

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

NICOLLET COUNTY
ST. PETER, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

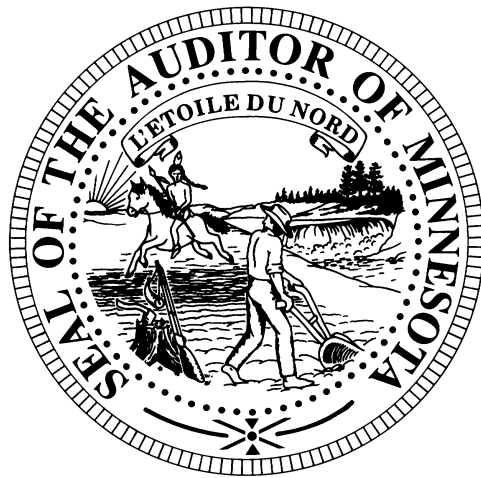
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Year Ended December 31, 2005



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

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2005**

Office	Name	Term Expires
Commissioners		
1st District	Judy Hanson*	January 2007
2nd District	James Stenson	January 2009
3rd District	Jack Kolars	January 2007
4th District	David Haack	January 2009
5th District	Paul Engel	January 2007
Officers Elected		
Attorney	Michael K. Riley	January 2007
Auditor	Robert Bruns	January 2007
County Judge	Warren Litynski	January 2007
County Recorder	Kathryn Conlon	January 2007
Registrar of Titles	Kathryn Conlon	January 2007
Sheriff	David Lange	January 2007
Treasurer	Myrna Schoeb**	January 2007
Officers Appointed		
Assessor	Doreen Pehrson	December 2008
Court Administrator	Shirley Eken	Indefinite
Highway Engineer	Michael Wagner	May 2008
Probation Officer (Court Services Director)	Stephen Kley	Indefinite
Surveyor	Peter Blethen	Indefinite
Veterans Service Officer	Henry Sadler	May 2008
Coroner	Dr. Kim Beecher Englehardt	Indefinite
Administrator	Bob Podhradsky	Indefinite
Human Services Director	Joan Tesdahl	Indefinite
Public Health Nursing Director	Nita Aasen	Indefinite
Environmental Services Director	Tina Rosenstein	Indefinite
Extension Director	Kelly Kunkel	Indefinite

*Chair

**Retired effective June 30, 2006; Robert Bruns appointed to complete term.

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STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Nicollet County

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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 provides a reasonable basis for our opinions.

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

The Management's Discussion and Analysis is not a required part of the basic financial statements but is 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 Nicollet County's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Nicollet 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 presented 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 our report dated September 26, 2006, on our consideration of Nicollet 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

/s/Greg Hierlinger

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 26, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

As management of Nicollet County, we offer readers of the Nicollet County financial statements this narrative overview and analysis of the financial activities of Nicollet County for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Nicollet County exceeded its liabilities by \$71,475,006 at the close of 2005. Of this amount, \$12,856,119 (unrestricted net assets) may be used to meet Nicollet County's ongoing obligations to citizens and creditors.
- Nicollet County's total net assets increased by \$3,945,794 in 2005. This is attributable primarily to increases in infrastructure and equipment.
- At the close of 2005, Nicollet County's governmental funds reported combined ending fund balances of \$13,269,525, a decrease of \$1,613,129 in comparison with the prior year. Of the total fund balance, \$4,254,571 is available for spending at the County's discretion and is noted as unreserved, undesignated fund balance.
- At the close of 2005, unreserved, undesignated fund balance for the General Fund was \$1,559,029, or 16 percent, of total General Fund expenditures.
- Nicollet County's total debt decreased by \$645,000, or eight percent, during 2005. The key factor in the decrease was due to payments made on general obligation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to Nicollet County's basic financial statements. The County's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund level financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Nicollet County's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of Nicollet County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Nicollet County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods (uncollected taxes and earned but unused vacation leave).

The County's government-wide financial statements report functions of the County principally supported by taxes and intergovernmental revenues. The governmental activities of Nicollet County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

The government-wide financial statements can be found on Exhibits 1 and 2.

Fund Level Financial Statements

A "fund" is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Nicollet County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Nicollet County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- Governmental funds--Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, County fund level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Nicollet County reports six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, the Revolving Loan Special Revenue Fund, and the Ditch Special Revenue Fund, all of which are considered to be major funds. The Debt Service Fund is considered to be a nonmajor fund. Governmental fund financial statements are on Exhibits 3 through 7.

- Proprietary funds--Nicollet County maintains one proprietary fund. The Self-Insurance Internal Service Fund is used to account for the accumulation of resources for, and the payment of, insurance costs of the self-insurance program. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Because the Self-Insurance Internal Service Fund benefits the governmental function, it has been included within the governmental activities column on the government-wide financial statements. Proprietary fund financial statements are on Exhibits 8 through 10.
- Fiduciary funds--Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Nicollet County's fiduciary funds consist of six agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the agency funds are not reflected in the government-wide financial statements because those resources are not available to support the County's programs. Fiduciary funds are on Exhibit 11.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

Other Information

In addition to the basic financial statements and notes, Nicollet County also provides supplementary information on Nicollet County's deposits and investments, taxes, and intergovernmental revenues.

Nicollet County adopts an annual appropriated budget for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, and the nonmajor Debt Service Fund. Budgetary comparison statements have been provided for the County's major funds to demonstrate compliance with these budgets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Nicollet County's assets exceeded liabilities by \$71,475,006 at the close of 2005. The largest portion of Nicollet County's net assets (79 percent) reflects its investment in capital assets (land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. However, it should be noted that these assets are not available for future spending.

Governmental Net Assets

	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 18,514,801	\$ 18,771,893
Capital assets	<u>64,871,977</u>	<u>60,854,333</u>
Total Assets	<u>\$ 83,386,778</u>	<u>\$ 79,626,226</u>
Long-term liabilities outstanding	\$ 8,996,948	\$ 9,511,907
Other liabilities	<u>2,914,824</u>	<u>2,585,107</u>
Total Liabilities	<u>\$ 11,911,772</u>	<u>\$ 12,097,014</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 56,596,742	\$ 53,903,073
Restricted	2,022,145	1,214,754
Unrestricted	<u>12,856,119</u>	<u>12,411,385</u>
Total Net Assets	<u>\$ 71,475,006</u>	<u>\$ 67,529,212</u>

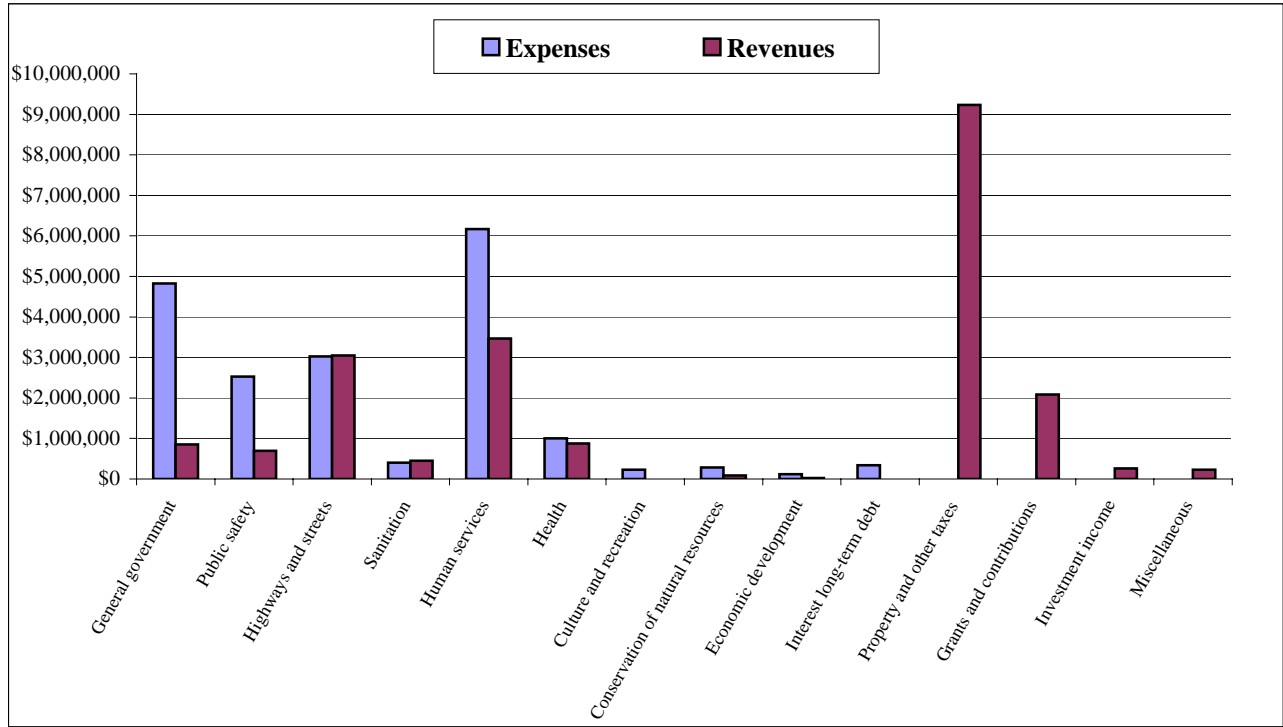
The unrestricted net asset amount of \$12,856,119 as of December 31, 2005, may be used to meet the County's ongoing obligations to citizens and creditors.

