

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

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

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

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Year Ended December 31, 2005



**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, 2005

			Term Expires
Elected			
Commissioners			
Board Member	Barb Steier	District 1	January 2009
Board Member	Loren Lein	District 2	January 2007
Vice Chair	William Groskreutz, Jr.	District 3	January 2009
Chair	Tom Loveall	District 4	January 2007
Board Member	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
	Gordon Hansen*	Wells	December 31, 2010
	Rob Nelson	Winnebago	December 31, 2006
	Jake Anderson	Frost	December 31, 2007

*Gordon Hansen resigned in March 2006. He was replaced by Ann Schuster.

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PATRICIA ANDERSON
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, 2005, 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 2 percent and 71 percent, respectively, of the 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, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and 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 November 22, 2006, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 22, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

(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, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$46,876,017, of which \$40,151,626 is invested in capital assets, net of related debt; \$1,637,692 is restricted to specific purposes.
- Faribault County's net assets increased by \$2,143,412 for the year ended December 31, 2005. The net assets of the County's discretely presented components units increased by \$75,076.
- The net cost of governmental activities was \$4,908,027 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$7,051,439.
- Governmental funds' fund balances increased by \$67,478. The Human Services Fund had a decrease of \$181,089 due to increases in out-of-home placements, and the Ditch Fund had a decrease of \$130,340 due to repairs that have not been levied as of December 31, 2005. These decreases were offset by increases in the General Fund of \$142,967 and in the Public Works Fund of \$223,233.

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 \$44,732,605 to \$46,876,017. 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**

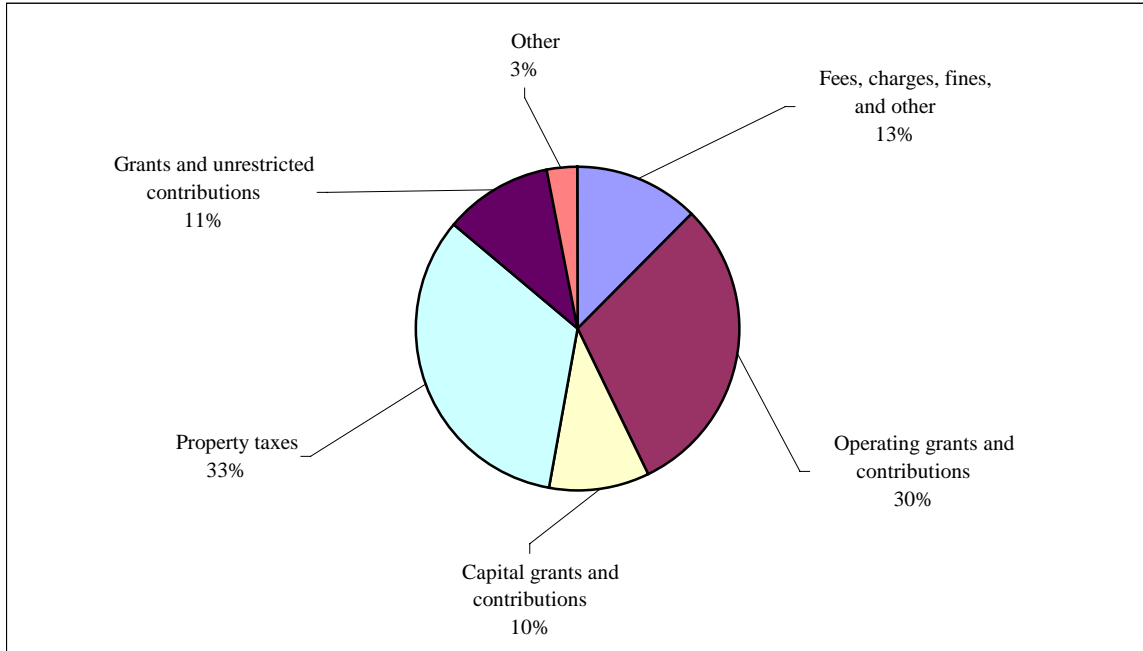
	2005	2004
Current and other assets	\$ 11,251,459	\$ 11,541,145
Capital assets	40,225,057	39,675,086
Total Assets	\$ 51,476,516	\$ 51,216,231
Long-term debt outstanding	\$ 4,057,265	\$ 4,995,312
Other liabilities	543,234	1,488,314
Total Liabilities	\$ 4,600,499	\$ 6,483,626
Net Assets		
Invested in capital assets, net of debt	\$ 40,151,626	\$ 39,265,291
Restricted	1,637,692	1,075,996
Unrestricted	5,086,699	4,391,318
Total Net Assets	\$ 46,876,017	\$ 44,732,605

Net assets of the County's governmental activities increased by 4.8 percent (\$2,143,412). 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 \$4,391,318 at December 31, 2004, to \$5,086,699 at the end of this year.

Table 2
Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 1,883,245	\$ 2,109,819
Operating grants and contributions	4,510,340	5,258,588
Capital grants and contributions	1,464,031	124,368
General revenues		
Property taxes	4,984,607	4,797,401
Grants and unrestricted contributions	1,604,527	1,363,071
Unrestricted investment earnings	222,923	192,720
Miscellaneous	239,382	230,609
Total Revenues	<u>\$ 14,909,055</u>	<u>\$ 14,076,576</u>
Expenses		
General government	\$ 2,436,529	\$ 2,376,692
Public safety	2,205,394	1,878,818
Transportation	5,093,051	5,501,280
Sanitation	92,780	140,645
Human services	1,570,639	1,151,965
Conservation of natural resources	796,340	641,866
Culture and recreation	289,015	404,536
Economic development	113,242	110,663
Interest	168,653	221,165
Total Expenses	<u>\$ 12,765,643</u>	<u>\$ 12,427,630</u>
Net Change	<u>\$ 2,143,412</u>	<u>\$ 1,648,946</u>

