

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2004

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, 2004



**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, 2004

			<u>Term Expires</u>
Elected			
Commissioners			
Chair	Barb Steier	District 1	January 2009
Vice Chair	Tom Loveall	District 4	January 2007
Board Member	Loren Lein	District 2	January 2007
Board Member	Bill Grostkruetz, Jr.	District 3	January 2009
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	Joseph W. Temple, M.D.		Indefinite
Economic Development Authority Board			
	Scott Johnson	Bricelyn	December 31, 2008
	Neil Eckles	Blue Earth	December 31, 2009
	Gordon Hanson	Wells	December 31, 2005
	Rob Nelson	Winnebago	December 31, 2006
	Jake Anderson	Frost	December 31, 2007

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PATRICIA ANDERSON
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, 2004, 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 3 percent and 59 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 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, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 2004, 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 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 September 12, 2005, 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: September 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

(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, 2004. 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 \$44,732,605 of which \$39,265,291 is invested in capital assets, net of related debt; and \$1,075,996 is restricted to specific purposes.
- Faribault County's net assets increased by \$1,648,946 for the year ended December 31, 2004. The net assets of the County's discretely presented components units increased by \$14,033.
- The net cost of governmental activities was \$4,934,855 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$6,583,801.
- Governmental funds' fund balances decreased by \$813,541. Most of the decrease was a decrease in the Public Works Fund due to construction projects. The General Fund also lost \$159,994 in fund balance largely due to an overrun in the Sheriff's Department caused by the local share of a grant expenditure for mobile computers.

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 consists 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 \$43,083,659 to \$44,732,605. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County’s governmental activities.

**Table 1
Net Assets**

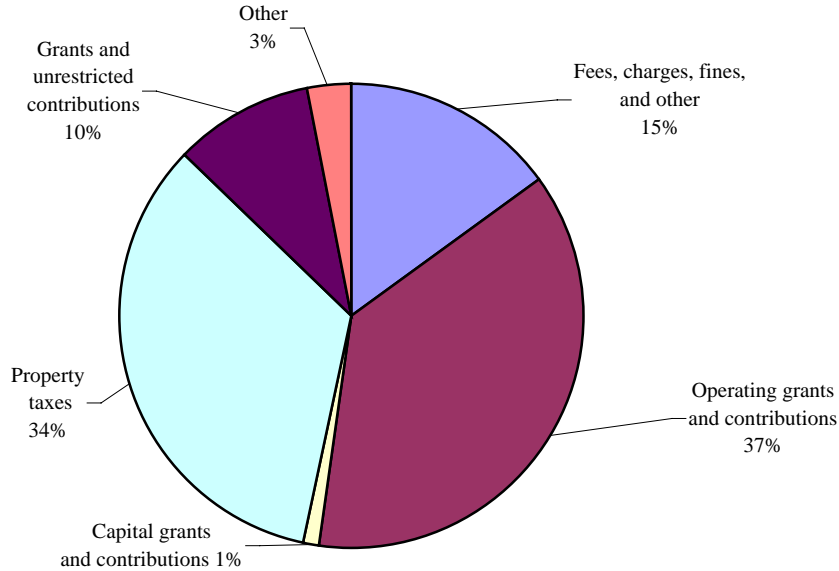
	2004	2003
Current and other assets	\$ 11,541,145	\$ 11,687,217
Capital assets	39,675,086	37,789,907
Total Assets	\$ 51,216,231	\$ 49,477,124
Long-term debt outstanding	\$ 4,995,312	\$ 5,759,405
Other liabilities	1,488,314	634,060
Total Liabilities	\$ 6,483,626	\$ 6,393,465
Net Assets		
Invested in capital assets, net of debt	\$ 39,265,291	\$ 36,379,907
Restricted	1,075,996	2,306,013
Unrestricted	4,391,318	4,397,739
Total Net Assets	\$ 44,732,605	\$ 43,083,659

Net assets of the County governmental activities increased by 3.8 percent (\$1,648,946). 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 \$4,397,739 at December 31, 2003, to \$4,391,318 at the end of this year.

TABLE 2
Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Revenues		
Program revenues		
Fees, charges, fines, and other	\$ 2,109,819	\$ 1,213,967
Operating grants and contributions	5,258,588	5,195,379
Capital grants and contributions	124,368	579,582
General revenues		
Property taxes	4,797,401	4,631,806
Grants and unrestricted contributions	1,363,071	1,353,982
Unrestricted investment earnings	192,720	146,457
Miscellaneous	230,609	254,883
Total Revenues	<u>\$ 14,076,576</u>	<u>\$ 13,376,056</u>
Expenses		
General government	\$ 2,376,692	\$ 2,206,128
Public safety	1,878,818	1,960,623
Transportation	5,501,280	4,900,348
Sanitation	140,645	91,102
Human services	1,151,965	1,019,183
Conservation of natural resources	641,866	911,992
Culture and recreation	404,536	371,742
Economic development	110,663	128,719
Interest	221,165	236,251
Total Expenses	<u>\$ 12,427,630</u>	<u>\$ 11,826,088</u>
Net Change	<u>\$ 1,648,946</u>	<u>\$ 1,549,968</u>

TOTAL COUNTY REVENUES
Percent of Total



Governmental Activities

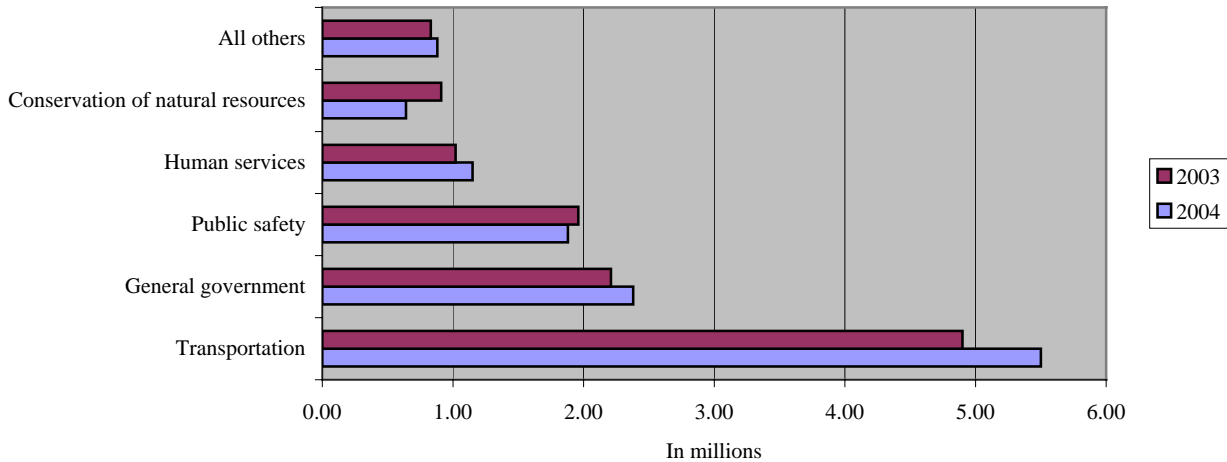
Revenues for the County governmental activities were \$14,076,756, while total expenses were \$12,427,630. However, as shown in the Statement of Activities (Exhibit 2) the amount that our taxpayers ultimately financed for these activities through County taxes was \$4,774,257, because some of the cost was paid by those who directly benefited from the programs (\$2,109,819) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,382,956). Overall, the County’s governmental program revenues, including intergovernmental aid and fees for services, totaled \$7,492,775. The County paid for the remaining “public benefit” portion of governmental activities with \$6,583,801 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	
	2004	2003	2004	2003
Transportation	\$ 5,501,280	\$ 4,900,348	\$ (105,400)	\$ (44,408)
General government	2,376,692	2,206,128	1,700,891	1,502,761
Public safety	1,878,818	1,960,623	1,212,827	1,620,508
Human services	1,151,965	1,019,183	1,151,965	1,019,183
Conservation of natural resources	641,866	911,992	283,488	57,380
All others	877,009	827,814	691,084	681,736
Total Expenses	\$ 12,427,630	\$ 11,826,088	\$ 4,934,855	\$ 4,837,160