GOVERNMENTAL ACTIVITIES

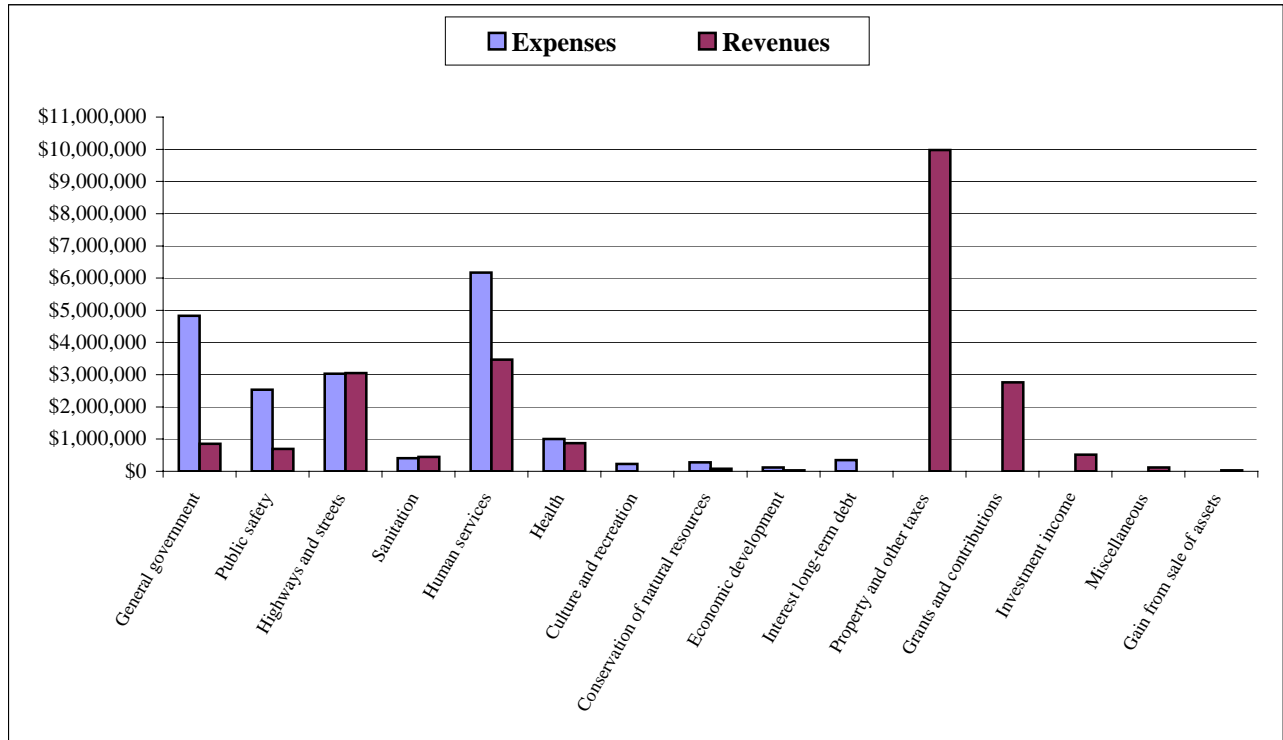
Nicollet County's activities increased net assets by \$3,945,794, or six percent, over the 2004 net assets. The key element of the increase was due to additional infrastructure and equipment.

	Changes in Net Assets	
	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues		
Charges for services	\$ 2,637,376	\$ 2,573,131
Operating grants and contributions	7,082,412	6,846,959
Capital grants and contributions	784,146	89,642
General revenues		
Property taxes	9,930,923	9,187,804
Other	<u>3,468,765</u>	<u>2,610,322</u>
Total Revenues	<u>\$ 23,903,622</u>	<u>\$ 21,307,858</u>
Expenses		
General government	\$ 4,750,947	\$ 4,829,703
Public safety	2,795,968	2,530,663
Highways and streets	3,055,149	3,028,586
Sanitation	433,626	404,039
Human services	6,666,867	6,169,165
Health	929,474	1,000,067
Culture and recreation	544,951	227,280
Conservation of natural resources	292,105	280,941
Economic development	133,932	121,086
Interest	<u>354,809</u>	<u>343,381</u>
Total Expenses	<u>\$ 19,957,828</u>	<u>\$ 18,934,911</u>
Increase (Decrease) in Net Assets	\$ 3,945,794	\$ 2,372,947
Net Assets, January 1	<u>67,529,212</u>	<u>65,156,265</u>
Net Assets, December 31	<u>\$ 71,475,006</u>	<u>\$ 67,529,212</u>