**Total County Revenues
Percent of Total**



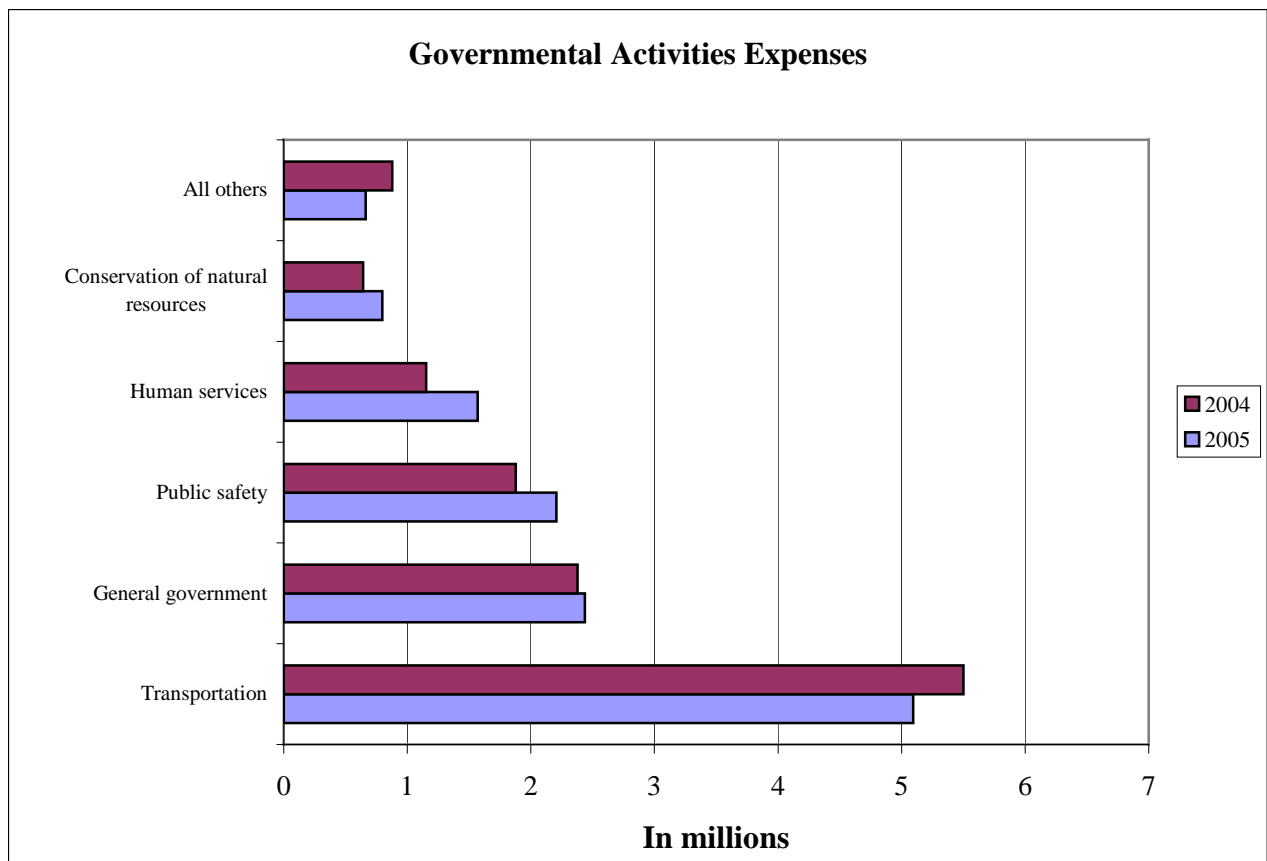
Governmental Activities

Revenues for the County’s governmental activities were \$14,909,055, while total expenses were \$12,765,643. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was \$4,954,121, because some of the cost was paid by those who directly benefited from the programs (\$1,883,245) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,974,371). Overall, the County’s governmental program revenues, including intergovernmental aid and fees for services, totaled \$7,857,616. The County paid for the remaining “public benefit” portion of governmental activities with \$7,051,439 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	
	2005	2004	2005	2004
Transportation	\$ 5,093,051	\$ 5,501,280	\$ (826,325)	\$ (105,400)
General government	2,436,529	2,376,692	1,752,470	1,700,891
Public safety	2,205,394	1,878,818	1,668,038	1,212,827
Human services	1,570,639	1,151,965	1,570,639	1,151,965
Conservation of natural resources	796,340	641,866	180,482	283,488
All others	663,690	877,009	562,723	691,084
Total Expenses	\$ 12,765,643	\$ 12,427,630	\$ 4,908,027	\$ 4,934,855



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 \$6,915,042, which is below last year's total of \$6,768,166. The Human Services Fund had the largest decline in fund balance, primarily due to an increase in out-of-home placements. The General Fund saw public safety expenditures exceeding budgeted amounts for labor costs, capital outlay, and vehicle expense. Revenues

exceeded budgeted targets in all major categories to more than offset any negative budget expenditure. The General Fund's fund balance is 40.0 percent of the total governmental funds, compared to 38.8 percent at the end of 2004.

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 \$513,049 above the budget amounts, with over half (\$259,540) in the public safety area. ISTS loans made from the General Fund and not budgeted also contributed to the excess expenditures over budget (\$231,194). Other functional areas contributing to the excess spending were transportation (\$61,566) and debt service (\$3,684). 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 2005, the County had \$40,225,057 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 \$550,000, or 1.3 percent, over last year.

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

	2005	2004
Land	\$ 755,497	\$ 748,219
Construction in progress	1,827,928	3,907,132
Building and improvements	1,601,255	1,519,479
Other improvements	118,683	127,711
Machinery and equipment	2,241,881	2,241,027
Infrastructure	33,679,813	31,131,518
Total	\$ 40,225,057	\$ 39,675,086

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

Debt

At year-end, the County had \$3,345,000 in bonds and notes outstanding, versus \$4,410,000 last year. Table 5 shows the outstanding debt.