Governmental Activities Expenses



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 \$6,768,166, which is below last year's total of \$7,581,707. The Public Works Fund had the largest decline in fund balance primarily due to the use of County funds for construction and maintenance projects. Public safety expenditures exceeded budgeted amounts by \$320,000 largely due to expenditures for COPS Fast equipment assets that were not included in the budget (\$140,000) and increases in overtime and part-time payroll items. This grant expense was offset in large part by unbudgeted grant revenue. The same can be said for ISTS loans made from the General Fund that were not budgeted. Revenues for the County's water plan were lower than expected due to timing of grants from the State of Minnesota. The General Fund's fund balance is 38.8 percent of the total governmental fund balance compared to 36.7 percent at the end of 2003.

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 \$638,225 above the budget amounts. All of the functional areas showed an excess of expenditures over budgeted amounts. On the other hand, resources available for appropriation were also above the budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the County had \$39,675,086 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of over \$1.88 million or five percent, over last year.

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

	<u>2004</u>	<u>2003</u>
Land	\$ 748,219	\$ 769,694
Construction in progress	3,907,132	594,315
Building and improvements	1,519,479	1,619,130
Other improvements	127,711	113,552
Machinery and equipment	2,241,027	2,090,735
Infrastructure	<u>31,131,518</u>	<u>32,602,481</u>
Total Expenses	<u>\$ 39,675,086</u>	<u>\$ 37,789,907</u>

This year's major additions included partial completion of roads and bridges, which resulted in an increase \$3.3 million in construction.

Debt

At year-end, the County had \$4,410,000 in bonds and notes outstanding versus \$5,235,000 last year. Table 5 shows the outstanding debt.

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

	<u>2004</u>	<u>2003</u>
Bonds payable	\$ 4,085,000	\$ 4,600,000
Note payable	<u>325,000</u>	<u>635,000</u>
Total Bonds and Notes Payable	\$ 4,410,000	\$ 5,235,000
Capital leases	14,795	2,926
Loans payable	41,062	41,062
Compensated absences	<u>537,518</u>	<u>488,905</u>
Totals	<u>\$ 5,003,375</u>	<u>\$ 5,767,893</u>

The County's general obligation bond rating continues to carry an A3 rating by Moody's Investor Service as rated in 2003. The State limits the amount of net debt that the County can issue to two percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this state-imposed limit. 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 2005 budget, tax rates, and fees that will be charged.

- County General Fund expenditures for 2005 are budgeted to decrease 4.8 percent over 2004. The Public Works fund also reflects fewer road construction costs causing the overall budget to be 4.8 percent lower.
- Property tax levies have increased 3.7 percent for 2005.

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, 2004**

	Primary Government Governmental Activities	Discretely Presented Component Units	
		Housing and Redevelopment Authority	Economic Development Authority
<u>Assets</u>			
Cash and pooled investments	\$ 6,734,154	\$ 12,273	\$ 65,887
Petty cash and change funds	2,602	-	-
Taxes receivable - prior	84,365	-	-
Special assessments receivable			
Prior	18,328	-	-
Noncurrent	948,297	-	-
Accounts receivable	120,900	-	-
Accrued interest receivable	22,645	-	66
Loans receivable	-	-	271,861
Due from other governments	2,418,075	-	-
Inventories	1,095,438	-	-
Prepaid items	44,598	-	-
Restricted assets			
Investments - temporary	-	-	16,792
Advances to other governments	40,000	-	-
Advances to other agencies	-	-	100,000
Deferred charges	11,743	-	-
Capital assets			
Non-depreciable	4,655,351	-	-
Depreciable - net of accumulated depreciation	35,019,735	-	-
Total Assets	\$ 51,216,231	\$ 12,273	\$ 454,606
<u>Liabilities</u>			
Accounts payable	\$ 103,602	\$ -	\$ 314
Salaries payable	140,034	-	-
Contracts payable	113,542	-	-
Due to other governments	100,108	12,273	-
Accrued interest payable	40,190	-	-
Unearned revenue	14,156	-	-
Advance from other governments	976,682	-	50,000
Long-term liabilities			
Due within one year	884,659	-	-
Due in more than one year	4,110,653	-	-
Total Liabilities	\$ 6,483,626	\$ 12,273	\$ 50,314

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Units</u>	
		<u>Housing and Redevelopment Authority</u>	<u>Economic Development Authority</u>
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 39,265,291	\$ -	\$ -
Restricted for			
Debt service	207,492	-	-
Highways and streets	775,833	-	-
General government	58,981	-	-
Public safety	22,416	-	-
Conservation of natural resources	11,274	-	-
Economic development	-	-	16,792
Unrestricted	4,391,318	-	387,500
Total Net Assets	<u>\$ 44,732,605</u>	<u>\$ -</u>	<u>\$ 404,292</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,376,692	\$ 555,452
Public safety	1,878,818	208,621
Transportation	5,501,280	877,346
Sanitation	140,645	70,040
Human services	1,151,965	-
Culture and recreation	404,536	66,786
Conservation of natural resources	641,866	331,574
Economic development	110,663	-
Interest	221,165	-
Total primary government	\$ 12,427,630	\$ 2,109,819
Component units		
Housing and Redevelopment Authority	\$ 292,714	\$ -
Economic Development Authority	186,710	104,522
Total component units	\$ 479,424	\$ 104,522

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, as previously reported
Restatement - Note 1.E.