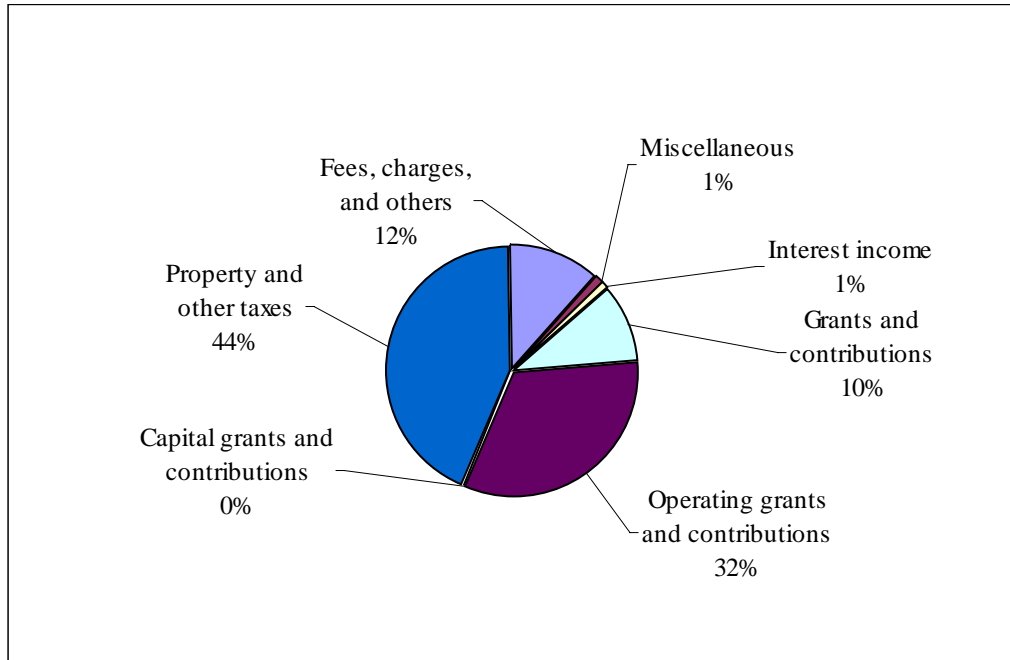
Expenses and Revenues - 2004



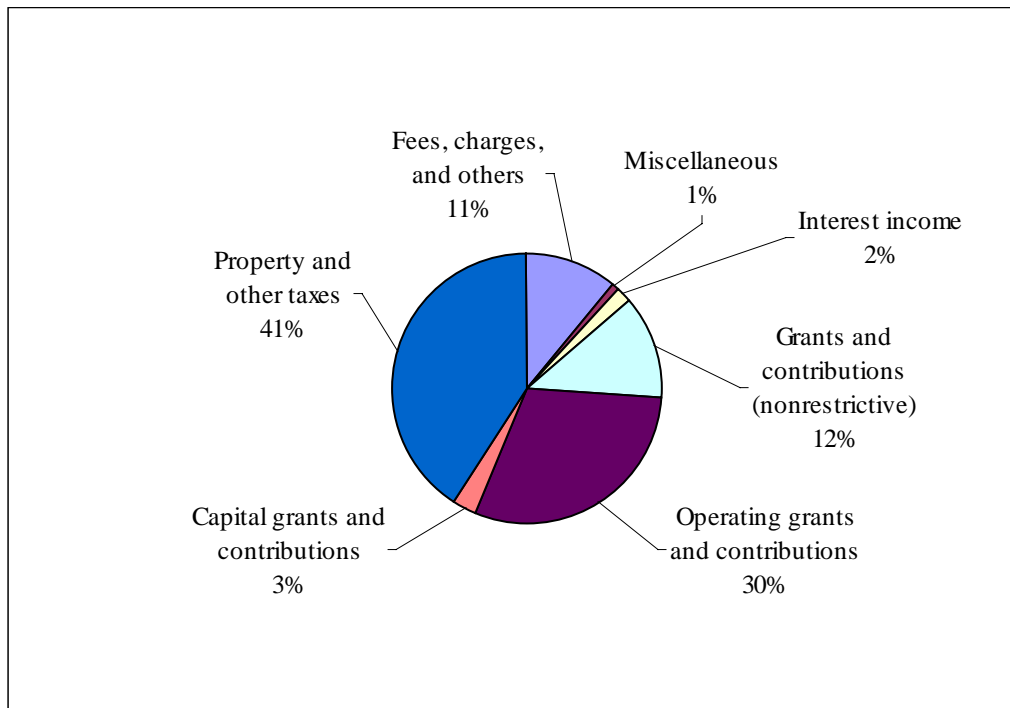
Expenses and Revenues - 2005



Revenues by Source - 2004



Revenues by Source - 2005



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$13,269,525, a decrease of \$1,613,129 in comparison with the prior year. The majority of this amount (\$12,565,400) constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund of Nicollet County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$8,464,170, while total fund balance was \$8,858,492. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 86 percent of total General Fund expenditures, while total fund balance represents 89 percent of that same amount. In 2005, the fund balance amount in the General Fund increased by \$127,296. The primary reason for this increase was that revenues increased by 4 percent, while the expenditures increased by 10 percent over 2004.

The Road and Bridge Special Revenue Fund's fund balance decreased \$1,786,027 in 2005. The main reason for this decrease was due to the construction of infrastructure financed by the general obligation bonds issued in 2004.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. The actual revenues exceeded budgeted revenues by \$174,676. One of the larger variances was a higher than expected rate of return on investments. The net effect of other revenue variances was not significant. The actual expenditures were less than budgeted expenditures by \$476,288. The largest variances were in general government, public safety, health, and culture and recreation, which accounted for most of the variance. A significant variance was the purchase of Minnemishinona Falls for future park/wayside rest development.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2005, is \$64,871,977 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was seven percent. The major capital asset event in 2005 was additional infrastructure additions (primarily bridges and County State-Aid Highway roads).

	Capital Assets	
	<u>2005</u>	<u>2004</u>
Land	\$ 1,778,377	\$ 1,654,149
Land improvements	234,119	203,430
Building	11,758,781	11,855,301
Machinery, vehicles, furniture, and equipment	823,985	839,140
Infrastructure	<u>50,276,715</u>	<u>46,302,313</u>
Totals	<u>\$ 64,871,977</u>	<u>\$ 60,854,333</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the County had total bonded debt outstanding of \$7,530,000, which is backed by the full faith and credit of the government.

	Outstanding Debt	
	<u>2005</u>	<u>2004</u>
General Obligation Bonds	<u>\$ 7,530,000</u>	<u>\$ 8,175,000</u>

The County's debt related to general obligation bonds decreased by \$645,000 (eight percent) during the fiscal year. The main reason for the decrease was the payment on the general obligation bonds.

Nicollet County's bond rating is "A2" from Moody's.

Minnesota statutes limit the amount of debt that a county may levy to two percent of its total market value. As of the end of 2005, Nicollet County is well below the two percent debt limit imposed by state statutes.

Additional information on the County long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Nicollet County's unemployment rate was 3.1 percent as of the end of 2005. This is significantly below the statewide rate of 4.0 percent.
- Mortgage interest rates have continued to be low, causing many people to refinance their mortgages.

At the end of 2005, Nicollet County set its 2006 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Nicollet County Auditor/Treasurer, Nicollet County Courthouse, 501 South Minnesota Avenue, St. Peter, Minnesota 56082.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	14,683,970
Petty cash and change funds		1,327
Taxes receivable		
Prior		138,592
Special assessments receivable		
Prior		10,366
Noncurrent		588,627
Accounts receivable		575,898
Accrued interest receivable		115,277
Due from other governments		1,771,120
Inventories		257,789
Prepaid items		328,596
Deferred charges		43,239
Capital assets		
Non-depreciable		1,778,377
Depreciable - net of accumulated depreciation		63,093,600
		83,386,778
Total Assets	\$	83,386,778

Liabilities

Accounts payable	\$	506,317
Salaries payable		162,443
Contracts payable		269,552
Due to other governments		138,821
Accrued interest payable		115,738
Unearned revenue		7,011
Long-term liabilities		
Due within one year		1,714,942
Due in more than one year		8,996,948
		11,911,772
Total Liabilities	\$	11,911,772

Net Assets

Invested in capital assets - net of related debt	\$	56,596,742
Restricted for		
Debt service		495,849
General government		248,061
Public safety		145,661
Highways and streets		1,131,974
Health		600
Unrestricted		12,856,119
		71,475,006
Total Net Assets	\$	71,475,006

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 2

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

		Program Revenues				Net (Expense) Revenue and Change in Net Assets Governmental Activities
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions			
Functions/Programs						
Governmental activities						
General government	\$ 4,750,947	\$ 616,355	\$ 118,424	\$ -	\$ (4,016,168)	
Public safety	2,795,968	277,208	388,668	-	(2,130,092)	
Highways and streets	3,055,149	13,610	2,927,647	784,146	670,254	
Sanitation	433,626	434,697	35,049	-	36,120	
Human services	6,666,867	644,986	3,297,344	-	(2,724,537)	
Health	929,474	479,662	300,440	-	(149,372)	
Culture and recreation	544,951	-	-	-	(544,951)	
Conservation of natural resources	292,105	170,858	-	-	(121,247)	
Economic development	133,932	-	14,840	-	(119,092)	
Interest and administrative charges	354,809	-	-	-	(354,809)	
Total Governmental Activities	\$ 19,957,828	\$ 2,637,376	\$ 7,082,412	\$ 784,146	\$ (9,453,894)	
 General Revenues						
Property taxes					\$ 9,930,923	
Mortgage registry and deed tax					31,517	
Payments in lieu of tax					12,674	
Grants and contributions not restricted to specific programs					2,765,959	
Investment income					514,237	
Miscellaneous					116,523	
Gain from sale of assets					27,855	
Total general revenues					\$ 13,399,688	
Change in net assets					\$ 3,945,794	
Net Assets - January 1					67,529,212	
Net Assets - December 31					\$ 71,475,006	