**Table 5
Outstanding Debt at Year-End**

	2005	2004
Bonds payable	\$ 3,345,000	\$ 4,085,000
Note payable	-	325,000
Total bonds and notes payable	\$ 3,345,000	\$ 4,410,000
Capital leases	23,431	14,795
Loans payable	120,704	41,062
Compensated absences	579,800	537,518
Totals	\$ 4,068,935	\$ 5,003,375

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. The County refunded the Prairieland Solid Waste Bonds in early 2005. 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 2006 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2006 are budgeted to increase 21.2 percent over 2005. The County Board is preparing to build a law enforcement center that is estimated to cost from \$8 million to \$12 million. This project is not finalized but is expected to be started by late 2007. The County will also sponsor a sewer system in the unincorporated area of Huntley. The County will issue \$360,000 in bonds to the U.S. Department of Agriculture and will be paid back from revenues from the system. Construction will begin in 2007.
- Property tax levies have increased 7.0 percent for 2006.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact 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, 2005**

	Primary Government Governmental Activities	Discretely Presented Component Units	
		Housing and Redevelopment Authority	Economic Development Authority
<u>Assets</u>			
Cash and pooled investments	\$ 5,942,189	\$ 9,924	\$ 165,467
Petty cash and change funds	2,602	-	-
Taxes receivable - prior	86,659	-	-
Special assessments receivable			
Prior	14,547	-	-
Noncurrent	1,030,808	-	-
Accounts receivable	16,004	-	-
Accrued interest receivable	31,321	-	116
Loans receivable	-	-	238,553
Due from other governments	2,859,023	-	-
Inventories	1,174,836	-	-
Prepaid items	24,919	-	-
Restricted assets			
Investments - temporary	-	-	16,792
Advances to other governments	40,000	-	-
Advances to other agencies	-	-	100,000
Deferred charges	28,551	-	-
Capital assets			
Non-depreciable	2,583,425	-	-
Depreciable - net of accumulated depreciation	37,641,632	-	-
Total Assets	\$ 51,476,516	\$ 9,924	\$ 520,928
<u>Liabilities</u>			
Accounts payable	\$ 192,447	\$ -	\$ 1,484
Salaries payable	154,591	-	-
Contracts payable	83,662	-	-
Due to other governments	72,648	-	-
Accrued interest payable	26,295	-	-
Unearned revenue	13,591	-	-
Advance from other governments	-	-	50,000
Long-term liabilities			
Due within one year	612,331	-	-
Due in more than one year	3,444,934	-	-
Total Liabilities	\$ 4,600,499	\$ -	\$ 51,484

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government	Discretely Presented Component Units	
	Governmental Activities	Housing and Redevelopment Authority	Economic Development Authority
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 40,151,626	\$ -	\$ -
Restricted for			
Debt service	220,199	-	-
Transportation	1,252,691	-	-
General government	81,587	-	-
Public safety	71,941	-	-
Conservation of natural resources	11,274	-	-
Economic development	-	-	16,792
Unrestricted	5,086,699	9,924	452,652
Total Net Assets	\$ 46,876,017	\$ 9,924	\$ 469,444

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,436,529	\$ 644,564
Public safety	2,205,394	225,188
Transportation	5,093,051	440,204
Sanitation	92,780	9,417
Human services	1,570,639	-
Culture and recreation	289,015	42,471
Conservation of natural resources	796,340	521,401
Economic development	113,242	-
Interest	168,653	-
Total primary government	\$ 12,765,643	\$ 1,883,245
Component units		
Housing and Redevelopment Authority	\$ 276,276	\$ -
Economic Development Authority	52,561	17,327
Total component units	\$ 328,837	\$ 17,327

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
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
\$ 39,495	\$ -	\$ (1,752,470)		
296,792	15,376	(1,668,038)		
4,030,517	1,448,655	826,325		
49,079	-	(34,284)		
-	-	(1,570,639)		
-	-	(246,544)		
94,457	-	(180,482)		
-	-	(113,242)		
-	-	(168,653)		
\$ 4,510,340	\$ 1,464,031	\$ (4,908,027)		
\$ 286,200	\$ -		\$ 9,924	\$ -
-	-		-	(35,234)
\$ 286,200	\$ -		\$ 9,924	\$ (35,234)
		\$ 4,954,121	\$ -	\$ -
		9,788	-	-
		20,698	-	-
		1,604,527	-	99,996
		222,923	-	390
		239,382	-	-
		\$ 7,051,439	\$ -	\$ 100,386
		\$ 2,143,412	\$ 9,924	\$ 65,152
		44,732,605	-	404,292
		\$ 46,876,017	\$ 9,924	\$ 469,444

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FUND FINANCIAL STATEMENTS

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

	General	Public Works
<u>Assets</u>		
Cash and pooled investments	\$ 2,158,215	\$ 1,913,535
Petty cash and change funds	2,305	297
Taxes receivable		
Prior	43,894	15,993
Special assessments receivable		
Prior	10,681	-
Noncurrent	657,702	-
Accounts receivable	14,619	1,338
Accrued interest receivable	31,321	-
Due from other funds	3,710	3,570
Due from other governments	198,961	1,447,902
Inventories	-	1,174,836
Prepaid items	14,519	10,400
Advances to other funds	626,305	-
Advances to other governments	40,000	-
	\$ 3,802,232	\$ 4,567,871
Total Assets	\$ 3,802,232	\$ 4,567,871

EXHIBIT 3

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ 1,497,292	\$ 150,770	\$ 222,377	\$ 5,942,189
-	-	-	2,602
20,158	-	6,614	86,659
-	3,866	-	14,547
-	373,106	-	1,030,808
-	47	-	16,004
-	-	-	31,321
-	4,540	-	11,820
-	47,160	1,165,000	2,859,023
-	-	-	1,174,836
-	-	-	24,919
-	-	-	626,305
-	-	-	40,000
<u>\$ 1,517,450</u>	<u>\$ 579,489</u>	<u>\$ 1,393,991</u>	<u>\$ 11,861,033</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

	General	Public Works
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 90,248	\$ 52,056
Salaries payable	112,729	41,862
Contracts payable	-	75,415
Due to other funds	3,570	4,540
Due to other governments	64,666	2,897
Deferred revenue - unavailable	750,120	1,440,496
Deferred revenue - unearned	11,701	744
Advance from other funds	-	-
	\$ 1,033,034	\$ 1,618,010
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 1,174,836
Advances to other funds	626,305	-
Advances to other governments	40,000	-
Recording compliance fund	11,157	-
Law library	44,721	-
Recorder's equipment	36,866	-
Enhanced 911	63,052	-
DARE	8,889	-
Conservation of natural resources	11,274	-
Unreserved		
Designated for debt service	-	-
Designated for future expenditures	1,400,000	-
Designated for compensated absences	368,816	210,984
Designated for trust	30,000	-
Designated for building fund	50,000	-
Designated for forfeited building fund	15,000	-
Undesignated	63,118	1,564,041
	\$ 2,769,198	\$ 2,949,861
Total Liabilities and Fund Balances	\$ 3,802,232	\$ 4,567,871

EXHIBIT 3
(Continued)

