,658,220	\$ 4,908,027



THE COUNTY’S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit 3) reported a combined fund balance of \$6,414,025, which is below last year’s total of \$6,915,042. The Public Works Special Revenue Fund had the largest decline in fund balance, primarily due to a planned use of fund balances to complete road projects. The General Fund saw public safety expenditures exceeding budgeted amounts for labor costs, capital outlay, and vehicle expense. Conservation of natural resources expenditures also reflected a higher than expected amount of loans for subsurface sewage septic systems. Revenues exceeded budgeted targets in all major categories to more than offset any negative budget expenditure. The General Fund’s fund balance is 44.9 percent of the total governmental funds, compared to 40.0 percent at the end of 2005.

General Fund Budgetary Highlights

Over the course of the year, the County Board did not revise the County’s General Fund budget. Actual charges to appropriations (expenditures) were \$189,469 above the budget amounts. Public safety expenditures were \$192,168 over budget. ISTS loans made from the General Fund and not budgeted also contributed to the excess expenditures over budget (\$315,781). Other functional areas contributing to the excess spending were transportation (\$13,965), sanitation (\$21,924) and debt service (\$19,773). Positive variances in other functional areas along with increased revenues provided resources to offset the excess spending.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the County had \$40,757,068 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of over \$532,000, or 1.3 percent, over last year.

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

	2006	2005
Land	\$ 789,945	\$ 755,497
Construction in progress	68,452	1,827,928
Building and improvements	1,518,590	1,601,255
Other improvements	165,789	118,683
Machinery and equipment	2,357,154	2,241,881
Infrastructure	<u>35,857,138</u>	<u>33,679,813</u>
Total	<u>\$ 40,757,068</u>	<u>\$ 40,225,057</u>

There is more detailed information in the notes to the financial statements.

Debt

At year-end, the County had \$2,745,000 in bonds outstanding, versus \$3,345,000 last year. Table 5 shows the outstanding debt.

Table 5
Outstanding Debt at Year-End

	2006	2005
Bonds payable	\$ 2,745,000	\$ 3,345,000
Capital leases	18,637	23,431
Loans payable	109,686	120,704
Compensated absences	<u>600,104</u>	<u>579,800</u>
Totals	<u>\$ 3,473,427</u>	<u>\$ 4,068,935</u>

The County's general obligation bond rating continues to carry an A3 rating by Moody's Investor Service as rated in 2003. The state limits the amount of net debt that the County can issue to two percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this state-imposed limit. No new bonds were issued

in 2006. In August 2007, the County issued \$10,000,000 in 20-year general obligation jail bonds and \$750,000 in solid waste special assessment bonds. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2007 are budgeted to increase 18.4 percent over 2006. The County Board is preparing to build a law enforcement center that is estimated to cost \$11 million. The County bonded for \$10 million in 2007 for the project with the remaining amount to be financed with fund balances and levy increases. The project was started in the fall of 2007 with completion set for the spring of 2009. The County also sponsored a sewer system in the unincorporated area of Huntley. The County will issue \$360,000 in bonds to the U.S. Department of Agriculture in 2008 and will be paid back from revenues from the system. Construction began in the summer of 2007 with substantial completion expected in late 2007. The majority of the financing for the system was from federal and state grants.
- Property tax levies have increased 7.9 percent for 2007.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact County Auditor John Thompson, Faribault County Courthouse, 100 Main Street, P. O. Box 130, Blue Earth, Minnesota 56013.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Primary Government Governmental Activities	Discretely Presented Component Units	
		Housing and Redevelopment Authority	Economic Development Authority
<u>Assets</u>			
Cash and pooled investments	\$ 5,215,763	\$ 5,620	\$ 224,930
Petty cash and change funds	2,602	-	-
Taxes receivable - prior	88,652	-	-
Special assessments receivable			
Prior	13,133	-	-
Noncurrent	1,363,283	-	-
Accounts receivable	19,133	-	-
Accrued interest receivable	43,999	-	116
Loans receivable	-	-	208,216
Due from other governments	2,639,564	-	-
Inventories	1,356,629	-	-
Prepaid items	16,040	-	-
Restricted assets			
Investments - temporary	-	-	16,792
Advances to other governments	40,000	-	-
Advances to other agencies	-	27,034	100,000
Deferred charges	23,990	-	-
Capital assets			
Non-depreciable	858,397	-	-
Depreciable - net of accumulated depreciation	39,898,671	-	-
Total Assets	\$ 51,579,856	\$ 32,654	\$ 550,054
<u>Liabilities</u>			
Accounts payable	\$ 233,691	\$ 5,620	\$ 3,021
Salaries payable	150,796	-	-
Due to other governments	95,130	-	-
Accrued interest payable	22,408	-	-
Unearned revenue	19,061	-	-
Advance from other governments	-	-	50,000
Long-term liabilities			
Due within one year	579,221	-	-
Due in more than one year	2,883,872	-	-
Total Liabilities	\$ 3,984,179	\$ 5,620	\$ 53,021

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Primary Government Governmental Activities	Discretely Presented Component Units	
		Housing and Redevelopment Authority	Economic Development Authority
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 40,713,431	\$ -	\$ -
Restricted for			
Debt service	114,870	-	-
Transportation	1,408,287	-	-
General government	229,379	-	-
Public safety	149,670	-	-
Conservation of natural resources	11,274	-	-
Economic development	-	-	16,792
Unrestricted	4,968,766	27,034	480,241
Total Net Assets	\$ 47,595,677	\$ 27,034	\$ 497,033

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,810,036	\$ 540,395
Public safety	2,252,879	189,625
Transportation	5,458,404	461,874
Sanitation	90,424	242,273
Human services	1,326,215	-
Culture and recreation	379,260	37,535
Conservation of natural resources	1,113,461	777,840
Economic development	117,316	-
Interest	124,037	-
Total Primary Government	\$ 13,672,032	\$ 2,249,542
Component Units		
Housing and Redevelopment Authority	\$ 274,456	\$ -
Economic Development Authority	130,153	54,929
Total Component Units	\$ 404,609	\$ 54,929

General Revenues

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

Total general revenues

Change in net assets

Net Assets - January 1

Net Assets - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Primary Government Governmental Activities	Discretely Presented Component Units	
Operating Grants and Contributions	Capital Grants and Contributions		Housing and Redevelopment Authority	Economic Development Authority
\$ 27,198	\$ 232,960	\$ (2,009,483)		
162,874	22,114	(1,878,266)		
3,917,035	239,046	(840,449)		
49,079	-	200,928		
-	-	(1,326,215)		
-	-	(341,725)		
113,964	-	(221,657)		
-	-	(117,316)		
-	-	(124,037)		
\$ 4,270,150	\$ 494,120	\$ (6,658,220)		
\$ 291,385	\$ -		\$ 16,929	\$ -
-	-		-	(75,224)
\$ 291,385	\$ -		\$ 16,929	\$ (75,224)
		\$ 5,390,758	\$ -	\$ -
		8,949	-	-
		11,837	-	-
		1,610,642	-	102,746
		317,749	181	67
		37,945	-	-
		\$ 7,377,880	\$ 181	\$ 102,813
		\$ 719,660	\$ 17,110	\$ 27,589
		46,876,017	9,924	469,444
		\$ 47,595,677	\$ 27,034	\$ 497,033