Net Assets - January 1, as restated

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
\$ 120,349	\$ -	\$ (1,700,891)		
457,370	-	(1,212,827)		
4,604,966	124,368	105,400		
49,099	-	(21,506)		
-	-	(1,151,965)		
-	-	(337,750)		
26,804	-	(283,488)		
-	-	(110,663)		
-	-	(221,165)		
\$ 5,258,588	\$ 124,368	\$ (4,934,855)		
\$ 292,714	\$ -		\$ -	\$ -
-	-		-	(82,188)
\$ 292,714	\$ -		\$ -	\$ (82,188)
		\$ 4,774,257	\$ -	\$ -
		10,557	-	-
		12,587	-	-
		1,363,071	-	96,000
		192,720	-	221
		230,609	-	-
		\$ 6,583,801	\$ -	\$ 96,221
		\$ 1,648,946	\$ -	\$ 14,033
		\$ 41,348,659	\$ -	390,259
		1,735,000	-	-
		\$ 43,083,659	\$ -	\$ 390,259
		\$ 44,732,605	\$ -	\$ 404,292

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FUND FINANCIAL STATEMENTS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and pooled investments	\$ 2,127,422	\$ 2,546,859	\$ 1,680,280	\$ 173,197	\$ 206,396	\$ 6,734,154
Petty cash and change funds	2,305	297	-	-	-	2,602
Taxes receivable						
Prior	43,827	16,217	18,174	-	6,147	84,365
Special assessments receivable						
Prior	14,195	-	-	4,133	-	18,328
Noncurrent	575,307	-	-	372,990	-	948,297
Accounts receivable	16,371	104,463	-	66	-	120,900
Accrued interest receivable	22,645	-	-	-	-	22,645
Due from other funds	-	12,023	-	1,956	-	13,979
Due from other governments	180,206	672,988	-	14,881	1,550,000	2,418,075
Inventories	-	1,095,438	-	-	-	1,095,438
Prepaid items	24,198	20,400	-	-	-	44,598
Advances to other funds	535,395	-	-	-	-	535,395
Advances to other governments	40,000	-	-	-	-	40,000
Total Assets	<u>\$ 3,581,871</u>	<u>\$ 4,468,685</u>	<u>\$ 1,698,454</u>	<u>\$ 567,223</u>	<u>\$ 1,762,543</u>	<u>\$ 12,078,776</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 49,055	\$ 35,397	\$ -	\$ 19,150	\$ -	\$ 103,602
Salaries payable	95,955	44,079	-	-	-	140,034
Contracts payable	-	89,584	-	23,958	-	113,542
Due to other funds	11,809	1,956	-	214	-	13,979
Due to other governments	100,046	-	-	62	-	100,108
Deferred revenue - unavailible	686,884	672,976	14,249	384,359	1,554,644	3,313,112
Deferred revenue - unearned	11,891	781	1,077	-	407	14,156
Advance from other funds	-	-	-	535,395	-	535,395
Advance from other governments	-	976,682	-	-	-	976,682
Total Liabilities	\$ 955,640	\$ 1,821,455	\$ 15,326	\$ 963,138	\$ 1,555,051	\$ 5,310,610
Fund Balances						
Reserved for						
Inventories	\$ -	\$ 1,095,438	\$ -	\$ -	\$ -	\$ 1,095,438
Advances to other funds	535,395	-	-	-	-	535,395
Advances to other governments	40,000	-	-	-	-	40,000
Law library	44,703	-	-	-	-	44,703
Recorder's equipment	14,278	-	-	-	-	14,278
DARE	5,890	-	-	-	-	5,890
Enhanced 911	16,526	-	-	-	-	16,526
Conservation of natural resources	11,274	-	-	-	-	11,274
Equipment purchases	-	325,000	-	-	-	325,000
Highway projects	-	312,160	-	-	-	312,160
Unreserved						
Designated for debt service	-	-	-	-	207,492	207,492
Designated for future expenditures	1,500,000	-	-	-	-	1,500,000
Designated for compensated absences	342,595	194,923	-	-	-	537,518
Designated for trust	30,000	-	-	-	-	30,000
Undesignated	85,570	719,709	1,683,128	(395,915)	-	2,092,492
Total Fund Balances	\$ 2,626,231	\$ 2,647,230	\$ 1,683,128	\$ (395,915)	\$ 207,492	\$ 6,768,166
Total Liabilities and Fund Balances	\$ 3,581,871	\$ 4,468,685	\$ 1,698,454	\$ 567,223	\$ 1,762,543	\$ 12,078,776

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO
NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	6,768,166
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.		39,675,086
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		3,313,112
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	\$ 11,743	
General obligation bonds	(3,180,000)	
Unamortized bond discount	8,063	
Special assessments debt	(905,000)	
Capital notes	(325,000)	
Capital leases	(14,795)	
Loans payable	(41,062)	
Compensated absences	(537,518)	
Accrued interest payable	(40,190)	(5,023,759)
Net assets of governmental activities (Exhibit 1)	\$	<u>44,732,605</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 2,618,053	\$ 779,055	\$ 1,003,661	\$ -	\$ 385,214	\$ 4,785,983
Special assessments	163,145	-	-	303,084	-	466,229
Licenses and permits	1,510	-	-	-	-	1,510
Intergovernmental	1,249,759	5,015,972	297,747	-	65,850	6,629,328
Charges for services	653,725	303,043	-	-	-	956,768
Fines and forfeits	17,720	-	-	-	-	17,720
Gifts and contributions	17,136	-	-	-	-	17,136
Interest on investments	192,720	-	-	-	-	192,720
Miscellaneous	164,523	622,068	-	-	415,609	1,202,200
Total Revenues	\$ 5,078,291	\$ 6,720,138	\$ 1,301,408	\$ 303,084	\$ 866,673	\$ 14,269,594
Expenditures						
Current						
General government	\$ 2,248,754	\$ -	\$ -	\$ -	\$ -	\$ 2,248,754
Public safety	2,036,087	-	-	-	-	2,036,087
Transportation	-	7,149,682	-	-	-	7,149,682
Sanitation	140,645	-	-	-	-	140,645
Human services	-	-	1,151,965	-	-	1,151,965
Culture and recreation	213,498	187,170	-	-	-	400,668
Conservation of natural resources	431,483	-	-	203,943	-	635,426
Economic development	110,663	-	-	-	-	110,663
Debt service						
Principal retirement	2,926	-	-	20,000	805,000	827,926
Interest	424	-	-	35,457	185,683	221,564
Administrative charges	-	-	-	403	2,472	2,875
Total Expenditures	\$ 5,184,480	\$ 7,336,852	\$ 1,151,965	\$ 259,803	\$ 993,155	\$ 14,926,255
Excess of Revenues Over (Under) Expenditures	\$ (106,189)	\$ (616,714)	\$ 149,443	\$ 43,281	\$ (126,482)	\$ (656,661)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 126,873	\$ 126,873
Transfers out	(68,600)	(58,273)	-	-	-	(126,873)
Capital lease issued	14,795	-	-	-	-	14,795
Total Other Financing Sources (Uses)	\$ (53,805)	\$ (58,273)	\$ -	\$ -	\$ 126,873	\$ 14,795
Net Change in Fund Balances	\$ (159,994)	\$ (674,987)	\$ 149,443	\$ 43,281	\$ 391	\$ (641,866)
Fund Balance - January 1	2,786,225	3,493,892	1,533,685	(439,196)	207,101	7,581,707
Increase (decrease) in reserved for inventories	-	(171,675)	-	-	-	(171,675)
Fund Balance - December 31	\$ 2,626,231	\$ 2,647,230	\$ 1,683,128	\$ (395,915)	\$ 207,492	\$ 6,768,166