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ -	\$ 49,365	\$ 778	\$ 192,447
-	-	-	154,591
-	8,247	-	83,662
-	460	3,250	11,820
-	5,085	-	72,648
14,331	416,282	1,169,698	3,790,927
1,080	-	66	13,591
-	626,305	-	626,305
\$ 15,411	\$ 1,105,744	\$ 1,173,792	\$ 4,945,991
\$ -	\$ -	\$ -	\$ 1,174,836
-	-	-	626,305
-	-	-	40,000
-	-	-	11,157
-	-	-	44,721
-	-	-	36,866
-	-	-	63,052
-	-	-	8,889
-	-	-	11,274
-	-	220,199	220,199
-	-	-	1,400,000
-	-	-	579,800
-	-	-	30,000
-	-	-	50,000
-	-	-	15,000
1,502,039	(526,255)	-	2,602,943
\$ 1,502,039	\$ (526,255)	\$ 220,199	\$ 6,915,042
\$ 1,517,450	\$ 579,489	\$ 1,393,991	\$ 11,861,033

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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, 2005**

Fund balances - total governmental funds (Exhibit 3)		\$	6,915,042
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.			40,225,057
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			3,790,927
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	\$	28,551	
General obligation bonds		(2,485,000)	
Special assessments debt		(860,000)	
Unamortized bond discount		11,670	
Capital leases		(23,431)	
Loans payable		(120,704)	
Compensated absences		(579,800)	
Accrued interest payable		(26,295)	
		(4,055,009)	
Net assets of governmental activities (Exhibit 1)		\$	<u>46,876,017</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

	General	Public Works
Revenues		
Taxes	\$ 2,508,197	\$ 869,473
Special assessments	140,209	-
Licenses and permits	1,453	-
Intergovernmental	1,797,526	4,781,331
Charges for services	737,758	406,216
Fines and forfeits	20,436	-
Gifts and contributions	10,680	-
Interest on investments	222,770	-
Miscellaneous	180,000	58,450
	\$ 5,619,029	\$ 6,115,470
Expenditures		
Current		
General government	\$ 2,368,220	\$ -
Public safety	2,165,080	-
Transportation	61,566	5,730,048
Sanitation	92,780	-
Human services	-	-
Culture and recreation	194,625	98,409
Conservation of natural resources	510,610	-
Economic development	113,242	-
Debt service		
Principal	3,364	-
Interest	3,684	-
Bond issuance cost	-	-
Administrative charges	-	-
	\$ 5,513,171	\$ 5,828,457
Excess of Revenues Over (Under) Expenditures	\$ 105,858	\$ 287,013
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 13,533
Transfers out	(54,533)	(77,313)
Capital lease issued	12,000	-
Loans issued	79,642	-
Refunding bonds issued	-	-
Discount on bond issuance	-	-
	\$ 37,109	\$ (63,780)
Net Change in Fund Balances	\$ 142,967	\$ 223,233
Fund Balances - January 1	2,626,231	2,647,230
Increase (decrease) in reserved for inventories	-	79,398
	\$ 2,769,198	\$ 2,949,861
Fund Balances - December 31	\$ 2,769,198	\$ 2,949,861

EXHIBIT 5

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ 1,197,103	\$ -	\$ 392,731	\$ 4,967,504
-	228,028	-	368,237
-	-	-	1,453
192,447	-	63,125	6,834,429
-	-	-	1,143,974
-	-	-	20,436
-	-	-	10,680
-	-	153	222,923
-	700	624,382	863,532
\$ 1,389,550	\$ 228,728	\$ 1,080,391	\$ 14,433,168
\$ -	\$ -	\$ -	\$ 2,368,220
-	-	-	2,165,080
-	-	-	5,791,614
-	-	-	92,780
1,570,639	-	-	1,570,639
-	-	-	293,034
-	280,786	-	791,396
-	-	-	113,242
-	45,000	2,185,000	2,233,364
-	32,879	137,653	174,216
-	-	20,700	20,700
-	403	2,856	3,259
\$ 1,570,639	\$ 359,068	\$ 2,346,209	\$ 15,617,544
\$ (181,089)	\$ (130,340)	\$ (1,265,818)	\$ (1,184,376)
\$ -	\$ -	\$ 118,313	\$ 131,846
-	-	-	(131,846)
-	-	-	12,000
-	-	-	79,642
-	-	1,165,000	1,165,000
-	-	(4,788)	(4,788)
\$ -	\$ -	\$ 1,278,525	\$ 1,251,854
\$ (181,089)	\$ (130,340)	\$ 12,707	\$ 67,478
1,683,128	(395,915)	207,492	6,768,166
-	-	-	79,398
\$ 1,502,039	\$ (526,255)	\$ 220,199	\$ 6,915,042

**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, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 67,478**

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	\$ 3,357,223	
Current year depreciation	<u>(2,782,523)</u>	574,700

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. (24,729)

The issuance of long-term debt provides current financing sources to governmental funds, while the repayment of the principal consumes current financial resources. Neither transaction has any effect on net assets. Also, governmental funds report the net effect of issuance costs and discounts when debt is issued; these amounts are deferred and amortized over the life of the debt in the statement of activities.

Capital lease issued	\$ (12,000)	
Loans issued	(79,642)	
Refunding bonds issued	(1,165,000)	
Bond issuance costs	20,700	
Discount on bonds issued	<u>4,788</u>	(1,231,154)

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	\$ 1,860,000	
Special assessments debt	45,000	
Capital notes	325,000	
Capital leases	<u>3,364</u>	2,233,364

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	\$ 13,895	
Change in discount on debt	(1,181)	
Change in deferred debt issue costs	(3,892)	
Change in inventories	79,398	
Change in compensated absences	<u>(42,282)</u>	45,938

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	\$ 76,807	
Change in deferred revenue for grants	<u>401,008</u>	<u>477,815</u>

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 2,143,412**

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 7

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

	<u>Agency</u>
<u>Assets</u>	
Cash and cash equivalents	<u>\$ 74,708</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 74,708</u>

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. 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, vacation, 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.

**FARIBAULT 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, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$222,770.

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, but does operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

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 is composed of 182 individual drainage systems. Twenty-four of these systems had a deficit cash balance, and 72 of the systems had individual deficit fund balances. All the ditch systems combined had a fund balance deficit of \$526,255. The individual ditch system fund balance deficits will be eliminated with future special assessment levies against benefited properties.