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Public Works
<u>Assets</u>		
Cash and pooled investments	\$ 2,234,042	\$ 1,146,492
Petty cash and change funds	2,305	297
Taxes receivable		
Prior	49,342	15,342
Special assessments receivable		
Prior	9,187	-
Noncurrent	880,644	-
Accounts receivable	16,815	2,256
Accrued interest receivable	43,999	-
Due from other funds	3,250	3,470
Due from other governments	52,665	1,584,252
Inventories	-	1,356,629
Prepaid items	4,840	11,200
Advances to other funds	832,353	-
Advances to other governments	40,000	-
	\$ 4,169,442	\$ 4,119,938
Total Assets	\$ 4,169,442	\$ 4,119,938

EXHIBIT 3

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ 1,641,176	\$ 137,963	\$ 56,090	\$ 5,215,763
-	-	-	2,602
20,688	-	3,280	88,652
-	3,946	-	13,133
-	482,639	-	1,363,283
-	62	-	19,133
-	-	-	43,999
-	6,200	61,669	74,589
-	62,647	940,000	2,639,564
-	-	-	1,356,629
-	-	-	16,040
-	-	-	832,353
-	-	-	40,000
<u>\$ 1,661,864</u>	<u>\$ 693,457</u>	<u>\$ 1,061,039</u>	<u>\$ 11,705,740</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Public Works
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 93,848	\$ 89,341
Salaries payable	108,017	42,779
Due to other funds	65,139	6,200
Due to other governments	94,393	-
Deferred revenue - unavailable	914,415	1,553,607
Deferred revenue - unearned	15,349	1,461
Advance from other funds	-	-
	\$ 1,291,161	\$ 1,693,388
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 1,356,629
Advances to other funds	832,353	-
Advances to other governments	40,000	-
Recording compliance fund	56,928	-
Law library	39,776	-
Recorder's equipment	64,606	-
Enhanced 911	136,686	-
DARE	12,984	-
HAVA	68,069	-
Conservation of natural resources	11,274	-
Unreserved		
Designated for debt service	-	-
Designated for future expenditures	1,150,000	-
Designated for compensated absences	376,855	223,249
Designated for trust	30,000	-
Designated for building fund	50,000	-
Undesignated	8,750	846,672
	\$ 2,878,281	\$ 2,426,550
Total Fund Balances	\$ 2,878,281	\$ 2,426,550
Total Liabilities and Fund Balances	\$ 4,169,442	\$ 4,119,938

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ -	\$ 50,502	\$ -	\$ 233,691
-	-	-	150,796
-	-	3,250	74,589
-	737	-	95,130
14,726	460,558	942,789	3,886,095
2,121	-	130	19,061
-	832,353	-	832,353
<u>\$ 16,847</u>	<u>\$ 1,344,150</u>	<u>\$ 946,169</u>	<u>\$ 5,291,715</u>
\$ -	\$ -	\$ -	\$ 1,356,629
-	-	-	832,353
-	-	-	40,000
-	-	-	56,928
-	-	-	39,776
-	-	-	64,606
-	-	-	136,686
-	-	-	12,984
-	-	-	68,069
-	-	-	11,274
-	-	114,870	114,870
-	-	-	1,150,000
-	-	-	600,104
-	-	-	30,000
-	-	-	50,000
1,645,017	(650,693)	-	1,849,746
<u>\$ 1,645,017</u>	<u>\$ (650,693)</u>	<u>\$ 114,870</u>	<u>\$ 6,414,025</u>
<u>\$ 1,661,864</u>	<u>\$ 693,457</u>	<u>\$ 1,061,039</u>	<u>\$ 11,705,740</u>

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS
TO NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	6,414,025
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.		40,757,068
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,886,095
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Unamortized deferred debt charges	\$	23,990
General obligation bonds		(1,930,000)
Special assessments debt		(815,000)
Unamortized bond discount		10,334
Capital leases		(18,637)
Loans payable		(109,686)
Compensated absences		(600,104)
Accrued interest payable		(22,408)
		(3,461,511)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>47,595,677</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	Public Works
Revenues		
Taxes	\$ 3,158,989	\$ 879,684
Special assessments	134,924	-
Licenses and permits	1,285	-
Intergovernmental	2,031,427	4,094,889
Charges for services	751,287	420,578
Fines and forfeits	19,516	-
Gifts and contributions	2,400	-
Investment earnings	317,749	-
Miscellaneous	160,989	52,292
	\$ 6,578,566	\$ 5,447,443
Expenditures		
Current		
General government	\$ 2,914,072	\$ -
Public safety	2,152,438	-
Transportation	176,890	5,971,322
Sanitation	90,424	-
Human services	-	-
Culture and recreation	197,345	181,225
Conservation of natural resources	739,556	-
Economic development	117,316	-
Debt service		
Principal	15,812	-
Interest	3,961	-
Administrative charges	-	-
	\$ 6,407,814	\$ 6,152,547
Excess of Revenues Over (Under) Expenditures	\$ 170,752	\$ (705,104)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(61,669)	-
	\$ (61,669)	\$ -
Net Change in Fund Balances	\$ 109,083	\$ (705,104)
Fund Balances - January 1	2,769,198	2,949,861
Increase (decrease) in reserved for inventories	-	181,793
	\$ 2,878,281	\$ 2,426,550
Fund Balances - December 31	\$ 2,878,281	\$ 2,426,550

EXHIBIT 5

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ 1,275,454	\$ -	\$ 84,256	\$ 5,398,383
-	292,063	233,015	660,002
-	-	-	1,285
193,739	-	11,856	6,331,911
-	-	-	1,171,865
-	-	-	19,516
-	-	-	2,400
-	-	-	317,749
-	-	144,734	358,015
\$ 1,469,193	\$ 292,063	\$ 473,861	\$ 14,261,126
\$ -	\$ -	\$ -	\$ 2,914,072
-	-	-	2,152,438
-	-	-	6,148,212
-	-	-	90,424
1,326,215	-	-	1,326,215
-	-	-	378,570
-	339,294	-	1,078,850
-	-	-	117,316
-	45,000	555,000	615,812
-	31,576	84,584	120,121
-	631	1,275	1,906
\$ 1,326,215	\$ 416,501	\$ 640,859	\$ 14,943,936
\$ 142,978	\$ (124,438)	\$ (166,998)	\$ (682,810)
\$ -	\$ -	\$ 61,669	\$ 61,669
-	-	-	(61,669)
\$ -	\$ -	\$ 61,669	\$ -
\$ 142,978	\$ (124,438)	\$ (105,329)	\$ (682,810)
1,502,039	(526,255)	220,199	6,915,042
-	-	-	181,793
\$ 1,645,017	\$ (650,693)	\$ 114,870	\$ 6,414,025