FUND FINANCIAL STATEMENTS

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 8,035,356	\$ 653,158
Petty cash and change funds	1,227	100
Taxes receivable		
Delinquent	77,384	18,897
Special assessments receivable		
Delinquent	5,636	-
Deferred	14,085	-
Accounts receivable	51,543	750
Accrued interest receivable	115,277	-
Interfund receivable	243,725	-
Due from other funds	241,857	6,835
Due from other governments	98,974	1,214,765
Inventories	-	257,789
Prepaid items	333,855	-
	\$ 9,218,919	\$ 2,152,294
Total Assets	\$ 9,218,919	\$ 2,152,294

EXHIBIT 3

<u>Human Services</u>	<u>Revolving Loan</u>	<u>Ditch</u>	<u>Nonmajor Debt Service Fund</u>	<u>Total Governmental Funds</u>
\$ 3,401,907	\$ 68,265	\$ -	\$ 718,478	\$ 12,877,164
-	-	-	-	1,327
31,142	-	-	11,169	138,592
-	3,859	871	-	10,366
-	479,171	95,371	-	588,627
523,605	-	-	-	575,898
-	-	-	-	115,277
-	-	-	-	243,725
-	-	-	-	248,692
457,381	-	-	-	1,771,120
-	-	-	-	257,789
-	-	-	-	333,855
<u>\$ 4,414,035</u>	<u>\$ 551,295</u>	<u>\$ 96,242</u>	<u>\$ 729,647</u>	<u>\$ 17,162,432</u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 99,822	\$ 31,123
Salaries payable	102,788	17,796
Contracts payable	42,248	227,304
Interfund payable	-	-
Due to other funds	679	31
Due to other governments	45,009	3,270
Deferred revenue - unavailable	65,791	1,224,480
Deferred revenue - unearned	4,090	949
	\$ 360,427	\$ 1,504,953
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 257,789
Law library	102,791	-
Recorder's equipment purchases	117,064	-
E-911	79,062	-
Boat and water safety	349	-
Sheriff's contingency	47,924	-
Sheriff's forfeited property	18,326	-
Attorney's forfeited property	24,592	-
ISTS loans	-	-
Donations	4,214	-
Unreserved		
Designated for cash flows	2,691,016	389,552
Designated for capital improvements	200,000	-
Designated for long-term improvements	864,125	-
Designated for contingencies	900,000	-
Designated for emergency	100,000	-
Designated for court costs	500,000	-
Designated for elections	50,000	-
Designated for insurance	1,600,000	-
Undesignated	1,559,029	-
Unreserved, reported in nonmajor		
Debt service fund	-	-
	\$ 8,858,492	\$ 647,341
Total Fund Balances	\$ 8,858,492	\$ 647,341
Total Liabilities and Fund Balances	\$ 9,218,919	\$ 2,152,294

EXHIBIT 3
(Continued)

<u>Human Services</u>	<u>Revolving Loan</u>	<u>Ditch</u>	<u>Nonmajor Debt Service Fund</u>	<u>Total Governmental Funds</u>
\$ 253,399	\$ 18,783	\$ 2,063	\$ -	\$ 405,190
41,859	-	-	-	162,443
-	-	-	-	269,552
-	-	243,725	-	243,725
14,487	-	6,156	227,339	248,692
90,352	-	190	-	138,821
545,237	480,498	95,473	5,994	2,417,473
1,507	-	-	465	7,011
\$ 946,841	\$ 499,281	\$ 347,607	\$ 233,798	\$ 3,892,907
\$ -	\$ -	\$ -	\$ -	\$ 257,789
-	-	-	-	102,791
-	-	-	-	117,064
-	-	-	-	79,062
-	-	-	-	349
-	-	-	-	47,924
-	-	-	-	18,326
-	-	-	-	24,592
-	52,014	-	-	52,014
-	-	-	-	4,214
1,016,136	-	-	-	4,096,704
-	-	-	-	200,000
-	-	-	-	864,125
-	-	-	-	900,000
-	-	-	-	100,000
-	-	-	-	500,000
-	-	-	-	50,000
-	-	-	-	1,600,000
2,451,058	-	(251,365)	-	3,758,722
-	-	-	495,849	495,849
\$ 3,467,194	\$ 52,014	\$ (251,365)	\$ 495,849	\$ 13,269,525
\$ 4,414,035	\$ 551,295	\$ 96,242	\$ 729,647	\$ 17,162,432

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 3A

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

Fund Balances - total governmental funds (Exhibit 3)		\$	13,269,525
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			64,871,977
Other assets are not available to pay for current period expenditures and are deferred in the funds.			
Deferred revenue	\$	2,417,473	
Deferred charges reported on Exhibit 1		43,239	
Less: prepaid interest reported as fund assets		<u>(5,259)</u>	2,455,453
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
General obligation bonds	\$	(7,530,000)	
Less: unamortized discount on bonds payable		18,666	
Accrued interest payable		(115,738)	
Capital leases payable		(865,000)	
Loans payable		(675,306)	
Compensated absences payable		<u>(1,637,338)</u>	(10,804,716)
The Internal Service Fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the statement of net assets.			<u>1,682,767</u>
Net Assets of Governmental Activities (Exhibit 1)		\$	<u>71,475,006</u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 5,638,078	\$ 1,349,355
Special assessments	256,148	-
Licenses and permits	80,642	-
Intergovernmental	2,467,564	3,304,805
Charges for services	1,176,993	30,307
Gifts and contributions	45,151	7,619
Interest on investments	514,237	-
Miscellaneous	365,068	28,450
	\$ 10,543,881	\$ 4,720,536
Expenditures		
Current		
General government	\$ 4,790,059	\$ -
Public safety	2,812,427	-
Highways and streets	-	7,017,080
Sanitation	242,629	-
Human services	-	-
Health	945,937	-
Culture and recreation	429,861	18,736
Conservation of natural resources	256,753	-
Economic development	133,932	-
Capital outlay	103,971	-
Intergovernmental	94,393	-
Debt service		
Principal	50,000	205,000
Interest	38,205	82,207
Administrative charges	750	374
	\$ 9,898,917	\$ 7,323,397
Excess of Revenues Over (Under) Expenditures	\$ 644,964	\$ (2,602,861)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 847,668
Transfers out	(847,668)	-
Loans issued	-	-
Capital lease issued	330,000	-
	\$ (517,668)	\$ 847,668
Net Change in Fund Balances	\$ 127,296	\$ (1,755,193)
Fund Balances - January 1	8,731,196	2,433,368
Increase (decrease) in reserved for inventories	-	(30,834)
Fund Balances - December 31	\$ 8,858,492	\$ 647,341

EXHIBIT 4

Human Services	Revolving Loan	Ditch	Nonmajor Debt Service Fund	Total Governmental Funds
\$ 2,150,659	\$ -	\$ -	\$ 841,188	\$ 9,979,280
-	80,679	144,705	-	481,532
-	-	-	-	80,642
3,912,935	-	-	98,466	9,783,770
223,350	-	-	-	1,430,650
-	-	-	-	52,770
-	-	-	-	514,237
350,675	-	728	-	744,921
\$ 6,637,619	\$ 80,679	\$ 145,433	\$ 939,654	\$ 23,067,802
\$ -	\$ -	\$ -	\$ -	\$ 4,790,059
-	-	-	-	2,812,427
-	-	-	-	7,017,080
-	190,997	-	-	433,626
6,694,335	-	-	-	6,694,335
-	-	-	-	945,937
-	-	-	-	448,597
-	-	155,884	-	412,637
-	-	-	-	133,932
-	-	-	-	103,971
-	-	-	-	94,393
-	85,665	-	440,000	780,665
-	6,162	-	245,692	372,266
-	-	-	776	1,900
\$ 6,694,335	\$ 282,824	\$ 155,884	\$ 686,468	\$ 25,041,825
\$ (56,716)	\$ (202,145)	\$ (10,451)	\$ 253,186	\$ (1,974,023)
\$ -	\$ -	\$ -	\$ -	\$ 847,668
-	-	-	-	(847,668)
-	61,728	-	-	61,728
-	-	-	-	330,000
\$ -	\$ 61,728	\$ -	\$ -	\$ 391,728
\$ (56,716)	\$ (140,417)	\$ (10,451)	\$ 253,186	\$ (1,582,295)
3,523,910	192,431	(240,914)	242,663	14,882,654
-	-	-	-	(30,834)
\$ 3,467,194	\$ 52,014	\$ (251,365)	\$ 495,849	\$ 13,269,525

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 4A

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 4) **\$ (1,582,295)**

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

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

Deferred revenue - December 31	\$	2,417,473	
Deferred revenue - January 1		(1,503,694)	913,779

Governmental funds report capital outlays 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. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Capital outlay reported in the funds	\$	5,968,010	
Net book value of assets sold		(25,580)	
Depreciation expense		(1,924,786)	4,017,644

The issuance of long-term debt (such as capital notes and loans) provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized over the life of the debt in the statement of activities.