**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	\$	5,942,189
Petty cash and change fund		2,602
Component unit - HRA		9,924
Component unit - EDA		
Cash and pooled investments		165,467
Restricted assets		
Investments		16,792
Agency funds		
Cash and pooled investments		74,708
Total Cash and Investments	\$	6,211,682
Cash and investments held by the County Treasurer	\$	6,201,758
Cash in custody of the HRA (See Note 8.B.)		9,924
Total Cash and Investments	\$	6,211,682

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, 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 their exposure to interest rate risk by limiting long-term investments. County policy states that only 30 percent of County funds may be invested in items that mature in more than one year.

	Maturity Dates		
	0 - 1 Year	1 - 5 Years	5 - 13 Years
Deposits	\$ 3,540,915	\$ -	\$ -
Petty cash	2,602	-	-
MAGIC Fund	511	-	-
Federal Home Loan Bank notes (1)	299,496	891,878	1,168,356
Negotiable certificates of deposit	100,000	-	198,000
Total Cash and Investments	<u>\$ 3,943,524</u>	<u>\$ 891,878</u>	<u>\$ 1,366,356</u>

(1) All of these notes have setup 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 does not have a policy on custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County does not have a policy on concentration of credit risk. The only investments in any one issuer that represent five percent or more of the County's investments are in Federal Home Loan Bank totaling \$2,359,730.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - prior	\$ 86,659	\$ -
Special assessments - prior	14,547	-
Special assessments - noncurrent	1,030,808	722,323
Accounts	16,004	-
Accrued interest	31,321	-
Due from other governments	2,859,023	940,000
Total	\$ 4,038,362	\$ 1,662,323

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 748,219	\$ 7,278	\$ -	\$ 755,497
Construction in progress	3,907,132	2,663,597	4,742,801	1,827,928
Total capital assets not depreciated	\$ 4,655,351	\$ 2,670,875	\$ 4,742,801	\$ 2,583,425
Capital assets depreciated				
Buildings and improvements	\$ 3,436,716	\$ 173,628	\$ -	\$ 3,610,344
Other improvements	177,638	-	-	177,638
Machinery and equipment	4,779,511	519,998	240,211	5,059,298
Infrastructure	53,441,300	4,735,523	-	58,176,823
Total capital assets depreciated	\$ 61,835,165	\$ 5,429,149	\$ 240,211	\$ 67,024,103

**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	\$ 1,917,237	\$ 91,852	\$ -	\$ 2,009,089
Other improvements	49,927	9,028	-	58,955
Machinery and equipment	2,538,484	490,792	211,859	2,817,417
Infrastructure	<u>22,309,782</u>	<u>2,190,851</u>	<u>3,623</u>	<u>24,497,010</u>
 Total accumulated depreciation	 <u>\$ 26,815,430</u>	 <u>\$ 2,782,523</u>	 <u>\$ 215,482</u>	 <u>\$ 29,382,471</u>
 Total capital assets depreciated, net	 <u>\$ 35,019,735</u>	 <u>\$ 2,646,626</u>	 <u>\$ 24,729</u>	 <u>\$ 37,641,632</u>
 Capital Assets, Net	 <u>\$ 39,675,086</u>	 <u>\$ 5,317,501</u>	 <u>\$ 4,767,530</u>	 <u>\$ 40,225,057</u>

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

General government	\$ 98,999
Public safety	127,639
Highways and streets, including depreciation of infrastructure assets	2,549,553
Conservation of natural resources	<u>6,332</u>
 Total Depreciation Expense	 <u>\$ 2,782,523</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2005, 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
	Ditch	460
Total General Fund		\$ 3,710
Public Works	General	3,570
Ditch	Public Works	4,540
Total Due To/From Other Funds		<u>\$ 11,820</u>

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 626,305</u>

3. Interfund Transfers

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

Transfers to Debt Service Fund from General Fund	\$ 41,000	Provide funds for debt service
Transfers to Debt Service Fund from Public Works Fund	77,313	Provide funds for debt service
Transfers to Public Works Fund from General Fund	<u>13,533</u>	Reimburse fund for transit costs
Total Interfund Transfers	<u>\$ 131,846</u>	

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

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 41 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2005, the County expended \$178,076 for these benefits.

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, 2005:

<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	\$ 12,124
Xerox copier	2010	Monthly	265	12,000	11,307
					<u>\$ 23,431</u>

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Capital Leases (Continued)

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, 2005, were as follows:

	\$	6,539
2006		6,539
2007		6,539
2008		6,539
2009		6,539
2010		1,860
Total Lease Payments	\$	28,016
Less: amount representing interest		(4,585)
Present Value of Minimum Lease Payments	\$	23,431

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General Obligation Bonds					
1997 G.O. Landfill Closing Refunding Bonds	2008	\$55,000 - \$60,000	4.80 - 5.00	\$ 475,000	\$ 175,000
1997 G.O. Courthouse Bonds	2007	\$25,000	5.50 - 5.60	190,000	50,000
2001 G.O. Taxable Waste Disposal Bonds	2016	\$15,000 - \$30,000	6.20 - 6.70	300,000	240,000
2001 G.O. Refunding Bonds	2009	\$140,000 - \$215,000	3.75 - 4.00	1,435,000	655,000
2001 G.O. Taxable Refunding Waste Disposal Bonds	2012	\$20,000 - \$35,000	5.75 - 6.40	285,000	200,000
2005 G.O. Solid Waste Revenue Refunding Bonds	2010	\$205,000 - \$250,000	2.10 - 2.70	1,165,000	1,165,000
Total general obligation bonds				\$ 3,850,000	\$ 2,485,000
Less: unamortized discount					(4,031)
Total General Obligation Bonds, Net					\$ 2,480,969

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
Special assessment bonds 1999 G.O. Ditch Bonds	2014	\$15,000 - \$20,000	4.30 - 4.95	\$ 280,000	\$ 160,000
2003 G.O. Drainage Ditch Bonds	2024	\$25,000 - \$50,000	1.85 - 4.25	725,000	700,000
Total general obligation special assessment bonds				<u>\$ 1,005,000</u>	\$ 860,000
Less: unamortized discount					<u>(7,639)</u>
Total General Obligation Special Assessment Bonds, Net					<u>\$ 852,361</u>

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. Semi-annual installment payments of \$6,689 will be made until 2015, including interest at two percent. The amount of the original issue was \$120,704. The loans are secured by special assessments placed on the individual parcels. Loan payments will be reported in the General Fund.