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES--GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ (682,810)**

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 capital assets	\$	3,454,412	
Current year depreciation		(2,895,755)	558,657

In the statement of activities, only gains or losses on the disposal of capital assets are reported; whereas, in the governmental funds, the proceeds increase financial resources. The difference is the net book value of the capital assets disposed of. (26,646)

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

General obligation bonds	\$	555,000	
Special assessments debt		45,000	
Capital leases		4,794	
Loans payable		11,018	615,812

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	\$	3,887	
Change in discount and deferred charges on debt		(5,897)	
Change in inventories		181,793	
Change in compensated absences		(20,304)	159,479

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Change in deferred revenue for taxes and special assessments	\$	301,937	
Change in deferred revenue for grants		(206,769)	95,168

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 719,660**

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	<u>\$ 126,056</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 126,056</u>

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006

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, 2006. 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

Faribault County was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Faribault County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Units

While part of the reporting entity, discretely presented component units are presented in separate columns in the government-wide financial statements to emphasize that they are legally separate from the County. The following component units of Faribault County are discretely presented:

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Faribault County Economic Development Authority (EDA) provides services pursuant to Minn. Stat. §§ 469.090-469.1081.	The County appoints all members and is able to impose its will on the EDA.	Separate financial statements are not prepared.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Faribault County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	The County appoints the Board members and must approve debt.	Faribault County HRA Minnesota Valley Action Council 410 Jackson Street P. O. Box 3327 Mankato, Minnesota 56002-3327

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

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 Public Works Special Revenue Fund is used to account for revenues and expenditures relating to public works for the establishment, location, construction, reconstruction, improvement, and maintenance of roads, bridges, other projects affecting County roadways, parks, and the transit system.

The Human Services Special Revenue Fund is used to account for the transfer of Faribault County's share of the Faribault-Martin County Human Services Board.

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Faribault 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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, 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 2006 were \$317,749.

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

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;

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and 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.

2. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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.

3. Inventories

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased. Inventories at the government-wide level are reported as expenses when consumed.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Inventories (Continued)

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

4. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is imposed by grantors or other governments. Therefore, their use is limited by applicable laws and regulations.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset category as follows: all land and construction in progress is capitalized regardless of cost; machinery and equipment when the cost of individual items exceed \$5,000; other improvements, buildings and improvements when the cost exceeds \$25,000; and infrastructure when the cost of projects exceeds \$50,000.

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.

Capital assets of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	7 - 40
Other improvements	15 - 25
Machinery and equipment	3 - 20
Infrastructure	25 - 30

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. 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.

7. 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.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, 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.

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. 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.

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance as of December 31, 2006, as follows:

Fund Balance - modified accrual basis	\$ (650,693)
Bonds payable	(815,000)
Deferred revenue - unavailable	<u>460,558</u>
Fund Balance - full accrual basis	<u>\$ (1,005,135)</u>

The deficit will be eliminated with future special assessment levies against benefited properties. Following is a summary of the individual ditch systems:

115 ditches with positive balances	\$ 412,002
65 ditches with deficit balances	<u>(1,417,138)</u>
Net Fund Balance Deficit	<u>\$ (1,005,135)</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 5,215,763
Petty cash and change funds	2,602
Component unit – HRA	5,620
Component unit - EDA	
Cash and pooled investments	224,930
Restricted assets	
Investments	16,792
Agency funds	
Cash and pooled investments	126,056
Total Cash and Investments	\$ 5,591,763
Cash and investments held by the County Treasurer	\$ 5,586,143
Cash in custody of the HRA (See Note 8.B.)	5,620
Total Cash and Investments	\$ 5,591,763

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 standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2006, the County's deposits were not exposed to custodial credit risk.

b. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by limiting long-term investments. County policy states that approximately one-third of the County's total portfolio balance as of May 31, of the year reporting, may be invested in items that mature in more than one year.

	Maturity Dates	
	0 - 1 Year	Over 1 year
Deposits	\$ 2,579,150	\$ -
Petty cash	2,602	-
MAGIC Fund	535	-
Federal Home Loan Bank notes (1)	198,464	2,407,892
Federal National Mortgage Association (1)	-	199,500
Negotiable certificates of deposit	-	198,000
	\$ 2,780,751	\$ 2,805,392
Total Cash and Investments		

(1) All of these notes have step up provisions, which could result in the notes being called prior to maturity.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's investment policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2006, \$2,503,856 of U.S. government agency securities investments are held by the investments counterparties, not in the name of Faribault County and, therefore, subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to minimize concentration of credit risk by diversifying the investment so that the impact of potential losses from any one type of security will be minimized. The only investments in any one issuer that represent five percent or more of the County's investments are in the Federal Home Loan Bank totaling \$2,606,356.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2006, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - prior	\$ 88,652	\$ -
Special assessments - prior	13,133	-
Special assessments - noncurrent	1,363,283	907,767
Accounts	19,133	-
Accrued interest	43,999	-
Due from other governments	2,639,564	700,000
Total	\$ 4,167,764	\$ 1,607,767

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 755,497	\$ 34,448	\$ -	\$ 789,945
Construction in progress	1,827,928	64,036	1,823,512	68,452
Total capital assets not depreciated	\$ 2,583,425	\$ 98,484	\$ 1,823,512	\$ 858,397
Capital assets depreciated				
Buildings and improvements	\$ 3,610,344	\$ -	\$ -	\$ 3,610,344
Other improvements	177,638	56,448	-	234,086
Machinery and equipment	5,059,298	678,296	245,041	5,492,553
Infrastructure	58,176,823	4,444,696	-	62,621,519
Total capital assets depreciated	\$ 67,024,103	\$ 5,179,440	\$ 245,041	\$ 71,958,502

**FARIBAULT COUNTY
BLUE EARTH, 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	\$ 2,009,089	\$ 82,665	\$ -	\$ 2,091,754
Other improvements	58,955	9,342	-	68,297
Machinery and equipment	2,817,417	536,377	218,395	3,135,399
Infrastructure	<u>24,497,010</u>	<u>2,267,371</u>	<u>-</u>	<u>26,764,381</u>
 Total accumulated depreciation	 <u>\$ 29,382,471</u>	 <u>\$ 2,895,755</u>	 <u>\$ 218,395</u>	 <u>\$ 32,059,831</u>
 Total capital assets depreciated, net	 <u>\$ 37,641,632</u>	 <u>\$ 2,283,685</u>	 <u>\$ 26,646</u>	 <u>\$ 39,898,671</u>
 Capital Assets, Net	 <u>\$ 40,225,057</u>	 <u>\$ 2,382,169</u>	 <u>\$ 1,850,158</u>	 <u>\$ 40,757,068</u>

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

General government	\$ 120,434
Public safety	147,654
Highways and streets, including depreciation of infrastructure assets	<u>2,627,667</u>
 Total Depreciation Expense	 <u>\$ 2,895,755</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2006, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	\$ 3,250
Public Works	General	3,470
Ditch	Public Works	6,200
Debt Service	General	<u>61,669</u>
 Total Due To/From Other Funds		 <u>\$ 74,589</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	\$ 832,353

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of a transfer from the General Fund to the Debt Service Fund of \$61,669 to provide funds for debt service.