**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, 2004**

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(641,866)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Expenditures for general capital assets and infrastructure	\$ 4,645,406	
Current year depreciation	<u>(2,686,072)</u>	1,959,334
<p>In the statement of activities, only gains or losses on the disposal of capital assets are reported; whereas, in the governmental funds, the proceeds from the disposal increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of.</p>		
		(74,155)
<p>The capital outlay associated with a capital lease purchase is offset by an other financing source in the fund statements and a payable on the government-wide statement of net assets.</p>		
Capital leases entered into		(14,795)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal repayments		
General obligation bonds	\$ 495,000	
Special assessment debt	20,000	
Capital notes	310,000	
Capital leases	<u>2,926</u>	827,926
<p>Amortization of deferred debt issuance costs and discounts not reported at the governmental fund level.</p>		
		(1,043)
<p>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.</p>		
Change in accrued interest payable	\$ 4,317	
Change in inventories	(171,675)	
Change in compensated absences	<u>(48,613)</u>	(215,971)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in deferred revenue for taxes.	\$ (125,973)	
Change in deferred revenue for grants	<u>(64,511)</u>	(190,484)
Change in Net Assets of Governmental Activities (Exhibit 2)	\$	<u>1,648,946</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 7

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2004**

	<u>Agency</u>
<u>Assets</u>	
Cash and cash equivalents	<u>\$ 162,739</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 162,739</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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.	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.	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 which are described in Note 6.C. The County also participates in jointly-governed organizations which are described in Note 6.D.

B. Basic Financial Statements

1. Government-Wide Statements

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

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 that are 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 to be available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be 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, then unrestricted resources as they are needed.

**FARIBAUT 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, 2004, 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 2004 were \$192,720.

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 on May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

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.

**FARIBAUT 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 of 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 and 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 in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**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.

E. Restatement of Net Assets

Net assets at January 1, 2004, were restated to correct an error in the financial statements, as described below:

Net Assets - January 1, as previously reported	\$ 41,348,659
To record receivable from Prairieland Solid Waste Board	<u>1,735,000</u>
Net Assets - January 1, as restated	<u><u>\$ 43,083,659</u></u>

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Ditch Special Revenue major fund is composed of 183 individual drainage systems. Twenty-eight of these systems had deficit cash balance, and 68 of the systems had individual deficit fund balances. All the ditch systems combined had a fund balance deficit of \$395,915. 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	\$ 6,734,154
Petty cash and change fund	2,602
Component unit - Economic Development Authority	
Cash and pooled investments	65,887
Restricted assets	
Investments	16,792
Agency funds	
Cash and pooled investments	162,739
Total Cash and Investments	\$ 6,982,174

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$5,002,173. The bank balance deposit amount was \$5,289,654. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	Bank Balance
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 200,901
Collateralized with securities held by the pledging financial institution's agent in the County's name	5,088,753
Total covered deposits	\$ 5,289,654
Uncollateralized	-
Total	\$ 5,289,654

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

Following is a summary of the fair values of the County's investments, categorized into the aforementioned levels of risk, at December 31, 2004:

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ 500,000	\$ -	\$ 1,374,776	\$ 1,874,776
Negotiable certificates of deposit	100,000	-	2,125	102,125
Total Investments	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 1,376,901</u>	\$ 1,976,901
Add				
Minnesota Association of Governments Investing for Counties (MAGIC)				498
Deposits				5,002,173
Petty cash and change funds				2,602
Total Cash and Investments				<u>\$ 6,982,174</u>

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the County are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Taxes – prior	\$ 84,365	\$ -
Special assessments - prior	18,328	-
Special assessments - noncurrent	948,297	678,670
Accounts	120,900	-
Accrued interest	22,645	-
Due from other governments	2,418,075	1,355,000
Total	\$ 3,612,610	\$ 2,033,670

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 769,694	\$ 8,750	\$ 30,225	\$ 748,219
Construction in progress	594,315	3,845,865	533,048	3,907,132
Total capital assets not Depreciated	\$ 1,364,009	\$ 3,854,615	\$ 563,273	\$ 4,655,351
Capital assets depreciated				
Buildings and improvements	\$ 3,435,716	\$ 1,000	\$ -	\$ 3,436,716
Other improvements	154,955	22,683	-	177,638
Machinery and equipment	4,303,575	648,594	172,658	4,779,511
Infrastructure	52,789,738	651,562	-	53,441,300
Total capital assets Depreciated	\$ 60,683,984	\$ 1,323,839	\$ 172,658	\$ 61,835,165

**FARIBAUT 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	\$ 1,816,586	\$ 100,651	\$ -	\$ (1,917,237)
Other improvements	41,403	8,524	-	(49,927)
Machinery and equipment	2,212,840	454,372	128,728	(2,538,484)
Infrastructure	<u>20,187,257</u>	<u>2,122,525</u>	<u>-</u>	<u>(22,309,782)</u>
 Total accumulated depreciation	 <u>\$ 24,258,086</u>	 <u>\$ 2,686,072</u>	 <u>\$ 128,728</u>	 <u>\$ (26,815,430)</u>
 Total capital assets depreciated, net	 <u>\$ 36,425,898</u>	 <u>\$ (1,362,233)</u>	 <u>\$ 43,930</u>	 <u>\$ 35,019,735</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 37,789,907</u>	 <u>\$ 2,492,382</u>	 <u>\$ (607,203)</u>	 <u>\$ 39,675,086</u>

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

Governmental Activities	
General government	\$ 125,639
Public safety	104,396
Highways and streets, including depreciation of infrastructure assets	2,449,705
Conservation of natural resources	<u>6,332</u>
 Total Depreciation Expense - Governmental Activities	 <u>\$ 2,686,072</u>

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Public Works	General	\$ 11,809
	Ditch	214
 Total Public Works Fund		 <u>\$ 12,023</u>
Ditch	Public Works	<u>1,956</u>
 Total Due To/From Other Funds		 <u>\$ 13,979</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 535,395

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

Transfers to Debt Service Fund from General Fund	\$ 68,600	Provide funds for debt service.
Transfers to Debt Service Fund from Public Works Fund	58,273	Provide funds for debt service.
Total Interfund Transfers	\$ 126,873	