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 555,000	\$ 84,584	\$ 45,000	\$ 31,576
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 - 2015	190,000	41,325	225,000	99,398
2016 - 2020	30,000	2,010	200,000	60,006
2021 - 2025	-	-	190,000	16,440
Total	<u>\$ 2,485,000</u>	<u>\$ 296,306</u>	<u>\$ 860,000</u>	<u>\$ 318,413</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable	
	Principal	Interest
2006	\$ 11,019	\$ 2,359
2007	11,240	2,138
2008	11,466	1,912
2009	11,696	1,682
2010	11,931	1,446
2011 - 2015	63,352	3,536
Total	\$ 120,704	\$ 13,073

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 3,180,000	\$ 1,165,000	\$ 1,860,000	\$ 2,485,000	\$ 555,000
G.O. special assessment bonds	905,000	-	45,000	860,000	45,000
G.O. capital notes	325,000	-	325,000	-	-
Less: deferred amounts for issuance discounts	(8,063)	(4,788)	(1,181)	(11,670)	-
Total bonds payable	\$ 4,401,937	\$ 1,160,212	\$ 2,228,819	\$ 3,333,330	\$ 600,000
Capital leases	14,795	12,000	3,364	23,431	4,794
Loans payable	41,062	79,642	-	120,704	-
Compensated absences	537,518	42,282	-	579,800	7,537
Long-Term Liabilities	\$ 4,995,312	\$ 1,294,136	\$ 2,232,183	\$ 4,057,265	\$ 612,331

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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.

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.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund and Public Employees Correctional Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 125,911	\$ 50,105	\$ 23,373
2004	125,704	43,476	16,811
2003	132,366	41,801	16,458

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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

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

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$12,925, \$11,972, and \$11,760, respectively, equal to the contractually required contributions for each year as set by state statute.

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

5. Risk Management (Continued)

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

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.

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Faribault-Martin Human Services Board (Continued)

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 \$161,225 in 2005.

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

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 counties' Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the 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 2005, 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 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 \$600 to the Three Rivers RC&D.

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, the County paid \$58,809 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 \$188,688 to MCIT and received \$74,299 in dividends.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

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 \$1,405 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 made no payments to the Task Force.

The South Central Emergency Medical Services (SEMS) provides various emergency medical services to several counties. During the year, the County made no payments to 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. 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 2005.

**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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

7. Faribault County Economic Development Authority (EDA) (Continued)

B. Detailed Notes on All Funds

1. Assets

Receivables as of December 31, 2005, consist of \$238,553 loans made to individuals and businesses for development and a \$100,000 advance to MCCF.

Restricted assets as of December 31, 2005, consist of restricted certificates of deposit used to guarantee development loans made by local banks to individuals and businesses.

2. Liabilities

Advances from other agencies 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 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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

8. Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies (Continued)

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.

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.

B. 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, 2005, the carrying amount of the HRA's deposits with financial institutions was \$9,924, and bank balances were \$10,024. Balances were fully insured as of December 31, 2005.

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, 2005.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

8. Housing and Redevelopment Authority (HRA)

B. Cash (Continued)

Investments

The HRA had no investments during the year ended December 31, 2005.

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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, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,818,041	\$ 2,501,695	\$ 2,508,197	\$ 6,502
Special assessments	31,000	31,000	140,209	109,209
Licenses and permits	970	970	1,453	483
Intergovernmental	1,259,924	1,576,270	1,797,526	221,256
Charges for services	548,650	548,650	737,758	189,108
Fines and forfeits	16,000	16,000	20,436	4,436
Gifts and contributions	-	-	10,680	10,680
Investment earnings	220,000	220,000	222,770	2,770
Miscellaneous	150,100	150,100	180,000	29,900
Total Revenues	\$ 5,044,685	\$ 5,044,685	\$ 5,619,029	\$ 574,344
Expenditures				
Current				
General government				
Commissioners	\$ 172,250	\$ 172,250	\$ 211,691	\$ (39,441)
Courts	14,000	14,000	21,549	(7,549)
County administration	96,600	96,600	91,658	4,942
County auditor	187,750	187,750	187,328	422
License bureau	79,550	79,550	83,286	(3,736)
County treasurer	118,302	118,302	118,199	103
County assessor	197,175	197,175	195,516	1,659
Elections	-	-	5,260	(5,260)
Data processing	100,400	100,400	108,545	(8,145)
Attorney	143,550	143,550	161,135	(17,585)
Law library	15,000	15,000	15,344	(344)
Recorder	124,400	124,400	151,112	(26,712)
Vital statistics	15,183	15,183	2,129	13,054
Planning and zoning	59,366	59,366	61,153	(1,787)
Buildings and plant	287,707	287,707	222,359	65,348
Veterans service officer	102,452	102,452	104,092	(1,640)
Machine room	9,000	9,000	5,402	3,598
Other	656,890	656,890	622,462	34,428
Total general government	\$ 2,379,575	\$ 2,379,575	\$ 2,368,220	\$ 11,355