C. Liabilities

1. Other Postemployment Benefits - Retirees

The County provides post-retirement health care benefits for certain retirees and their dependents. The County pays the premium for eligible retired employees and one-half of the premiums for the retiree's spouse based on the County's \$1,000 CMM plan.

As of year-end, the County has 38 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2006, the County expended \$148,356 for these benefits.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Capital Leases

The County has entered into two capital lease agreements. Both lease agreements are for financing the acquisition of copiers. These leases qualify as capital leases for accounting purposes and, therefore, are recorded as capital assets at the present value of the future minimum payments as of the inception of the leases. The capital leases consist of the following at December 31, 2006:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Xerox copier	2009	Monthly	\$ 279	\$ 14,795	\$ 9,316
Xerox copier	2010	Monthly	265	12,000	<u>9,321</u>
					<u>\$ 18,637</u>

Lease payments are being made by the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

<u>Year Ended December 31</u>	
2007	\$ 6,539
2008	6,539
2009	6,539
2010	<u>1,860</u>
Total Lease Payments	\$ 21,477
Less: amount representing interest	<u>(2,840)</u>
Present Value of Minimum Lease Payments	<u>\$ 18,637</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General obligation bonds					
1997 G.O. Landfill Closing Refunding Bonds	2008	\$55,000 - \$60,000	4.80 - 5.00	\$ 475,000	\$ 120,000
1997 G.O. Courthouse Bonds	2007	\$25,000	5.50 - 5.60	190,000	25,000
2001 G.O. Taxable Waste Disposal Bonds	2016	\$15,000 - \$30,000	6.20 - 6.70	300,000	225,000
2001 G.O. Refunding Bonds	2009	\$140,000 - \$215,000	3.75 - 4.00	1,435,000	440,000
2001 G.O. Taxable Refunding Waste Disposal Bonds	2012	\$20,000 - \$35,000	5.75 - 6.40	285,000	180,000
2005 G.O. Solid Waste Revenue Refunding Bonds	2010	\$205,000 - \$250,000	2.10 - 2.70	<u>1,165,000</u>	<u>940,000</u>
Total general obligation bonds				<u>\$ 3,850,000</u>	\$ 1,930,000
Less: unamortized discount					<u>(3,119)</u>
Total General Obligation Bonds, Net					<u>\$ 1,926,881</u>
General obligation special assessment bonds					
1999 G.O. Ditch Bonds	2014	\$15,000 - \$20,000	4.30 - 4.95	\$ 280,000	\$ 140,000
2003 G.O. Drainage Ditch Bonds	2024	\$25,000 - \$50,000	1.85 - 4.25	<u>725,000</u>	<u>675,000</u>
Total general obligation special assessment bonds				<u>\$ 1,005,000</u>	\$ 815,000
Less: unamortized discount					<u>(7,215)</u>
Total General Obligation Special Assessment Bonds, Net					<u>\$ 807,785</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Loans Payable

The County entered into a loan agreement with the Minnesota Pollution Control Agency for funding Clean Water Partnership projects in the Blue Earth River Watershed. The loans are secured by special assessments placed on the individual parcels. Loan payments will be reported in the General Fund.

Type of Indebtedness	Final Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2005 Minnesota Pollution Control Agency loan	2015	\$ 13,378	2.00	\$ 120,704	<u>\$ 109,686</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2006, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 505,000	\$ 66,610	\$ 50,000	\$ 30,208
2008	490,000	48,859	50,000	28,645
2009	460,000	32,565	50,000	26,935
2010	255,000	20,353	50,000	25,205
2011	55,000	14,395	45,000	23,395
2012 - 2016	165,000	28,940	215,000	90,951
2017 - 2021	-	-	210,000	52,075
2022 - 2026	-	-	145,000	9,423
Total	<u>\$ 1,930,000</u>	<u>\$ 211,722</u>	<u>\$ 815,000</u>	<u>\$ 286,837</u>

Year Ending December 31	Loans Payable	
	Principal	Interest
2007	\$ 11,240	\$ 2,138
2008	11,466	1,912
2009	11,696	1,682
2010	11,932	1,446
2011	12,171	1,206
2012 - 2016	51,181	2,330
Total	<u>\$ 109,686</u>	<u>\$ 10,714</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 2,485,000	\$ -	\$ 555,000	\$ 1,930,000	\$ 505,000
G.O. special assessment bonds	860,000	-	45,000	815,000	50,000
Less: deferred amounts for issuance discounts	(11,670)	-	(1,336)	(10,334)	-
Total bonds payable	\$ 3,333,330	\$ -	\$ 598,664	\$ 2,734,666	\$ 555,000
Capital leases	23,431	-	4,794	18,637	5,180
Loans payable	120,704	-	11,018	109,686	11,240
Compensated absences	579,800	20,304	-	600,104	7,801
Long-Term Liabilities	\$ 4,057,265	\$ 20,304	\$ 614,476	\$ 3,463,093	\$ 579,221

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. 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 2006 and 2007:

	<u>2006</u>	<u>2007</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.00	6.25
Public Employees Police and Fire Fund	10.50	11.70
Public Employees Correctional Fund	8.75	8.75

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2006, 2005, and 2004, 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
2006	\$ 135,775	\$ 52,911	\$ 36,658
2005	125,911	50,105	23,373
2004	125,704	43,476	16,811

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

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, 2006, 2005, and 2004, were \$13,486, \$12,925, and \$11,972, respectively, equal to the contractually required contributions for each year as set by state statute.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

5. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The SCSC contracts with Blue Cross/Blue Shield to administer the health insurance plan. All claims are pooled at year-end for the purpose of setting rates and reserves for the upcoming year. The SCSC provides financial risk management services that embody the concept of pooling risk for the purpose of stabilizing and/or reducing costs. Group employee benefits shall include, but not be limited to, health benefits coverage and other services as directed by the joint powers board. Members do not pay for deficiencies that arise in the current year.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

B. Joint Ventures

Faribault-Martin Human Services Board

Faribault, Martin, and Watonwan Counties entered into a joint powers agreement (Minn. Stat. § 471.59) to provide welfare and health services to county residents (Minn. Stat. §§ 402.01-.10). The Faribault-Martin-Watonwan Human Services Board was established on June 30, 1975. As of January 1, 1991, Watonwan County withdrew from the Human Services Board. Faribault and Martin Counties are continuing with the Joint Powers Agreement. The Board has 12 members, six from each county. Each county collects its share of local tax revenues and transfers these funds to the Board to fulfill its ongoing financial responsibility.