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 42 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2004, the County expended \$182,703 for these benefits.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

The County has entered into a lease agreement as lessee for financing the acquisition of a copier. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The capital lease consists of the following at December 31, 2004:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities Xerox copier	2008	Monthly	\$ 279	\$ 14,795	<u>\$ 14,795</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2005	\$ 3,350
2006	3,351
2007	3,350
2008	3,351
2009	<u>3,350</u>
Lease Payments	\$ 16,752
Less: amount representing interest	<u>(1,957)</u>
Present Value of Minimum Lease Payments	<u>\$ 14,795</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General Obligation Bonds					
1996 G.O. Refunding Bonds - Prairieland	2011	\$195,000 - \$335,000	4.00 - 5.00	\$ 3,000,000	\$ 1,550,000
1997 G.O. Landfill Closing Refunding Bonds	2008	\$50,000 - \$60,000	4.10 - 5.00	475,000	225,000
1997 G.O. Courthouse Bonds	2007	\$20,000 - \$25,000	4.50 - 5.60	190,000	70,000
2001 G.O. Taxable Waste Disposal Bonds	2016	\$15,000 - \$30,000	6.10 - 6.70	300,000	255,000
2001 G.O. Refunding Bonds	2009	\$140,000 - \$215,000	3.20 - 4.00	1,435,000	860,000
2001 G.O. Taxable Refunding Waste Disposal Bonds	2012	\$20,000 - \$35,000	5.25 - 6.40	285,000	220,000
Total General Obligation Bonds				<u>\$ 5,685,000</u>	<u>\$ 3,180,000</u>
Special Assessment Bonds					
1999 G.O. Ditch Bonds	2014	\$15,000 - \$20,000	3.80 - 4.95	\$ 280,000	\$ 180,000
2003 G.O. Drainage Ditch Bonds	2024	\$25,000 - \$50,000	1.85 - 4.25	725,000	725,000
Total General Obligation Special Assessment Bonds				<u>\$ 1,005,000</u>	\$ 905,000
Less: unamortized discount					(8,063)
Total General Obligation Special Assessment Bonds, Net					<u>\$ 896,937</u>
Capital Notes					
2000 G.O. Capital Notes	2005	\$325,000	4.50 - 4.95	\$ 1,220,000	\$ 325,000

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. Bi-yearly installment payments of \$6,553 will be made until 2015, including interest at two percent. The amount of the original issue was \$41,062. The loans are secured by special assessments placed on the individual parcels. Loan payments will be reported in the General Fund.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements

Debt service requirements at December 31, 2004, were as follows:

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 505,000	\$ 141,171	\$ 45,000	\$ 32,879
2006	530,000	118,756	45,000	31,576
2007	475,000	96,250	50,000	30,207
2008	465,000	73,858	50,000	28,645
2009	440,000	52,880	50,000	26,935
2010-2014	710,000	79,094	240,000	108,446
2015-2019	55,000	5,695	190,000	67,300
2020-2024	-	-	235,000	25,303
Total	\$ 3,180,000	\$ 567,704	\$ 905,000	\$ 351,291

Year Ending December 31	Capital Notes	
	Principal	Interest
2005	\$ 325,000	\$ 7,800

The debt service requirements for the loan from the Minnesota Pollution Control Agency are not known as of December 31, 2004.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities					
Bonds payable					
General obligation bonds	\$ 3,675,000	\$ -	\$ (495,000)	\$ 3,180,000	\$ 505,000
G.O. special assessment Bonds	925,000	-	(20,000)	905,000	45,000
G.O. capital notes	635,000	-	(310,000)	325,000	325,000
Less: deferred amounts for issuance discounts	(8,488)	-	425	(8,063)	-
Total bonds payable	\$ 5,226,512	\$ -	\$ (824,575)	\$ 4,401,937	\$ 875,000
Capital leases	2,926	14,795	(2,926)	14,795	2,671
Loans payable	41,062	-	-	41,062	-
Compensated absences	488,905	48,613	-	537,518	6,988
Long-Term Liabilities	\$ 5,759,405	\$ 63,408	\$ (827,501)	\$ 4,995,312	\$ 884,659

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

A. Defined Benefit Plans

1. 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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

1. Plan Description (Continued)

3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. That report may be obtained on the web at 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.

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.20 percent of their annual covered salary. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

2. Funding Policy (Continued)

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

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

The County's contributions for the years ending December 31, 2004, 2003, and 2002, 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
2004	\$ 125,704	\$ 43,476	\$ 16,811
2003	\$ 132,366	\$ 41,801	\$ 16,458
2002	130,006	40,408	15,619

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 all contributions by or on behalf of employees are tax deferred until time of withdrawal.

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

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, 2004, 2003, and 2002, were \$11,972, \$11,760, and \$10,269, 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 the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

5. Risk Management (Continued)

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. Subsequent Event

On January 18, 2005, the County approved the issuance of General Obligation Solid Waste Refunding Bonds, Series 2005, of \$1,165,000. The proceeds will be used to refund the 2006 through 2011 maturities, aggregating \$1,355,000 in principal amount, of the County's \$3,000,000 General Obligation Refunding Bonds of 1996.

B. Contingent Liabilities

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

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

C. Joint Ventures

Faribault-Martin County 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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Faribault-Martin County Human Services Board (Continued)

established on June 30, 1975. As of January 1, 1991, Watonwan County withdrew from the Human Services Board. Faribault and Martin Counties are continuing with the Joint Powers Agreement. The Board has 12 members, six from each County. Each County collects its share of local tax revenues and transfers these funds to the Board to fulfill its ongoing financial responsibility.

Complete financial information can be obtained from:

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

Prairieland Solid Waste Board

Faribault and Martin Counties entered into a joint venture in 1990 to build and operate a solid waste composting plant - Prairieland Solid Waste Board. Prairieland Solid Waste Board is composed of the ten members, the County Commissioners from both Faribault and Martin Counties. Faribault County's proportionate interest in Prairieland Solid Waste is 43 percent. Prairieland Solid Waste Board reported net income of \$99,430 in 2004.

In 1996, the Solid Waste Resource Recovery Revenue Bonds were called with the funds received when both Faribault and Martin Counties issued County debt to repay these revenue bonds. Each County shows its share of the debt on its financial statements. Prairieland Solid Waste Board 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.

On January 18, 2005, the County issued \$1,165,000 of General Obligation Solid Waste Refunding Bonds to refund the County's General Obligation Refunding Bonds of 1996, which are callable on June 1, 2005.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prairieland Solid Waste Board (Continued)

Separate financial information can be obtained from:

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

D. 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 \$1,000 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 \$46,942 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 \$190,475 to MCIT and received \$93,805 in dividends.