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,114,750	\$ 1,114,750	\$ 1,318,595	\$ (203,845)
Boat and water safety	1,000	1,000	796	204
Public safety grant	7,000	7,000	5,856	1,144
Special investigations	4,500	4,500	5,093	(593)
Welfare fraud investigator	53,670	53,670	68,229	(14,559)
Sheriff's contingency	1,000	1,000	-	1,000
Coroner	5,000	5,000	3,014	1,986
E-911 system	30,900	30,900	15,258	15,642
Law enforcement center	129,500	129,500	156,611	(27,111)
Community corrections	36,000	36,000	50,145	(14,145)
Probation and parole	243,150	243,150	210,437	32,713
DARE program	-	-	2,813	(2,813)
Civil defense	29,070	29,070	45,558	(16,488)
Other public safety	250,000	250,000	282,675	(32,675)
Total public safety	\$ 1,905,540	\$ 1,905,540	\$ 2,165,080	\$ (259,540)
Transportation				
Transit	\$ -	\$ -	\$ 61,566	\$ (61,566)
Sanitation				
Solid waste	\$ 61,500	\$ 61,500	\$ 48,973	\$ 12,527
SCORE	38,000	38,000	43,807	(5,807)
Total sanitation	\$ 99,500	\$ 99,500	\$ 92,780	\$ 6,720
Culture and recreation				
Historical society	\$ 18,900	\$ 18,900	\$ 14,000	\$ 4,900
Regional library	189,437	189,437	179,800	9,637
Other	900	900	825	75
Total culture and recreation	\$ 209,237	\$ 209,237	\$ 194,625	\$ 14,612
Conservation of natural resources				
Cooperative extension	\$ 82,270	\$ 82,270	\$ 95,429	\$ (13,159)
Soil and water conservation	48,000	48,000	48,000	-
Agricultural society/County fair	22,500	22,500	22,500	-
Water planning	122,500	122,500	111,007	11,493
Water quality	-	-	231,194	(231,194)
Other	11,650	11,650	2,480	9,170
Total conservation of natural resources	\$ 286,920	\$ 286,920	\$ 510,610	\$ (223,690)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 19,350	\$ 19,350	\$ 13,246	\$ 6,104
Administration	100,000	100,000	99,996	4
Total economic development	\$ 119,350	\$ 119,350	\$ 113,242	\$ 6,108
Debt service				
Principal	\$ -	\$ -	\$ 3,364	\$ (3,364)
Interest	-	-	3,684	(3,684)
Total Expenditures	\$ 5,000,122	\$ 5,000,122	\$ 5,513,171	\$ (513,049)
Excess of Revenues Over (Under) Expenditures	\$ 44,563	\$ 44,563	\$ 105,858	\$ 61,295
Other Financing Sources (Uses)				
Transfers out	\$ (49,000)	\$ (49,000)	\$ (54,533)	\$ (5,533)
Capital lease issued	-	-	12,000	12,000
Loans issued	-	-	79,642	79,642
Total Other Financing Sources (Uses)	\$ (49,000)	\$ (49,000)	\$ 37,109	\$ 86,109
Net Change in Fund Balance	\$ (4,437)	\$ (4,437)	\$ 142,967	\$ 147,404
Fund Balance - January 1	2,626,231	2,626,231	2,626,231	-
Fund Balance - December 31	\$ 2,621,794	\$ 2,621,794	\$ 2,769,198	\$ 147,404

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 744,263	\$ 877,272	\$ 869,473	\$ (7,799)
Intergovernmental	4,442,941	4,309,932	4,781,331	471,399
Charges for services	300,000	300,000	406,216	106,216
Miscellaneous	53,500	53,500	58,450	4,950
Total Revenues	\$ 5,540,704	\$ 5,540,704	\$ 6,115,470	\$ 574,766
Expenditures				
Current				
Transportation				
Administration	\$ 181,500	\$ 181,500	\$ 183,357	\$ (1,857)
Maintenance	954,700	954,700	1,774,877	(820,177)
Construction	2,294,200	2,294,200	2,338,776	(44,576)
Equipment maintenance and shop	825,800	825,800	812,320	13,480
Materials and services for resale	149,000	149,000	53,685	95,315
Transit	183,467	183,467	149,118	34,349
Other	750,435	750,435	417,915	332,520
Total transportation	\$ 5,339,102	\$ 5,339,102	\$ 5,730,048	\$ (390,946)
Culture and recreation				
Parks	152,428	152,428	98,409	54,019
Total Expenditures	\$ 5,491,530	\$ 5,491,530	\$ 5,828,457	\$ (336,927)
Excess of Revenues Over (Under) Expenditures	\$ 49,174	\$ 49,174	\$ 287,013	\$ 237,839
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 13,533	\$ 13,533
Transfers out	-	-	(77,313)	(77,313)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (63,780)	\$ (63,780)
Net Change in Fund Balance	\$ 49,174	\$ 49,174	\$ 223,233	\$ 174,059
Fund Balance - January 1	2,647,230	2,647,230	2,647,230	-
Increase (decrease) in reserved for inventories	-	-	79,398	79,398
Fund Balance - December 31	\$ 2,696,404	\$ 2,696,404	\$ 2,949,861	\$ 253,457

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,036,602	\$ 1,219,939	\$ 1,197,103	\$ (22,836)
Intergovernmental	354,884	171,547	192,447	20,900
Total Revenues	\$ 1,391,486	\$ 1,391,486	\$ 1,389,550	\$ (1,936)
Expenditures				
Current				
Human services	1,391,486	1,391,486	1,570,639	(179,153)
Net Change in Fund Balance	\$ -	\$ -	\$ (181,089)	\$ (181,089)
Fund Balance - January 1	1,683,128	1,683,128	1,683,128	-
Fund Balance - December 31	\$ 1,683,128	\$ 1,683,128	\$ 1,502,039	\$ (181,089)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 327,900	\$ 327,900	\$ 228,028	\$ (99,872)
Miscellaneous	-	-	700	700
Total Revenues	\$ 327,900	\$ 327,900	\$ 228,728	\$ (99,172)
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 250,000	\$ 250,000	\$ 280,786	\$ (30,786)
Debt service				
Principal	45,000	45,000	45,000	-
Interest	32,900	32,900	32,879	21
Administrative charges	-	-	403	(403)
Total Expenditures	\$ 327,900	\$ 327,900	\$ 359,068	\$ (31,168)
Net Change in Fund Balance	\$ -	\$ -	\$ (130,340)	\$ (130,340)
Fund Balance - January 1	(395,915)	(395,915)	(395,915)	-
Fund Balance - December 31	\$ (395,915)	\$ (395,915)	\$ (526,255)	\$ (130,340)