Complete financial information can be obtained from:

Faribault-Martin Human Services Board
115 West First Street
Fairmont, Minnesota 56031

Prairieland Solid Waste Board (Prairieland)

Faribault and Martin Counties entered into a joint venture in 1990 to build and operate a solid waste composting plant - Prairieland. Prairieland is composed of ten members, the County Commissioners from both Faribault and Martin Counties. Faribault County's proportionate interest in Prairieland is 43 percent. Prairieland reported net income of \$311,770 in 2006.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Prairieland Solid Waste Board (Prairieland) (Continued)

In 1996, the Solid Waste Resource Recovery Revenue Bonds issued by Prairieland were called with the funds received when both Faribault and Martin Counties issued county debt to repay these revenue bonds. On January 18, 2005, Faribault County issued \$1,165,000 of General Obligation Solid Waste Refunding Bonds to refund the County's General Obligation Refunding Bonds of 1996, which were called on June 1, 2005.

Each county shows its share of the debt on its financial statements. Prairieland approved special assessments against all property owners and transfers this revenue to the individual county in sufficient amount to pay the principal, interest, and fees when due.

Separate financial information can be obtained from:

Prairieland Solid Waste Board
801 East Fifth Street North
P. O. Box 100
Truman, Minnesota 56088

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The Board includes the counties of Cottonwood, Faribault, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nobles, Pipestone, Redwood, Renville, Rock, and Watonwan. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use.

The governing body is composed of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rural Minnesota Energy Board (Continued)

Board cease to exist, assets shall be liquidated after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During 2006, Faribault County made no contributions to the Board.

C. Jointly-Governed Organizations

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

The Greater Blue Earth River Basin Joint Powers (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. During the year, the County paid \$7,838 to the GBERBA.

The Three Rivers Resource Conservation & Development (RC&D) is a locally initiated, sponsored, and directed organization that works to enhance the quality of life by improving the economic, social, and environmental conditions within the area. During the year, the County paid \$600 to the RC&D.

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, the County paid \$127,676 to the Cooperative.

The Minnesota Counties Insurance Trust (MCIT) Joint Powers Board provides property/casualty and workers' compensation coverage to several Minnesota counties. During the year, the County paid \$193,724 to the MCIT and received \$73,178 in dividends.

The Minnesota River Board was established to promote orderly water quality improvement and management of the Minnesota River watersheds. During the year, the County paid \$1,330 to the Board.

The South Central Drug Task Force was established to coordinate efforts among participating local governments to apprehend and prosecute drug offenders. During the year, the County paid \$9,110 to the Task Force.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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

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

The South Central Service Cooperative establishes, procures, and administers group employee benefits and other financial and risk management services that embody the concept of pooling risk and the purpose of stabilizing and/or reducing costs. During the year, the County paid \$150 to the Cooperative.

D. Subsequent Events

G.O. Bonds Issued in 2007

In August 2007, the County Board approved the issuance of \$10,000,000 in G.O. Jail Bonds. The bonds are to pay for the cost of the construction of the Faribault County Law Enforcement Center. The average annual debt service of \$747,467 will be paid for with a property tax levy. The County also levied \$600,000 in 2007 to help pay for the proposed \$10.9 million project.

In August 2007, the County Board approved the issuance of \$750,000 in taxable G.O. Waste Disposal Bonds to finance the County's Subsurface Sewage Treatment System (SSTS) loan program. The County will lend up to 80 percent of the cost on the SSTS to property owners. The loans are paid back to the County by an assessment on the property tax statements. Interest of seven percent is charged on the unpaid balance on the loans over a maximum term of ten years. These proceeds will finance the average annual debt service of \$99,707.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Subsequent Events (Continued)

Huntley Sewer Service District

On August 15, 2006, the Faribault County Board created a subordinate service district pursuant to Minn. Stat. § 375B.04, known as the Huntley Sewer Service District. The purpose of the District is to provide sanitary sewer services to the unincorporated area known as Huntley. The sewage will be piped to the City of Winnebago's treatment facility. Funding for the proposed sanitary sewer will be from a USDA Rural Development grant totaling \$732,000, a USDA Rural Development loan of \$360,000, Wastewater Infrastructure Funding (WIF) grant of \$732,000, and costs of \$112,050 to the users of the system. On April 17, 2007, the County Board awarded a contract for \$1,461,035 for the construction of the project. The County plans to issue the 40-year bonds to the USDA Rural Development of \$360,000 in early 2008. A service fee charged to the users will pay for the debt service on the bonds. Users will also be special assessed for the private hookup part of the project.

An advisory committee known as the Huntley Sewer Board will recommend budget policy and administration policy to the County Board. The County will contract with the City of Winnebago to maintain the system and to bill the users for the monthly fees. It is expected that the system will be operational in early 2008.

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loan in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2006.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

7. Faribault County Economic Development Authority (EDA)

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented EDA component unit has the following significant accounting policies.

Reporting Entity

The EDA was created during 2003 to take over the operations of the Local Redevelopment Agency (LRA). The EDA is governed by a five-member Board of Directors who are appointed by the County Board. The LRA serves as an advisory committee to the EDA.

Basis of Presentation

The EDA does not prepare separate financial statements. The EDA presents its one fund as a governmental fund.

Basis of Accounting

The EDA General Fund is accounted for on the modified accrual basis of accounting.

Cash and Pooled Investments

Operating cash of the EDA is on deposit with the Faribault County Treasurer and included within its pooled cash and investments.

B. Detailed Notes on All Funds

1. Assets

Receivables as of December 31, 2006, consist of \$208,216 loans made to individuals and businesses for development and a \$100,000 advance to the Minnesota Community Capital Fund.

Restricted assets as of December 31, 2006, consist of restricted certificates of deposit used to guarantee development loans made by local banks to individuals and businesses.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

7. Faribault County Economic Development Authority (EDA)

B. Detailed Notes on All Funds (Continued)

2. Liabilities

Advances from other governments of \$50,000 consist of two economic development program advances received from two cities within the County.

8. Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the County's discretely presented HRA component unit has the following significant accounting policies.

Reporting Entity

The HRA is governed by a five-member Board of Directors who are appointed by the County Board. All programs of the HRA are administered by the Minnesota Valley Action Council, Inc. (MVAC). The purpose of the HRA is to promote economic development and to administer the public housing programs authorized by the U.S. Housing Act of 1937, as amended. These programs are subsidized by the federal government through the U.S. Department of Housing and Urban Development (HUD).