Proceeds of new debt			
Capital lease issued	\$	(330,000)	
Loans issued		(61,728)	(391,728)

Repayment of debt principal			780,665
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Amortization of discount on debt and issuance costs			(7,100)
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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.

Inventories	\$	(30,834)	
Accrued interest payable and prepaid interest		26,457	
Compensated absences payable		(126,595)	(130,972)

The net revenue of the Internal Service Fund is reported with governmental activities.			345,801
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Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 3,945,794**

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,298,970	\$ 5,647,916	\$ 5,638,078	\$ (9,838)
Special assessments	244,000	244,000	256,148	12,148
Licenses and permits	37,000	37,000	80,642	43,642
Intergovernmental	1,996,854	2,647,908	2,467,564	(180,344)
Charges for services	1,224,400	1,224,400	1,176,993	(47,407)
Fines and forfeits	20,000	20,000	-	(20,000)
Gifts and contributions	11,500	11,500	45,151	33,651
Investment earnings	370,000	370,000	514,237	144,237
Miscellaneous	166,481	166,481	365,068	198,587
Total Revenues	\$ 10,369,205	\$ 10,369,205	\$ 10,543,881	\$ 174,676
Expenditures				
Current				
General government				
Commissioners	\$ 225,805	\$ 225,805	\$ 231,808	\$ (6,003)
Courts	44,027	44,027	41,857	2,170
Law library	155,560	155,560	58,667	96,893
County administration	258,253	258,253	255,377	2,876
County auditor	369,312	369,312	363,690	5,622
County treasurer	290,025	290,025	274,330	15,695
County assessor	442,174	442,174	440,405	1,769
Elections	17,000	17,000	1,576	15,424
Accounting and auditing	50,000	50,000	54,118	(4,118)
Data processing	508,714	508,714	567,185	(58,471)
Machine room	73,450	73,450	56,988	16,462
Attorney	571,579	571,579	574,327	(2,748)
Recorder	381,735	381,735	353,009	28,726
Surveyor	10,000	10,000	8,370	1,630
Environmental services	401,938	401,938	414,228	(12,290)
Buildings and plant	665,255	665,255	434,256	230,999
Telecommunications	71,231	71,231	99,144	(27,913)
Veterans service officer	108,760	108,760	146,189	(37,429)
Other general government	501,613	501,613	414,535	87,078
Total general government	\$ 5,146,431	\$ 5,146,431	\$ 4,790,059	\$ 356,372

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,795,689	\$ 1,795,689	\$ 1,778,870	\$ 16,819
Boat and water safety	1,300	1,300	2,792	(1,492)
Emergency services	141,054	141,054	137,136	3,918
Coroner	9,000	9,000	6,791	2,209
E-911 systems	50,000	50,000	12,900	37,100
County jail	278,250	278,250	202,206	76,044
Prisoner commission account	8,000	8,000	5,434	2,566
Court services	785,750	785,750	654,157	131,593
Other public safety	-	-	12,141	(12,141)
Total public safety	\$ 3,069,043	\$ 3,069,043	\$ 2,812,427	\$ 256,616
Sanitation				
Solid waste	\$ 308,663	\$ 308,663	\$ 242,629	\$ 66,034
Health				
Nursing service	\$ 434,178	\$ 434,178	\$ 356,864	\$ 77,314
WIC program	97,610	97,610	66,073	31,537
Senior citizen transportation	79,591	79,591	78,467	1,124
Maternal and child health	143,252	143,252	130,416	12,836
Health center	364,087	364,087	291,152	72,935
Bioterrorism	30,000	30,000	22,965	7,035
Total health	\$ 1,148,718	\$ 1,148,718	\$ 945,937	\$ 202,781
Culture and recreation				
Historical society	\$ 88,200	\$ 88,200	\$ 88,200	\$ -
Parks	50,000	50,000	-	50,000
Other culture and recreation	-	-	341,661	(341,661)
Total culture and recreation	\$ 138,200	\$ 138,200	\$ 429,861	\$ (291,661)
Conservation of natural resources				
Cooperative extension	\$ 148,018	\$ 148,018	\$ 133,623	\$ 14,395
Soil and water conservation	65,095	65,095	65,095	-
Agricultural inspector	13,225	13,225	12,660	565
Agricultural society	46,000	46,000	45,375	625
Total conservation of natural resources	\$ 272,338	\$ 272,338	\$ 256,753	\$ 15,585

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Economic development				
Housing and Redevelopment Authority	\$ 92,263	\$ 92,263	\$ 92,263	\$ -
Other	21,200	21,200	41,669	(20,469)
Total economic development	\$ 113,463	\$ 113,463	\$ 133,932	\$ (20,469)
Intergovernmental				
Culture and recreation - regional library	\$ 94,644	\$ 94,644	\$ 94,393	\$ 251
Capital outlay				
General government	\$ -	\$ -	\$ 103,971	\$ (103,971)
Debt service				
Principal	\$ 50,000	\$ 50,000	\$ 50,000	\$ -
Interest	32,955	32,955	38,205	(5,250)
Administrative charges	750	750	750	-
Total debt service	\$ 83,705	\$ 83,705	\$ 88,955	\$ (5,250)
Total Expenditures	\$ 10,375,205	\$ 10,375,205	\$ 9,898,917	\$ 476,288
Excess of Revenues Over (Under) Expenditures	\$ (6,000)	\$ (6,000)	\$ 644,964	\$ 650,964
Other Financing Sources (Uses)				
Transfers in	\$ 6,000	\$ 6,000	\$ -	\$ (6,000)
Transfers out	-	-	(847,668)	(847,668)
Capital lease	-	-	330,000	330,000
Total Other Financing Sources (Uses)	\$ 6,000	\$ 6,000	\$ (517,668)	\$ (523,668)
Net Change in Fund Balance	\$ -	\$ -	\$ 127,296	\$ 127,296
Fund Balance - January 1	8,731,196	8,731,196	8,731,196	-
Fund Balance - December 31	\$ 8,731,196	\$ 8,731,196	\$ 8,858,492	\$ 127,296