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

The South Central Drug Task Force was established to coordinate efforts among participating local governments to apprehend and prosecute drug offenders. During the year, the County paid \$4,506 to the Task Force.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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

The Rural Minnesota Energy Board provides technical assistance to member counties in the area of renewable energy resources in particular wind energy. During the year, the County paid the Board \$3,000, including a \$1,000 one-time membership fee.

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loan in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2004.

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

7. Faribault County Economic Development Authority (EDA)

A. Summary of Significant Accounting Policies (Continued)

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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

B. Detailed Notes on All Funds

1. Assets

Receivables as of December 31, 2004, consist of \$271,861 loans made to individuals and businesses for development and a \$100,000 advance to MCCF.

Restricted Assets as of December 31, 2004, 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.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

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.

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

8. Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies (Continued)

Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating 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, 2004, the carrying amount of the HRA's deposits with financial institutions was \$9,934, and bank balances were \$10,034. Balances were fully insured as of December 31, 2004.

Minnesota statutes required 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, 2004.

Investments

The HRA had no investments during the year ended December 31, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,627,681	\$ 2,627,681	\$ 2,618,053	\$ (9,628)
Special assessments	31,000	31,000	163,145	132,145
Licenses and permits	970	970	1,510	540
Intergovernmental	1,038,684	1,036,684	1,249,759	213,075
Charges for services	512,450	512,450	653,725	141,275
Fines and forfeits	1,000	1,000	17,720	16,720
Gifts and contributions	-	-	17,136	17,136
Investments earnings	240,000	240,000	192,720	(47,280)
Miscellaneous	150,600	150,600	164,523	13,923
Total Revenues	\$ 4,602,385	\$ 4,600,385	\$ 5,078,291	\$ 477,906
Expenditures				
Current				
General government				
Commissioners	\$ 159,750	\$ 159,750	\$ 186,133	\$ (26,383)
Courts	11,000	9,000	31,859	(22,859)
County administration	94,100	94,100	87,632	6,468
County auditor	182,000	182,000	182,243	(243)
License bureau	77,175	77,175	80,270	(3,095)
County treasurer	112,650	112,650	115,079	(2,429)
County assessor	192,175	192,175	185,457	6,718
Elections	25,000	25,000	23,507	1,493
Data processing	89,300	89,300	89,381	(81)
Attorney	144,200	144,200	152,357	(8,157)
Law library	20,000	20,000	14,465	5,535
Recorder	115,800	115,800	127,230	(11,430)
Vital statistics	14,790	14,790	14,127	663
Planning and zoning	58,035	58,035	59,543	(1,508)
Buildings and plant	179,858	179,858	178,576	1,282
Veterans service officer	99,660	99,660	121,616	(21,956)
Machine room	9,000	9,000	21,717	(12,717)
Other	638,331	638,331	577,562	60,769
Total general government	\$ 2,222,824	\$ 2,220,824	\$ 2,248,754	\$ (27,930)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,007,000	\$ 1,007,000	\$ 1,303,316	\$ (296,316)
Boat and water safety	1,000	1,000	2,189	(1,189)
Public safety grant	7,000	7,000	2,759	4,241
Special investigations	4,500	4,500	4,506	(6)
Welfare fraud investigator	52,520	52,520	76,824	(24,304)
Sheriff contingency	1,000	1,000	-	1,000
Coroner	5,000	5,000	220	4,780
E-911 system	30,900	30,900	14,791	16,109
Law enforcement center	131,500	131,500	133,706	(2,206)
Community corrections	33,000	33,000	16,250	16,750
Probation and parole	193,790	193,790	188,529	5,261
DARE program	-	-	5,733	(5,733)
Civil defense	28,570	28,570	53,688	(25,118)
Other public safety	220,000	220,000	233,576	(13,576)
Total public safety	\$ 1,715,780	\$ 1,715,780	\$ 2,036,087	\$ (320,307)
Sanitation				
Solid waste	\$ 55,500	\$ 55,500	\$ 102,606	\$ (47,106)
SCORE	25,000	25,000	38,039	(13,039)
Total sanitation	\$ 80,500	\$ 80,500	\$ 140,645	\$ (60,145)
Culture and recreation				
Historical society	\$ 14,900	\$ 14,900	\$ 17,790	\$ (2,890)
Regional library	187,985	187,985	194,883	(6,898)
Other	900	900	825	75
Total culture and recreation	\$ 203,785	\$ 203,785	\$ 213,498	\$ (9,713)
Conservation of natural resources				
Cooperative extension	\$ 77,816	\$ 77,816	\$ 72,845	\$ 4,971
Soil and water conservation	40,000	40,000	40,000	-
Agricultural society/county fair	22,500	22,500	22,500	-
Water planning	74,900	74,900	146,985	(72,085)
Water quality	-	-	146,490	(146,490)
Other	1,650	1,650	2,663	(1,013)
Total conservation of natural resources	\$ 216,866	\$ 216,866	\$ 431,483	\$ (214,617)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 12,500	\$ 12,500	\$ 14,663	\$ (2,163)
Administration	96,000	96,000	96,000	-
Total economic development	\$ 108,500	\$ 108,500	\$ 110,663	\$ (2,163)
Debt service				
Principal retirement	\$ -	\$ -	\$ 2,926	\$ (2,926)
Interest	-	-	424	(424)
Total Expenditures	\$ 4,548,255	\$ 4,546,255	\$ 5,184,480	\$ (638,225)
Excess of Revenues Over (Under) Expenditures	\$ 54,130	\$ 54,130	\$ (106,189)	\$ (160,319)
Other Financing Sources (Uses)				
Transfers out	\$ (72,115)	\$ (72,115)	\$ (68,600)	\$ 3,515
Capital lease issued	-	-	14,795	14,795
Total Other Financing Sources (Uses)	\$ (72,115)	\$ (72,115)	\$ (53,805)	\$ 18,310
Net Change in Fund Balance	\$ (17,985)	\$ (17,985)	\$ (159,994)	\$ (142,009)
Fund Balance - January 1	2,786,225	2,786,225	2,786,225	-
Fund Balance - December 31	\$ 2,768,240	\$ 2,768,240	\$ 2,626,231	\$ (142,009)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
PUBLIC WORKS FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 778,661	\$ 778,661	\$ 779,055	\$ 394
Intergovernmental	5,128,573	5,128,573	5,015,972	(112,601)
Charges for services	270,000	270,000	303,043	33,043
Miscellaneous	728,200	728,200	622,068	(106,132)
Total Revenues	\$ 6,905,434	\$ 6,905,434	\$ 6,720,138	\$ (185,296)
Expenditures				
Current				
Transportation				
Administration	\$ 180,800	\$ 180,800	\$ 166,082	\$ 14,718
Maintenance	889,800	889,800	1,294,602	(404,802)
Construction	3,625,391	3,625,391	4,156,101	(530,710)
Equipment maintenance and shop	939,300	939,300	837,377	101,923
Materials and services for resale	-	-	98,881	(98,881)
Transit	177,046	177,046	181,303	(4,257)
Other	869,792	869,792	415,336	454,456
Total transportation	\$ 6,682,129	\$ 6,682,129	\$ 7,149,682	\$ (467,553)
Culture and recreation				
Parks	146,618	146,618	187,170	(40,552)
Total Expenditures	\$ 6,828,747	\$ 6,828,747	\$ 7,336,852	\$ (508,105)
Excess of Revenues Over (Under) Expenditures	\$ 76,687	\$ 76,687	\$ (616,714)	\$ (693,401)
Other Financing Sources (Uses)				
Transfers out	(76,687)	(76,687)	(58,273)	18,414
Net Change in Fund Balance	\$ -	\$ -	\$ (674,987)	\$ (674,987)
Fund Balance - January 1	3,493,892	3,493,892	3,493,892	-
Increase (decrease) in reserved for inventories	-	-	(171,675)	(171,675)
Fund Balance - December 31	\$ 3,493,892	\$ 3,493,892	\$ 2,647,230	\$ (846,662)