Basis of Presentation

The HRA prepares separate financial statements. The HRA presents its one fund as an enterprise fund. The HRA applies all GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Basis of Accounting

The HRA Fund is accounted for on the accrual basis of accounting. Accordingly, revenues, including HUD contributions, are recognized when earned, and expenses are recognized when incurred.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

8. Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies (Continued)

Cash

All cash of the HRA is on deposit with MVAC and included within its pooled cash and investments. All cash deposits and temporary investments with original terms of three months or less are considered to be cash.

Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

A. Cash

Deposits

In accordance with Minnesota statutes, the HRA maintains deposits at depository banks authorized by the HRA Board. All such depositories are federally insured.

At December 31, 2006, the carrying amount of the HRA's deposits with financial institutions was \$5,620. Balances were fully insured as of December 31, 2006.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping by the HRA Treasurer or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at December 31, 2006.

Investments

The HRA had no investments during the year ended December 31, 2006.

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REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,131,325	\$ 3,131,325	\$ 3,158,989	\$ 27,664
Special assessments	125,000	125,000	134,924	9,924
Licenses and permits	970	970	1,285	315
Intergovernmental	2,018,350	1,990,350	2,031,427	41,077
Charges for services	576,020	623,670	751,287	127,617
Fines and forfeits	16,000	16,000	19,516	3,516
Gifts and contributions	-	-	2,400	2,400
Investment earnings	240,000	240,000	317,749	77,749
Miscellaneous	242,750	154,100	160,989	6,889
Total Revenues	\$ 6,350,415	\$ 6,281,415	\$ 6,578,566	\$ 297,151
Expenditures				
Current				
General government				
Commissioners	\$ 222,895	\$ 222,895	\$ 244,366	\$ (21,471)
Courts	20,000	20,000	35,763	(15,763)
County administration	118,880	118,880	116,469	2,411
County auditor	245,945	245,945	241,868	4,077
License bureau	113,100	113,100	117,061	(3,961)
County treasurer	160,585	160,585	161,892	(1,307)
County assessor	255,985	255,985	244,638	11,347
Elections	292,000	292,000	221,764	70,236
Data processing	126,430	126,430	175,120	(48,690)
Attorney	181,455	181,455	208,499	(27,044)
Law library	15,000	15,000	15,608	(608)
Recorder	242,790	242,790	181,073	61,717
Vital statistics	15,000	15,000	271	14,729
Planning and zoning	71,870	71,870	78,746	(6,876)
Buildings and plant	816,570	816,570	447,603	368,967
Veterans service officer	128,255	128,255	127,411	844
Machine room	9,000	9,000	4,822	4,178
Other	308,990	308,990	291,098	17,892
Total general government	\$ 3,344,750	\$ 3,344,750	\$ 2,914,072	\$ 430,678

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

***Schedule 1
(Continued)***

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,457,945	\$ 1,457,945	\$ 1,541,998	\$ (84,053)
Boat and water safety	1,000	1,000	924	76
Public safety grant	7,000	7,000	1,026	5,974
Special investigations	4,500	4,500	9,011	(4,511)
Welfare fraud investigator	53,670	53,670	64,124	(10,454)
Sheriff's contingency	1,000	1,000	-	1,000
Coroner	5,000	5,000	3,582	1,418
E-911 system	30,900	30,900	16,500	14,400
Law enforcement center	129,500	129,500	167,309	(37,809)
Community corrections	36,000	36,000	16,947	19,053
Probation and parole	273,685	204,685	263,352	(58,667)
DARE program	-	-	1,343	(1,343)
Civil defense	29,070	29,070	40,536	(11,466)
Other public safety	-	-	25,786	(25,786)
Total public safety	\$ 2,029,270	\$ 1,960,270	\$ 2,152,438	\$ (192,168)
Transportation				
Transit	\$ 162,925	\$ 162,925	\$ 176,890	\$ (13,965)
Sanitation				
Solid waste	\$ 30,500	\$ 30,500	\$ 47,603	\$ (17,103)
SCORE	38,000	38,000	42,821	(4,821)
Total sanitation	\$ 68,500	\$ 68,500	\$ 90,424	\$ (21,924)
Culture and recreation				
Historical society	\$ 18,900	\$ 18,900	\$ 14,000	\$ 4,900
Regional library	177,900	177,900	182,520	(4,620)
Other	900	900	825	75
Total culture and recreation	\$ 197,700	\$ 197,700	\$ 197,345	\$ 355
Conservation of natural resources				
Cooperative extension	\$ 110,350	\$ 110,350	\$ 91,801	\$ 18,549
Soil and water conservation	51,500	51,500	63,850	(12,350)
Agricultural society/County fair	22,500	22,500	31,322	(8,822)
Water planning	122,500	122,500	179,606	(57,106)
Water quality	55,000	55,000	370,781	(315,781)
Other	-	-	2,196	(2,196)
Total conservation of natural resources	\$ 361,850	\$ 361,850	\$ 739,556	\$ (377,706)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 19,350	\$ 19,350	\$ 14,570	\$ 4,780
Administration	103,000	103,000	102,746	254
Total economic development	\$ 122,350	\$ 122,350	\$ 117,316	\$ 5,034
Debt service				
Principal	\$ -	\$ -	\$ 15,812	\$ (15,812)
Interest	-	-	3,961	(3,961)
Total debt service	\$ -	\$ -	\$ 19,773	\$ (19,773)
Total Expenditures	\$ 6,287,345	\$ 6,218,345	\$ 6,407,814	\$ (189,469)
Excess of Revenues Over (Under)				
Expenditures	\$ 63,070	\$ 63,070	\$ 170,752	\$ 107,682
Other Financing Sources (Uses)				
Transfers out	(65,000)	(65,000)	(61,669)	3,331
Net Change in Fund Balance	\$ (1,930)	\$ (1,930)	\$ 109,083	\$ 111,013
Fund Balance - January 1	2,769,198	2,769,198	2,769,198	-
Fund Balance - December 31	\$ 2,767,268	\$ 2,767,268	\$ 2,878,281	\$ 111,013