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 6

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,334,787	\$ 1,334,787	\$ 1,349,355	\$ 14,568
Intergovernmental	2,969,610	2,969,610	3,304,805	335,195
Charges for services	65,500	65,500	30,307	(35,193)
Gifts and contributions	-	-	7,619	7,619
Miscellaneous	28,000	28,000	28,450	450
Total Revenues	\$ 4,397,897	\$ 4,397,897	\$ 4,720,536	\$ 322,639
Expenditures				
Current				
Highways and streets				
Administration	\$ 216,856	\$ 216,856	\$ 235,981	\$ (19,125)
Maintenance	1,262,589	1,169,382	1,175,302	(5,920)
Construction	4,035,320	3,830,320	5,163,680	(1,333,360)
Equipment maintenance and shop	369,805	369,805	441,991	(72,186)
Material and services for resale	3,000	3,000	126	2,874
Total highways and streets	\$ 5,887,570	\$ 5,589,363	\$ 7,017,080	\$ (1,427,717)
Culture and recreation				
Parks	\$ 21,015	\$ 21,015	\$ 18,736	\$ 2,279
Debt service				
Principal	\$ -	\$ 205,000	\$ 205,000	\$ -
Interest	-	82,207	82,207	-
Administrative (fiscal) charges	-	-	374	(374)
Total debt service	\$ -	\$ 287,207	\$ 287,581	\$ (374)
Total Expenditures	\$ 5,908,585	\$ 5,897,585	\$ 7,323,397	\$ (1,425,812)
Excess of Revenues Over (Under) Expenditures	\$ (1,510,688)	\$ (1,499,688)	\$ (2,602,861)	\$ (1,103,173)
Other Financing Sources (Uses)				
Transfers in	61,000	50,000	847,668	797,668
Net Change in Fund Balance	\$ (1,449,688)	\$ (1,449,688)	\$ (1,755,193)	\$ (305,505)
Fund Balance - January 1	2,433,368	2,433,368	2,433,368	-
Increase (decrease) in reserved for inventories	-	-	(30,834)	(30,834)
Fund Balance - December 31	\$ 983,680	\$ 983,680	\$ 647,341	\$ (336,339)

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 7

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,738,176	\$ 2,136,914	\$ 2,150,659	\$ 13,745
Intergovernmental	3,170,224	3,771,486	3,912,935	141,449
Charges for services	252,100	252,100	223,350	(28,750)
Miscellaneous	325,300	325,300	350,675	25,375
Total Revenues	\$ 6,485,800	\$ 6,485,800	\$ 6,637,619	\$ 151,819
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,072,477	\$ 2,072,477	\$ 2,128,872	\$ (56,395)
Social services	4,585,355	4,585,355	4,565,463	19,892
Total Expenditures	\$ 6,657,832	\$ 6,657,832	\$ 6,694,335	\$ (36,503)
Net Change in Fund Balance	\$ (172,032)	\$ (172,032)	\$ (56,716)	\$ 115,316
Fund Balance - January 1	3,523,910	3,523,910	3,523,910	-
Fund Balance - December 31	\$ 3,351,878	\$ 3,351,878	\$ 3,467,194	\$ 115,316

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 8

**STATEMENT OF FUND NET ASSETS
SELF-INSURANCE INTERNAL SERVICE FUND
DECEMBER 31, 2005**

Assets

Current assets	
Cash and pooled investments	\$ <u>1,806,806</u>

Liabilities

Current liabilities	
Accounts payable	\$ 101,127
Noncurrent liabilities	
Claims and judgments payable	<u>22,912</u>

Total Liabilities	\$ <u>124,039</u>
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Net Assets

Unrestricted	<u>\$ <u>1,682,767</u></u>
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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 9

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

Operating Revenues	
Charges for services	\$ 2,302,754
Operating Expenses	
Professional services	<u>2,017,568</u>
Operating Income (Loss)	\$ 285,186
Nonoperating Revenues	
Tobacco settlement	<u>60,615</u>
Income (Loss)	\$ 345,801
Net Assets - January 1	<u>1,336,966</u>
Net Assets - December 31	<u><u>\$ 1,682,767</u></u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 10

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

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 2,302,754
Payments to suppliers	<u>(2,036,070)</u>
Net cash provided by (used in) operating activities	\$ 266,684
Cash Flows From Noncapital Financing Activities	
Tobacco settlement	<u>60,615</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 327,299
Cash and Cash Equivalents at January 1	<u>1,479,507</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 1,806,806</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ 285,186</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Increase (decrease) in accounts payable	\$ 2,545
Increase (decrease) in claims payable	<u>(21,047)</u>
Total adjustments	<u>\$ (18,502)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 266,684</u></u>

NICOLLET COUNTY
ST. PETER, MINNESOTA

EXHIBIT 11

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUND
DECEMBER 31, 2005

Assets

Cash and pooled investments	<u>\$ 1,389,623</u>
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Liabilities

Due to other governments	<u>\$ 1,389,623</u>
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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

1. Summary of Significant Accounting Policies

Nicollet County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its proprietary fund, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Nicollet County was established March 5, 1853, and is an organized County having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator serves as the clerk of the Board of Commissioners but has no vote.

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the County. 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.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

In the government-wide statement of net assets, the governmental activities column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

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

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, proprietary, and fiduciary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual funds, with each displayed as separate columns in the fund financial statements. The remaining governmental fund is reported as a nonmajor fund.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

The Revolving Loan Special Revenue Fund accounts for financial transactions resulting from loans for the replacement of existing septic systems.

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

Additionally, the County reports the following funds:

The Debt Service Fund is used to account for revenues and expenditures related to the County's debt activity.

The Internal Service Fund is used to account for the accumulation of resources for, and the payment of, insurance costs of the Self-Insurance Program.

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. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. 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. Nicollet County considers all revenues as available if collected within 60 days after the end of the current period, except for reimbursement (expenditure driven) grants for which the period is 90 days. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County's cash and pooled investments are considered to be cash equivalents.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2005 were \$514,237.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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;
- (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.

Investments of the County are reported at fair value.

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as an “interfund receivable/payable.” All other outstanding balances between funds are reported as “due to/from other funds.”

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

All accounts and taxes receivable are shown net of an allowance for uncollectibles. Accounts receivable are individually analyzed to arrive at the accounts receivable allowance for uncollectibles. The taxes receivable allowance is equal to 1/4 percent of outstanding property taxes at year-end.

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.

Special assessments receivable consist of delinquent special assessments payable in the years 1998 through 2005 and deferred special assessments payable in 2006 and after. All special assessments receivable are shown net of an allowance for uncollectibles. The special assessments receivable allowance is equal to 1/4 percent of outstanding special assessments at year-end.

4. Inventories and Prepaid Items

Supplies inventories are valued at cost using the first in/first out (FIFO) method. Inventory in the Road and Bridge Special Revenue Fund consists of expendable supplies held for consumption. The cost of individual inventory items is recorded as an expenditure at the time the item is purchased. Inventories at the government-wide level are reported as expenses when consumed.

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. 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	25 - 40
Land improvements	20 - 30
Infrastructure	50 - 75
Machinery and equipment	5 - 15

6. Compensated Absences

It is Nicollet County's policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Unused vacation, compensatory time, and vested sick leave are paid to employees upon termination. Unvested sick leave is available to employees in the event of illness-related absences and is not paid to employees upon termination. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The government-wide statement of net assets reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of all vacation, compensatory time, and 25 percent of total vested sick leave. The noncurrent portion consists of 75 percent of total vested sick leave.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

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.

9. Fund Equity

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

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

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Use of Estimates (Continued)

and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all major governmental funds and the nonmajor Debt Service Fund. All annual appropriations lapse at year-end.

On or before mid-August of each year, all departments 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. Transfers of appropriations within a department and 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. The Board made some supplemental budgetary appropriations throughout the year; however, none were material.

B. Excess of Expenditures Over Budget

The Road and Bridge and Human Services Special Revenue Funds had expenditures in excess of budget for the year ended December 31, 2005.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
Road and Bridge	\$ 7,323,397	\$ 5,897,585	\$ 1,425,812
Human Services	6,694,335	6,657,832	36,503

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

2. Stewardship, Compliance, and Accountability

B. Excess of Expenditures Over Budget (Continued)

The excess of expenditures over budget was funded by unanticipated revenues and available fund balance.

C. Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance as of December 31, 2005, as follows:

Fund Balance - modified accrual basis	\$ (251,365)
Deferred revenue - unavailable	<u>95,473</u>
Fund Balance - full accrual basis	<u><u>\$ (155,892)</u></u>

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

47 ditches with positive balances	\$ 129,086
40 ditches with deficit balances	<u>(284,978)</u>
Net Fund Balance Deficit	<u><u>\$ (155,892)</u></u>

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 12,877,164
Petty cash and change funds	1,327
Internal Service Fund	
Cash and pooled investments	1,806,806
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>1,389,623</u>
Total Cash and Investments	<u><u>\$ 16,074,920</u></u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, \$474,394 of the County's bank balance of \$15,203,427 was exposed to custodial credit risk because deposits exceeded insurance and pledged collateral.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing operating funds primarily in short-term deposits, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity required for operations. The County does not have a policy on interest rate risk. The weighted average maturity of the County's investments at December 31, 2005, was less than one year.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2005, none of the County's investments were subject to custodial credit risk.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County does not have a policy on concentration of credit risk. The following table presents the County's investment balances at December 31, 2005:

Investment Type	Concentration Risk Percent of Portfolio	Carrying (Fair) Value
Mutual funds	93.5%	\$ 1,413,007
Negotiable certificates of deposit	6.5%	98,000
Total		\$ 1,511,007

2. Receivables

The County did not have any receivables scheduled to be collected beyond one year, except for deferred special assessments of \$417,724.

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,654,149	\$ 124,228	\$ -	\$ 1,778,377
Capital assets depreciated				
Buildings	\$ 15,887,977	\$ 300,000	\$ -	\$ 16,187,977
Land improvements	363,945	46,650	-	410,595
Machinery and equipment	4,455,839	304,789	158,037	4,602,591
Infrastructure	57,870,954	5,192,343	-	63,063,297
Total capital assets depreciated	\$ 78,578,715	\$ 5,843,782	\$ 158,037	\$ 84,264,460

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 4,032,676	\$ 396,520	\$ -	\$ 4,429,196
Land improvements	160,515	15,961	-	176,476
Machinery and equipment	3,616,699	294,364	132,457	3,778,606
Infrastructure	11,568,641	1,217,941	-	12,786,582
Total accumulated depreciation	\$ 19,378,531	\$ 1,924,786	\$ 132,457	\$ 21,170,860
Total capital assets depreciated, net	\$ 59,200,184	\$ 3,918,996	\$ 25,580	\$ 63,093,600
Governmental Activities Capital Assets, Net	\$ 60,854,333	\$ 4,043,224	\$ 25,580	\$ 64,871,977

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

General government	\$ 381,818
Public safety	117,494
Highways and streets, including depreciation of infrastructure assets	1,391,080
Human services	32,433
Culture and recreation	1,961
Total Depreciation Expense	\$ 1,924,786

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Special Revenue Fund	\$ 31
	Human Services Special Revenue Fund	14,487
	Debt Service Fund	227,339
Total Due to General Fund		\$ 241,857

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

Receivable Fund	Payable Fund	Amount
Road and Bridge Special Revenue Fund	General Fund	\$ 679
	Ditch Special Revenue Fund	6,156
Total Due to Road and Bridge Special Revenue Fund		\$ 6,835
Total Due To/From Other Funds		\$ 248,692

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

2. Interfund Receivable/Payable

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund	\$ 243,725

The interfund receivable/payable balance is due to the Ditch Special Revenue Fund overdrawing cash from the pooled cash and investments. It is not expected to be repaid within the year.

3. Interfund Transfers

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

Transfer to Road and Bridge Special Revenue Fund from General Fund	\$ 847,668	Road construction projects
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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Other Postemployment Benefits - Retirees

Nicollet County provides postemployment health care benefits for early retirees and elected officials. Two policies cover early retirement, and another policy covers elected officials.

- The first early retirement policy is for employees that exercised an early retirement option between July 1 and October 1, 1991. In this policy, individuals are eligible for benefits until they are age 65.
- The second early retirement policy is for employees that exercised an early retirement option between November 15, 1999, and January 30, 2000. This policy insures benefits to the individual for ten years or until the individual is eligible for Medicare, whichever comes first.
- Elected County officials and their dependents are eligible for the benefit for a number of years equal to 25 percent of the retiree's years in elective office, with a maximum of five years.

The County pays 100 percent of health premiums for the retirees and their dependents. The County's regular health benefit provider underwrites the retirees' policies. Retirees may not convert the benefit into an in-lieu-of-payment to secure coverage under independent plans.

As of December 31, 2005, three employees were receiving the premium-coverage benefit. The County finances the plan on a pay-as-you-go basis. For the year ended December 31, 2005, the County recognized \$9,370 of expenditures.

2. Capital Leases

The County has entered into two capital lease agreements. One lease agreement is to provide facilities for Human Services. The other lease agreement is for the purchase of Minnemishinona Falls. These leases qualify as capital leases for

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Capital Leases (Continued)

accounting purposes, and are recorded by the County as capital assets at the present value of the future minimum payments as of the inception of the leases. The capital leases consist of the following at December 31, 2005:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Human Services Building	2013	Semi-annual	\$55,000 - \$80,000	\$ 940,000	\$ 535,000
Minnemishinona Falls	2007	Monthly	\$55,000	\$ 330,000	<u>330,000</u>
Total					<u>\$ 865,000</u>

Lease payments are made by the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

<u>Year Ending December 31</u>	
2006	\$ 218,517
2007	305,783
2008	84,210
2009	85,523
2010	86,540
2011 - 2013	<u>253,212</u>
Total minimum lease payments	\$ 1,033,785
Less: amount representing interest and fiscal fees	<u>(168,785)</u>
Present Value of Minimum Lease Payments	<u>\$ 865,000</u>

**NICOLLET COUNTY
ST. PETER, 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, 2005
General obligation bonds					
1999A G.O. Capital Improvement Bonds	2014	\$225,000 - \$415,000	4.15 - 4.65	\$ 4,000,000	\$ 3,090,000
2002A G.O. State-Aid Road Bonds	2014	\$200,000 - \$205,000	4.00 - 4.60	2,450,000	1,835,000
2004A G.O. Capital Improvement Bonds	2015	\$235,000 - \$295,000	2.50 - 3.70	<u>2,605,000</u>	<u>2,605,000</u>
Total General Obligation Bonds				<u>\$ 9,055,000</u>	\$ 7,530,000
Less: unamortized discount					<u>(18,666)</u>
Total General Obligation Bonds, Net					<u>\$ 7,511,334</u>

Capital improvement bonds are being retired by the Debt Service Fund, and state-aid road bonds are paid by the Road and Bridge Special Revenue Fund.

Loans Payable

The County entered into loan agreements with the Minnesota Pollution Control Agency for the purpose of funding Clean Water Partnership (CWP) projects. The loans are secured by special assessments.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2005
1995 Groundwater Implementation CWP Project	2014	\$12,067	-	\$ 362,000	\$ 205,133
1997 Groundwater Protection CWP Project	2010	\$25,875	-	517,500	232,875
2002 Seven Mile Creek CWP Project	2015	\$11,936	2.00	215,392	205,610
2005 Seven Mile Creek Watershed Continuation CWP Project	2018	\$22,765	2.00	<u>31,688</u>	<u>31,688</u>
Totals				<u>\$ 1,126,580</u>	<u>\$ 675,306</u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Loans Payable (Continued)

Payments on the loans are made by the Revolving Loan Special Revenue Fund.

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Loans*	
	Principal	Interest	Principal	Interest
2006	\$ 660,000	\$ 284,374	\$ 95,742	\$ 4,013
2007	750,000	259,263	96,141	3,614
2008	765,000	231,557	96,548	3,207
2009	785,000	202,171	96,964	2,792
2010	810,000	171,016	71,512	2,368
2011 - 2015	3,760,000	346,531	186,711	5,180
Total	<u>\$ 7,530,000</u>	<u>\$ 1,494,912</u>	<u>\$ 643,618</u>	<u>\$ 21,174</u>

*The debt service requirements for the loan from the Minnesota Pollution Control Agency of \$31,688 are not known as of December 31, 2005.