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,003,987	\$ 1,003,987	\$ 1,003,661	\$ (326)
Intergovernmental	297,697	297,697	297,747	50
Total Revenues	\$ 1,301,684	\$ 1,301,684	\$ 1,301,408	\$ (276)
Expenditures				
Current				
Human services	1,301,684	1,301,684	1,151,965	149,719
Net Change in Fund Balance	\$ -	\$ -	\$ 149,443	\$ 149,443
Fund Balance - January 1	1,533,685	1,533,685	1,533,685	-
Fund Balance - December 31	\$ 1,533,685	\$ 1,533,685	\$ 1,683,128	\$ 149,443

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 250,000	\$ 250,000	\$ 303,084	\$ 53,084
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 250,000	\$ 250,000	\$ 203,943	\$ 46,057
Debt service				
Principal	-	-	20,000	(20,000)
Interest	-	-	35,457	(35,457)
Administrative charges	-	-	403	(403)
Total Expenditures	\$ 250,000	\$ 250,000	\$ 259,803	\$ (9,803)
Net Change in Fund Balance	\$ -	\$ -	\$ 43,281	\$ 43,281
Fund Balance - January 1	(439,196)	(439,196)	(439,196)	-
Fund Balance - December 31	\$ (439,196)	\$ (439,196)	\$ (395,915)	\$ 43,281

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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, 2004, expenditures exceeded appropriations (the legal level of budgetary control) in the General Fund by \$638,225, the Public Works Special Revenue Fund by \$508,105, and the Ditch Special Revenue Fund by \$9,803. 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, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 385,482	\$ 385,482	\$ 385,214	\$ (268)
Intergovernmental	65,831	65,831	65,850	19
Miscellaneous	262,000	414,650	415,609	959
Total Revenues	\$ 713,313	\$ 865,963	\$ 866,673	\$ 710
Expenditures				
Debt service				
Principal retirement	\$ 805,150	\$ 805,150	\$ 805,000	\$ 150
Interest	199,615	199,615	185,683	13,932
Administrative charges	-	-	2,472	(2,472)
Total Expenditures	\$ 1,004,765	\$ 1,004,765	\$ 993,155	\$ 11,610
Excess of Revenues Over (Under) Expenditures	\$ (291,452)	\$ (138,802)	\$ (126,482)	\$ 12,320
Other Financing Sources (Uses)				
Transfers in	148,802	148,802	126,873	(21,929)
Net Change in Fund Balance	\$ (142,650)	\$ 10,000	\$ 391	\$ (9,609)
Fund Balance - January 1	207,101	207,101	207,101	-
Fund Balance - December 31	\$ 64,451	\$ 217,101	\$ 207,492	\$ (9,609)

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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, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MORTGAGE REGISTRATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 30,483	\$ 128,459	\$ 159,215	\$ (273)
<u>Liabilities</u>				
Due to other governments	\$ 30,483	\$ 128,459	\$ 159,215	\$ (273)
 <u>DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,730	\$ 164,311	\$ 149,371	\$ 16,670
Departmental cash	6,241	-	6,241	-
Total Assets	\$ 7,971	\$ 164,311	\$ 155,612	\$ 16,670
<u>Liabilities</u>				
Due to other governments	\$ 7,971	\$ 164,311	\$ 155,612	\$ 16,670
 <u>TAX AND PENALTY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 110,760	\$ 11,114,601	\$ 11,079,019	\$ 146,342
<u>Liabilities</u>				
Unapportioned taxes and assessments	\$ -	\$ 5,216,671	\$ 5,216,671	\$ -
Due to other governments	110,760	5,897,930	5,862,348	146,342
Total Liabilities	\$ 110,760	\$ 11,114,601	\$ 11,079,019	\$ 146,342

**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, 2004**

	<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	\$ 142,973	\$ 11,407,371	\$ 11,387,605	\$ 162,739
Departmental cash	6,241	-	6,241	-
Total Assets	<u>\$ 149,214</u>	<u>\$ 11,407,371</u>	<u>\$ 11,393,846</u>	<u>\$ 162,739</u>
<u>Liabilities</u>				
Unapportioned taxes and assessments	\$ -	\$ 5,216,671	\$ 5,216,671	\$ -
Due to other governments	149,214	6,190,700	6,177,175	162,739
Total Liabilities	<u>\$ 149,214</u>	<u>\$ 11,407,371</u>	<u>\$ 11,393,846</u>	<u>\$ 162,739</u>

COMPONENT UNIT

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 7

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
COMPONENT UNIT
ECONOMIC DEVELOPMENT AUTHORITY
DECEMBER 31, 2004**

	General Fund	Adjustments *	Statement of Net Assets
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 65,887	\$ -	\$ 65,887
Accrued interest receivable	66	-	66
Loans receivable	271,861	-	271,861
Restricted assets			
Investments - temporary	16,792	-	16,792
Noncurrent assets			
Advance to other agencies	100,000	-	100,000
Total Assets	\$ 454,606	\$ -	\$ 454,606
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 314	\$ -	\$ 314
Deferred revenue	271,861	(271,861)	-
Long-term liabilities			
Advance from other governments	50,000	-	50,000
Total Liabilities	\$ 322,175	\$ (271,861)	\$ 50,314
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Reserved for long-term receivables	\$ 100,000	\$ (100,000)	
Reserved for economic developemnt	16,792	(16,792)	
Unreserved, designated for redevelopment loans	15,639	(15,639)	
Total Fund Balance	\$ 132,431	\$ (132,431)	
Total Liabilities and Fund Balance	\$ 454,606		
Net Assets			
Restricted for economic development		\$ 16,792	\$ 16,792
Unrestricted		387,500	387,500
Total Net Assets		\$ 404,292	\$ 404,292