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 911,150	\$ 911,150	\$ 879,684	\$ (31,466)
Intergovernmental	5,239,439	5,239,439	4,094,889	(1,144,550)
Charges for services	260,000	260,000	420,578	160,578
Miscellaneous	100,000	100,000	52,292	(47,708)
Total Revenues	\$ 6,510,589	\$ 6,510,589	\$ 5,447,443	\$ (1,063,146)
Expenditures				
Current				
Transportation				
Administration	\$ 175,200	\$ 175,200	\$ 170,643	\$ 4,557
Maintenance	1,586,100	1,586,100	1,816,141	(230,041)
Construction	3,665,700	3,665,700	2,553,280	1,112,420
Equipment maintenance and shop	865,900	865,900	900,603	(34,703)
Materials and services for resale	-	-	98,039	(98,039)
Other	-	-	432,616	(432,616)
Unallocated	858,746	858,746	-	858,746
Total transportation	\$ 7,151,646	\$ 7,151,646	\$ 5,971,322	\$ 1,180,324
Culture and recreation				
Parks	154,129	154,129	181,225	(27,096)
Total Expenditures	\$ 7,305,775	\$ 7,305,775	\$ 6,152,547	\$ 1,153,228
Net Change in Fund Balance	\$ (795,186)	\$ (795,186)	\$ (705,104)	\$ 90,082
Fund Balance - January 1	2,949,861	2,949,861	2,949,861	-
Increase (decrease) in reserved for inventories	-	-	181,793	181,793
Fund Balance - December 31	\$ 2,154,675	\$ 2,154,675	\$ 2,426,550	\$ 271,875

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,300,079	\$ 1,300,079	\$ 1,275,454	\$ (24,625)
Intergovernmental	172,100	172,100	193,739	21,639
Total Revenues	\$ 1,472,179	\$ 1,472,179	\$ 1,469,193	\$ (2,986)
Expenditures				
Current				
Human services	1,472,179	1,472,179	1,326,215	145,964
Net Change in Fund Balance	\$ -	\$ -	\$ 142,978	\$ 142,978
Fund Balance - January 1	1,502,039	1,502,039	1,502,039	-
Fund Balance - December 31	<u>\$ 1,502,039</u>	<u>\$ 1,502,039</u>	<u>\$ 1,645,017</u>	<u>\$ 142,978</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 327,900	\$ 327,900	\$ 292,063	\$ (35,837)
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 250,000	\$ 250,000	\$ 339,294	\$ (89,294)
Debt service				
Principal	45,000	45,000	45,000	-
Interest	32,900	32,900	31,576	1,324
Administrative charges	-	-	631	(631)
Total Expenditures	\$ 327,900	\$ 327,900	\$ 416,501	\$ (88,601)
Net Change in Fund Balance	\$ -	\$ -	\$ (124,438)	\$ (124,438)
Fund Balance - January 1	(526,255)	(526,255)	(526,255)	-
Fund Balance - December 31	\$ (526,255)	\$ (526,255)	\$ (650,693)	\$ (124,438)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year-end.

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations (the legal level of budgetary control) in the General Fund by \$189,469 and in the Ditch Special Revenue Fund by \$88,601. The expenditures in excess of budget were funded by unbudgeted revenues and prior year fund balances.

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SUPPLEMENTARY INFORMATION

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 79,550	\$ 79,550	\$ 84,256	\$ 4,706
Special assessments	-	250,266	233,015	(17,251)
Intergovernmental	10,550	10,550	11,856	1,306
Miscellaneous	395,000	144,734	144,734	-
Total Revenues	\$ 485,100	\$ 485,100	\$ 473,861	\$ (11,239)
Expenditures				
Debt service				
Principal	\$ 555,000	\$ 555,000	\$ 555,000	\$ -
Interest	86,800	86,800	84,584	2,216
Administrative charges	-	-	1,275	(1,275)
Total Expenditures	\$ 641,800	\$ 641,800	\$ 640,859	\$ 941
Excess of Revenues Over (Under) Expenditures	\$ (156,700)	\$ (156,700)	\$ (166,998)	\$ (10,298)
Other Financing Sources (Uses)				
Transfers in	65,000	65,000	61,669	(3,331)
Net Change in Fund Balance	\$ (91,700)	\$ (91,700)	\$ (105,329)	\$ (13,629)
Fund Balance - January 1	220,199	220,199	220,199	-
Fund Balance - December 31	\$ 128,499	\$ 128,499	\$ 114,870	\$ (13,629)

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FIDUCIARY FUNDS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

AGENCY FUNDS

Agency funds are used to account for assets held as an agent by the County for others.

The Mortgage Registration Fund accounts for the taxes paid for registering a mortgage within the County.

The Deed Tax Fund accounts for money received from the sale of deed stamps.

The Tax and Penalty Fund accounts for the collection and distribution of property taxes, assessments, and forfeited taxes.

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 6

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MORTGAGE REGISTRATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (11,342)	\$ 134,475	\$ 137,725	\$ (14,592)
<u>Liabilities</u>				
Due to other governments	\$ (11,342)	\$ 134,475	\$ 137,725	\$ (14,592)
 <u>DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 24,024	\$ 158,866	\$ 154,237	\$ 28,653
<u>Liabilities</u>				
Due to other governments	\$ 24,024	\$ 158,866	\$ 154,237	\$ 28,653
 <u>TAX AND PENALTY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 62,026	\$ 12,936,058	\$ 12,886,089	\$ 111,995
<u>Liabilities</u>				
Due to other governments	\$ 62,026	\$ 12,936,058	\$ 12,886,089	\$ 111,995
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 74,708	\$ 13,229,399	\$ 13,178,051	\$ 126,056
<u>Liabilities</u>				
Due to other governments	\$ 74,708	\$ 13,229,399	\$ 13,178,051	\$ 126,056

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COMPONENT UNIT

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 7

**GOVERNMENTAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
DECEMBER 31, 2006**

	General Fund	Adjustments*	Statement of Net Assets
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 224,930	\$ -	\$ 224,930
Accrued interest receivable	116	-	116
Loans receivable	208,216	-	208,216
Restricted assets			
Investments - temporary	16,792	-	16,792
Noncurrent assets			
Advance to other agencies	100,000	-	100,000
	\$ 550,054	\$ -	\$ 550,054
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 3,021	\$ -	\$ 3,021
Deferred revenue	208,216	(208,216)	-
Long-term liabilities			
Advance from other governments	50,000	-	50,000
	\$ 261,237	\$ (208,216)	\$ 53,021
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Reserved for long-term receivables	\$ 50,000	\$ (50,000)	
Reserved for economic development	16,792	(16,792)	
Unreserved, designated for redevelopment loans	222,025	(222,025)	
	\$ 288,817	\$ (288,817)	
Total Liabilities and Fund Balance	\$ 550,054		
Net Assets			
Restricted for economic development		\$ 16,792	\$ 16,792
Unrestricted		480,241	480,241
		\$ 497,033	\$ 497,033

*Note: Long-term loans receivable not available to pay for current period expenses are deferred in governmental funds.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 8

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
Revenues			
Intergovernmental	\$ 102,746	\$ -	\$ 102,746
Charges for services	74,948	(30,337)	44,611
Investment earnings	67	-	67
Miscellaneous	10,318	-	10,318
Total Revenues	\$ 188,079	\$ (30,337)	\$ 157,742
Expenditures/Expenses			
Current			
Economic development	130,153	-	130,153
Net Change in Fund Balance/Net Assets	\$ 57,926	\$ (30,337)	\$ 27,589
Fund Balance/Net Assets - January 1	230,891	238,553	469,444
Fund Balance/Net Assets - December 31	\$ 288,817	\$ 208,216	\$ 497,033

*Note: Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund.