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

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

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, 2005, expenditures exceeded appropriations (the legal level of budgetary control) in the General Fund by \$513,049, the Public Works Special Revenue Fund by \$336,927, the Human Services Special Revenue Fund by \$179,153, and the Ditch Special Revenue Fund by \$31,168. 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, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 391,413	\$ 391,413	\$ 392,731	\$ 1,318
Intergovernmental	65,000	65,000	63,125	(1,875)
Interest on investments	-	-	153	153
Miscellaneous	407,100	407,100	624,382	217,282
Total Revenues	\$ 863,513	\$ 863,513	\$ 1,080,391	\$ 216,878
Expenditures				
Debt service				
Principal	\$ 830,000	\$ 830,000	\$ 2,185,000	\$ (1,355,000)
Interest	144,580	144,580	137,653	6,927
Bond issuance costs	-	-	20,700	(20,700)
Administrative charges	-	-	2,856	(2,856)
Total Expenditures	\$ 974,580	\$ 974,580	\$ 2,346,209	\$ (1,371,629)
Excess of Revenues Over (Under) Expenditures	\$ (111,067)	\$ (111,067)	\$ (1,265,818)	\$ (1,154,751)
Other Financing Sources (Uses)				
Transfers in	\$ 125,000	\$ 125,000	\$ 118,313	\$ (6,687)
Refunding bonds issued	-	-	1,165,000	1,165,000
Discount on bonds	-	-	(4,788)	(4,788)
Total Other Financing Sources (Uses)	\$ 125,000	\$ 125,000	\$ 1,278,525	\$ 1,153,525
Net Change in Fund Balance	\$ 13,933	\$ 13,933	\$ 12,707	\$ (1,226)
Fund Balance - January 1	207,492	207,492	207,492	-
Fund Balance - December 31	\$ 221,425	\$ 221,425	\$ 220,199	\$ (1,226)

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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, 2005**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>MORTGAGE REGISTRATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (273)	\$ 140,627	\$ 151,696	\$ (11,342)
<u>Liabilities</u>				
Due to other governments	\$ (273)	\$ 140,627	\$ 151,696	\$ (11,342)
 <u>DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 16,670	\$ 170,888	\$ 163,534	\$ 24,024
<u>Liabilities</u>				
Due to other governments	\$ 16,670	\$ 170,888	\$ 163,534	\$ 24,024
 <u>TAXES AND PENALTY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 146,342	\$ 12,142,335	\$ 12,226,651	\$ 62,026
<u>Liabilities</u>				
Due to other governments	\$ 146,342	\$ 12,142,335	\$ 12,226,651	\$ 62,026

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 6
(Continued)

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 162,739	\$ 12,453,850	\$ 12,541,881	\$ 74,708
<u>Liabilities</u>				
Due to other governments	\$ 162,739	\$ 12,453,850	\$ 12,541,881	\$ 74,708

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, 2005**

	General Fund	Adjustments*	Statement of Net Assets
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 165,467	\$ -	\$ 165,467
Accrued interest receivable	116	-	116
Loans receivable	238,553	-	238,553
Restricted assets			
Investments - temporary	16,792	-	16,792
Noncurrent assets			
Advance to other agencies	100,000	-	100,000
Total Assets	\$ 520,928	\$ -	\$ 520,928
 <u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 1,484	\$ -	\$ 1,484
Deferred revenue	238,553	(238,553)	-
Long-term liabilities			
Advance from other governments	50,000	-	50,000
Total Liabilities	\$ 290,037	\$ (238,553)	\$ 51,484
 <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	164,099	(164,099)	
Total Fund Balance	\$ 230,891	\$ (230,891)	
Total Liabilities and Fund Balance	\$ 520,928		
 <u>Net Assets</u>			
Restricted for economic development		\$ 16,792	\$ 16,792
Unrestricted		452,652	452,652
Total Net Assets		\$ 469,444	\$ 469,444

*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, 2005**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Activities</u>
Revenues			
Intergovernmental	\$ 99,996	\$ -	\$ 99,996
Charges for services	50,210	(33,308)	16,902
Investment earnings	390	-	390
Miscellaneous	425	-	425
Total Revenues	\$ 151,021	\$ (33,308)	\$ 117,713
Expenditures/Expenses			
Current			
Economic development	52,561	-	52,561
Net Change in Fund Balance/Net Assets	\$ 98,460	\$ (33,308)	\$ 65,152
Fund Balance/Net Assets - January 1	132,431	271,861	404,292
Fund Balance/Net Assets - December 31	\$ 230,891	\$ 238,553	\$ 469,444

*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, 2005**

	Total Primary Government
Shared Revenue	
State	
Highway users tax	\$ 4,547,470
Program aid	799,386
Market value credit	719,361
PERA rate reimbursement	13,448
Disparity reduction aid	72,332
Police aid	43,476
E-911	68,389
	\$ 6,263,862
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 26,015
	\$ 20,698
Payments	
Payments in lieu of taxes	\$ 20,698
Grants	
State	
Minnesota Department of	
Corrections	\$ 82,213
Transportation	83,082
Natural Resources	28,512
Employment and Economic Development	22,500
Veterans Affairs	2,800
Water and Soil Resources Board	71,535
Office of Environmental Assistance	24,539
Pollution Control Agency	24,540
Peace Officer Standards and Training Board	3,877
	\$ 343,598
Federal	
Department of	
Justice	\$ 25,030
Transportation	76,783
Health and Human Services	630
Homeland Security	77,813
	\$ 180,256
Total Federal	\$ 180,256
Total State and Federal Grants	\$ 523,854
Total Intergovernmental Revenue	\$ 6,834,429

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 10

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

**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:

- (A) 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.
- (B) 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 record 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	\$ 8,079
Other improvements	72,489	177,638	3,836
Machinery and equipment	59,840	5,059,298	4,982
Infrastructure	690,448	58,176,823	27,613
Total Capital Assets Depreciated	\$ 1,069,017	\$ 67,024,103	\$ 44,510

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:

The County will set new policies to have consistent useful lives on depreciable assets. The County will also formulate a policy to eliminate salvage values.

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 with the vendor to correct general ledger out of balance situations.

PREVIOUSLY REPORTED ITEM RESOLVED

General Ledger (03-1)

We recommended the County review and correct balance sheet accounts for display of current and proper balances; and post Board approved budgets to the general ledger system to monitor monthly budget-to-actual transactions.

Resolution

The above items have been corrected. See current finding for remaining area of concern.

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 182 individual systems, 24 ditch systems had deficit cash balances totaling \$211,958 at December 31, 2005. 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, 72 ditch systems had negative fund balances totaling \$1,345,692 as of December 31, 2005. 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 monitor drainage account balances and assess levies for negative fund balances.

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;

Schedule 10
(Continued)

- 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.

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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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
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, 2005, and have issued our report thereon dated November 22, 2006. We did not audit the financial statements of the Faribault County Housing and Redevelopment Authority, a component unit of Faribault County. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Faribault County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 96-5 and 03-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 22, 2006