* 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

**STATEMENT OF ACTIVITIES AND
STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
COMPONENT UNIT
ECONOMIC DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund	Adjustments *	Statement of Activities
Revenues			
Intergovernmental	\$ 96,000	\$ -	\$ 96,000
Charges for services	68,378	36,144	104,522
Investment earnings	221	-	221
	\$ 164,599	\$ 36,144	\$ 200,743
Expenditures			
Current			
Economic development	186,710	-	186,710
	\$ (22,111)	\$ 36,144	\$ 14,033
Net Change in Fund Balance			
	154,542	235,717	390,259
Fund Balance - January 1			
	\$ 132,431	\$ 271,861	\$ 404,292
Fund Balance - December 31	132,431	271,861	404,292

* Note: Revenues in 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, 2004**

	Total Primary Government
Shared Revenue	
State	
Highway users tax	\$ 4,027,931
Program aid	544,311
Market value credit	732,987
PERA rate reimbursement	13,448
Disparity reduction aid	72,325
Police aid	42,859
	42,859
Total Shared Revenue	\$ 5,433,861
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 46,130
	46,130
Payments	
Payments in lieu of taxes	\$ 12,587
	12,587
Grants	
State	
Minnesota Department of	
Corrections	\$ 80,218
Public Safety	48,751
Transportation	87,553
Natural Resources	30,023
Office of Environmental Assistance	49,099
Peace Officers Board	4,297
	4,297
Total State	\$ 299,941
Federal	
Department of	
Justice	\$ 147,245
Transportation	578,150
Homeland Security	111,414
	111,414
Total Federal	\$ 836,809
Total State and Federal Grants	\$ 1,136,750
Total Intergovernmental Revenue	\$ 6,629,328

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 10

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Faribault County.
- B. Reportable conditions in internal control were disclosed by the audit of Faribault County and are reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." They were not material weaknesses.
- C. No instances of noncompliance material to the financial statements of Faribault County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Faribault County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:

Highway Planning and Construction	CFDA #20.205
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- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Faribault County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 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. Some capital assets are assigned a salvage value for use in computing depreciation, and others are not.
- C. 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 table below 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	\$ 273,597	\$ 3,436,716	\$ 27,618
Other improvements	125,572	177,638	6,945
Machinery and equipment	59,840	4,779,511	4,986
Infrastructure	690,448	53,441,300	27,613
Total capital assets depreciated	<u>\$ 1,149,457</u>	<u>\$ 61,835,165</u>	<u>\$ 67,162</u>

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 revise policies and schedules to be consistent as recommended by this finding.

03-1 General Ledger Items

While reviewing the County's general ledger account activity report, we noted the following items of concern.

- A. Certain funds in the general ledger were not in balance at the end of the year. The General Fund was out of balance by \$331,649, the Public Works Special Revenue Fund by \$3,037, the Ditch Special Revenue Fund by \$732, and the Debt Service Fund by \$299,172.
- B. The Ditch Special Revenue Fund general ledger liability accounts for advances from other funds do not agree with the General Fund asset account for advances to other funds.
- C. The County approved budgets for all its special revenue funds, but the County Auditor's Office did not post the approved Ditch Fund budget to the general ledger. Therefore, the County was not able to use the monthly budget-to-actual reports to monitor current year expenditures to the approved budget expenditures.

In order to improve the financial records of the County, we recommend the following.

- A. 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.

- B. Balance sheet accounts of all funds should be reviewed to determine if the accounts are current and display the proper balance. Corrections should be approved and posted as needed.
- C. Board-approved budgets should be posted to the general ledger system so that monthly budget-to-actual reports can be used to monitor both revenue and expenditure transactions during the year.

Client's Response:

The County will work to balance the general ledger. Balance sheet accounts will be reviewed on a regular basis. The County has posted budgets to the general ledger, including the Public Works Fund and the Ditch Fund for 2005.

PREVIOUSLY REPORTED ITEMS RESOLVED

Capital Asset Records (96-5)

We recommended the County develop policies and procedures to strengthen internal control over capital assets.

Resolution

The County has made improvements to the capital asset system. See current finding for remaining areas of concern.

General Ledger Items (03-1)

We recommended the County include all funds in the general ledger in detail, and cash accounts in individual debt service accounts should be reviewed to determine if adjustments are needed.

Resolution

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

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

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 183 individual systems, 28 ditch systems had deficit cash balances totaling \$237,225 at December 31, 2004. 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, 68 ditch systems had negative fund balances totaling \$1,285,064 as of December 31, 2004. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

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

Client's Response:

The County will continue to assess levies to bring ditch balances into the black.

PREVIOUSLY REPORTED ITEMS RESOLVED

Debt Service Fund Cash Deficit (03-2)

Six of 11 individual debt service accounts had deficit cash balances.

Resolution

All of the individual debt service accounts had positive cash balances at December 31, 2004.

Financial Statement Preparation (03-3)

We recommended the County Board provide the necessary directives to County staff to prepare the annual financial statements.

Resolution

The County prepared annual financial statements for the year ended December 31, 2004.



PATRICIA ANDERSON
STATE AUDITOR

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 Faribault County as of and for the year ended December 31, 2004, and have issued our report thereon dated September 12, 2005. We did not audit 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 Questioned Costs 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 Questioned Costs as item 96-1.

This report is intended solely for the information and use of the Board 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: September 12, 2005



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Faribault County

Compliance

We have audited the compliance of Faribault County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. Faribault County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Faribault County's financial statements include the operations of the Faribault County Housing and Redevelopment Authority (HRA) component unit, which expended \$292,714 in federal awards during the year ended December 31, 2004, which are not included in the schedule of expenditures of federal awards. Our audit, described below, did not include the operations of the HRA because the HRA was audited by other auditors.

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

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In our opinion, Faribault County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of Faribault County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Faribault County as of and for the year ended December 31, 2004, and have issued our report thereon dated September 12, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Faribault County's basic financial statements. We did not audit the Faribault County Housing and Redevelopment Authority, a discretely presented component unit. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 12, 2005

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 11

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Direct		
Public Safety Partnership and Community Policing Grant	16.710	\$ <u>172,275</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 499,000
Public Transportation for Non-Urbanized Areas	20.509	<u>58,048</u>
Total U.S. Department of Transportation		\$ <u>557,048</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Domestic Preparedness Equipment Support	97.004	\$ 30,649
Public Assistance Grant	97.036	64,619
Emergency Management Performance Grant	97.042	14,526
State and Local Emergency Operations Planning Grant	97.051	<u>1,620</u>
Total U.S. Department of Homeland Security		\$ <u>111,414</u>
Total Federal Awards		\$ <u><u>840,737</u></u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Faribault County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. In some instances, expenditures shown are different than reported revenues because they are not available.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.
5. The County's basic financial statements include the operations of the Faribault County Housing and Redevelopment Authority (HRA) Component Unit. The HRA expended \$292,714 in federal awards, which are not included in this schedule and were audited by other auditors.