OTHER SCHEDULE

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 9

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Total Primary Government
Shared Revenue	
State	
Highway users tax	\$ 3,881,570
Program aid	780,087
Market value credit	744,798
PERA rate reimbursement	13,448
Disparity reduction aid	72,309
Police aid	50,105
E-911	90,711
Total Shared Revenue	\$ 5,633,028
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 26,398
Payments	
Payments in lieu of taxes	\$ 11,837
Grants	
State	
Minnesota Department of	
Corrections	\$ 59,644
Transportation	83,957
Natural Resources	42,086
Water and Soil Resources Board	72,754
Pollution Control Agency	49,079
Peace Officer Standards and Training Board	3,979
Miscellaneous boards	800
Total State	\$ 312,299
Federal	
Department of	
Transportation	\$ 83,235
Homeland Security	32,154
Election Assistance Commission	232,960
Total Federal	\$ 348,349
Total State and Federal Grants	\$ 660,648
Total Intergovernmental Revenue	\$ 6,331,911

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 10

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Capital Asset Records

The County Board has a capital asset policy that discusses capitalization threshold and use of straight-line depreciation. The policy does not discuss estimated useful lives or use of salvage values. This resulted in the following:

- Estimated useful lives are not used consistently. General government buildings are depreciated over 30 years, while highway buildings are depreciated over 39 and 40 years.
- The capital asset records include capitalized items below the capitalization threshold. The purpose of a higher capitalization threshold is to reduce the amount of work needed to maintain the records without significantly reducing the value of capital assets included. The following table details amounts included in capital assets valued at less than the capitalization policy:

	Value Less Than Capitalization Policy	Total Value	Current Year Depreciation Applicable to Assets Below the Threshold
Capital assets depreciated			
Buildings and improvements	\$ 246,240	\$ 3,610,344	\$ 7,642
Other improvements	72,489	234,086	3,836
Machinery and equipment	56,440	5,492,553	2,225
Infrastructure	690,448	62,621,519	27,613
 Total Capital Assets Depreciated	 \$ 1,065,617	 \$ 71,958,502	 \$ 41,316

To improve control over capital assets, we recommend the County Board approve policies and procedures that establish consistent useful lives and set guidance on when to use salvage values in computing depreciation. If exceptions to the capitalization threshold policy are allowed, those exceptions should be spelled out in the policies.

Client's Response:

- A. *The County will standardize the useful lives.*
- B. *The County will remove items not meeting the thresholds.*

03-1 General Ledger Items

While reviewing the County's general ledger account activity report, we noted the following item of concern. Certain funds in the general ledger were not in balance at the end of the year. The General Fund was out of balance by \$300,757, the Public Works Special Revenue Fund by \$3,037, the Ditch Special Revenue Fund by \$4,417, the Debt Service Fund by \$299,172, and the Economic Development Authority Component Unit by \$1,980.

In order to improve the financial records of the County, we recommend, on a monthly basis, the County should review each fund and the total for the general ledger to ensure that the funds and general ledger are in balance. This can be done by looking at the last line for each fund and the cumulative total for the general ledger. In each case, the last line in the report for the fund or the cumulative general total should have a zero amount. If the amount is other than zero, it means that either a debit or credit entry was not posted to the general ledger.

Client's Response:

The County will work at correcting the GL out of balance condition.

ITEMS ARISING THIS YEAR

06-1 **Audit Adjustments**

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the County's internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the County's financial statements.

- Corrections were made to reclassify various revenues in the General Fund and Public Works Special Revenue Fund. The majority of adjustments were for revenues related to grants and allotments.
- Corrections were made to adjust expenditures that had been coded to the wrong department in the General Fund.
- Corrections to receivable amounts were made in the General Fund.
- Adjustments were made to record additional payable items in the Ditch Special Revenue Fund.
- Adjustments were made to the capital asset balance and depreciation expenses.

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

The County will work to review statements and reduce the need for significant adjustments.

06-2 Budgeting

The County does not have a formal written budget policy. In general, local governments should have an adopted budget policy that includes elements such as:

- procedures for adopting the budget,
- which funds require budgets,
- the legal level of control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- the procedures for monitoring the budget.

After the County Board has adopted a budget, it should be entered into the Integrated Financial System (IFS) to be used as a monitoring tool. Someone who is independent of the budgeting process should enter the budget. At Faribault County, the budget is entered into the IFS by the County Auditor, who is not independent of the budgeting process.

The ability to modify the budget during the year for new circumstances makes the budget more valuable because budgetary differences are not distorted by the new circumstances. Budget modifications should be made throughout the year to maintain the value of the budget as an internal control tool. In Faribault County, budget modifications are not always made for significant changes in expected activity.

We recommend the County Board amend its budget policy to include the elements recommended above, that budget amounts should be entered into the IFS by a person independent of the budgeting process, and that the County budget be modified as necessary for significant changes in expected activity.

Client's Response:

The County is in the process of adopting a budget and accounting policy to address many of the points brought up in this finding. Because of staff size no change in the data entry of the budget into IFS is expected. Beginning in 2008, the County will modify budgets to reflect major changes in revenues and expenditures.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Individual Ditch System Deficits

It is a continuing practice for Faribault County to have individual ditch systems with cash and fund deficits. Of the 180 individual systems, 22 ditch systems had deficit cash balances totaling \$209,470 at December 31, 2006. In cases where a ditch account has insufficient funds to pay project costs, Minn. Stat. § 103E.655, subd. 2, allows loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures. This statute also specifies such loans must be repaid with interest. Allowing a ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from the other ditch systems in violation of Minnesota law.

In addition, 65 ditch systems had negative fund balances totaling \$1,417,138 on a full accrual basis as of December 31, 2006. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend Faribault County eliminate the individual ditch system cash balance deficits by borrowing from an eligible fund with a surplus cash balance and the County levy assessments pursuant to Minn. Stat. § 103E.735, subd. 1, to accumulate a cash balance sufficient to provide for the repair and maintenance costs of ditch systems.

Client's Response:

The County will continue to assess systems for repair and construction costs. More than one million dollars in new assessments will be levied for payable 2008 taxes.

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

Schedule 10
(Continued)

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

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

Board of County Commissioners
Faribault County

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of and for the year ended December 31, 2006, and have issued our report thereon dated February 8, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Faribault County Housing and Redevelopment Authority, a discretely presented component unit of the County, as described in our report on Faribault County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Faribault County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 96-5, 03-1, 06-1, and 06-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Faribault County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Faribault 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, Faribault County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 96-1.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to Faribault County, and it is reported for that purpose.

Faribault County's written responses to the significant deficiencies and legal compliance finding identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, and others within Faribault County and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 8, 2008