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 8,175,000	\$ -	\$ 645,000	\$ 7,530,000	\$ 660,000
Less: deferred amounts for issuance discounts	(20,790)	-	(2,124)	(18,666)	-
Total bonds payable	\$ 8,154,210	\$ -	\$ 642,876	\$ 7,511,334	\$ 660,000
Capital leases	585,000	330,000	50,000	865,000	165,000
Loans payable	699,243	61,728	85,665	675,306	95,742
Compensated absences	1,510,743	126,595	-	1,637,338	794,200
Long-Term Liabilities	<u>\$ 10,949,196</u>	<u>\$ 518,323</u>	<u>\$ 778,541</u>	<u>\$ 10,688,978</u>	<u>\$ 1,714,942</u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. 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 self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

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

The County established a limited risk management program for health and dental coverages in 1992. Premiums are paid into the Self-Insurance Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has retained risk up to a \$100,000 stop-loss per family per year (\$1,910,400 aggregate) for the health plan. There is a maximum claim limit of \$750 per person per year for the dental plan.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly,

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

D. Risk Management (Continued)

claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2005	2004
Unpaid claims, January 1	\$ 142,541	\$ 82,955
Incurred claims (including IBNRs)	1,704,664	1,704,910
Claims payments	(1,723,166)	(1,645,324)
Unpaid Claims, December 31	\$ 124,039	\$ 142,541

	Year Ended December 31	
	2005	2004
Accounts payable	\$ 101,127	\$ 98,582
Claims payable	22,912	43,959
Unpaid Claims, December 31	\$ 124,039	\$ 142,541

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

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

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution and have direct contact with inmates are covered by the Public Employees Correctional Fund.

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

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.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.50 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

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

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

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 365,621	\$ 49,632	\$ 44,139
2004	347,381	46,045	42,478
2003	343,149	47,094	39,529

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

B. Defined Contribution Plan

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

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

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

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

The County's contributions for the years ending December 31, 2005, 2004, and 2003, were \$5,059, \$3,989, and \$3,927, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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.

B. Joint Ventures

Brown-Nicollet Community Health Services Board

The Brown-Nicollet Community Health Services Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement effective July 1, 1975. The Health Services Board consists of ten members, five each from Brown and Nicollet Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services. The joint venture is financed primarily from state and federal grants. For the year ended December 31, 2005, the Health Services Board had net assets of \$596,477.

Complete financial statements for the Health Services Board can be obtained at 322 South Minnesota Avenue, St. Peter, Minnesota 56082.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Tri-County Solid Waste

Nicollet County entered into a joint powers agreement to create and operate Tri-County Solid Waste, pursuant to the Waste Management Act, Minn. Stat. § 471.59, and a joint powers agreement effective November 3, 1987. Management of Tri-County Solid Waste is vested in the Tri-County Solid Waste Joint Powers Board, which consists of six representatives, two from each Board of Commissioners from Le Sueur, Nicollet, and Sibley Counties. The primary function of Tri-County Solid Waste is to coordinate solid waste management programs, excluding the collection and disposal of solid waste, within the multi-county area. Emphasis is placed on planning, recycling, hazardous waste, problem materials, and education.

One-half of the financing is provided by appropriations from the three counties based on the ratio of their population to the total population of the member counties, and one-half is provided by an equal appropriation from the three counties. Nicollet County contributed \$83,291 in 2005. Sibley County is the fiscal agent. Current financial statements are not available.

South Central Minnesota Emergency Medical Services Joint Powers Board

The South Central Minnesota Emergency Medical Services Joint Powers Board is a joint powers organization founded by nine counties including: Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan. The primary function of the joint venture is to implement and administer a regional emergency medical services program in Southern Minnesota. The Board receives funding from local, state, and federal government sources.

During the year, the County made no contributions to the South Central Minnesota Emergency Medical Services Joint Powers Board.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

C. Jointly-Governed Organizations

South Central Children's Project Collaborative

Nicollet County, in conjunction with other local governments, formed the South Central Children's Project Collaborative. The Collaborative was established to protect the health and welfare of its citizens. It plans and develops policies pertaining to implementing, directly managing, or contracting for the operation of services for the Family Services Collaborative grant programs and the Children's Mental Health Collaborative grant programs. The goal of the South Central Children's Project Collaborative is to ensure the availability of comprehensive services designed to enhance or strengthen family functioning and the mental health of children. Blue Earth County is the fiscal agent of the Collaborative. Nicollet County has no operational or financial control over the Collaborative. Currently, the Collaborative is not required to be audited.

Sentence to Serve

Nicollet County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders that can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Although Nicollet County has no operational or financial control over the STS program, Nicollet County budgets for a percentage of this program.

Nicollet County Family Services Collaborative

Nicollet County entered into the Nicollet County Family Services Collaborative. The purpose of the Collaborative is to enhance family strengths and support through service coordination and access to informal communication. The Collaborative started in 1998 and consists of Nicollet County Social Services, Nicollet County Public Health, Nicollet County Court Services, St. Peter Public Schools, Nicollet Public Schools, and the Minnesota Valley Action Council. Nicollet County is the fiscal agent for the Collaborative. Financing is provided by various grants. Activities of the Collaborative are accounted for in an agency fund of Nicollet County.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

South Central Regional Immtrack Collaborative

Nicollet County, in conjunction with Blue Earth, Brown, Le Sueur, Waseca, and Watonwan Counties, formed the South Central Regional Immtrack Collaborative. The purpose of the Collaborative is to protect the health and welfare of its citizens. The Collaborative plans and develops policies pertaining to implementing, directly managing, or contracting for the operation of a regional immunization information system. The goal of the Collaborative is to ensure age-appropriate immunizations and reduce the occurrence of vaccine-preventable diseases by maintaining complete and accurate immunization records. Blue Earth County is the fiscal agent of the Collaborative. Nicollet County has no operational or financial control over the Collaborative. Currently, the Collaborative is not required to be audited.

Brown-Nicollet-Cottonwood Water Quality Joint Powers Board

The Brown-Nicollet-Cottonwood Water Quality Joint Powers Board helps implement, establish, and maintain a cooperative system of water quality implementation services. During the year, the County made no payments to the Joint Powers Board.

D. Subsequent Events

On February 14, 2006, the County issued \$200,000 G.O. Minnesota Pollution Control Agency (MPCA) Notes, Series 2006, for the purpose of funding a revolving septic loan program. The County borrows and issues the G.O. notes to the MPCA as evidence of the MPCA loan. The notes do not constitute any indebtedness of the County. The current MPCA agreement permits a draw of up to \$91,000. Further draws will require new agreements with MPCA.

On June 13, 2006, the County issued \$3,970,000 G.O. Capital Improvement Bonds, Series 2006A. The interest rate on the bonds is four percent, and the maturity date is February 2017.

Effective July 1, 2006, the duties of the County Treasurer were assigned to the County Auditor. Effective January 1, 2007, the County Treasurer and County Auditor offices will be combined into one office, the County Auditor/Treasurer, pending election results.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

6. Other Information

A. Special Benefit Tax Levy

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Nicollet County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special benefit tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of housing units constructed. Nicollet County's proportionate share of the operating deficit for 2005 is \$92,263. The proportionate shares of the counties may change for years 2006 through 2024 if there are changes in the taxable market value over the 2001 taxable market value.

B. 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 loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2005.

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**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

DEBT SERVICE FUND

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

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Statement 1

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
DEBT SERVICE NONMAJOR FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 936,266	\$ 837,800	\$ 841,188	\$ 3,388
Intergovernmental	-	98,466	98,466	-
Total Revenues	\$ 936,266	\$ 936,266	\$ 939,654	\$ 3,388
Expenditures				
Debt service				
Principal	\$ 936,266	\$ 690,574	\$ 440,000	\$ 250,574
Interest	-	245,692	245,692	-
Administrative charges	-	-	776	(776)
Total Expenditures	\$ 936,266	\$ 936,266	\$ 686,468	\$ 249,798
Net Change in Fund Balance	\$ -	\$ -	\$ 253,186	\$ 253,186
Fund Balance - January 1	242,663	242,663	242,663	-
Fund Balance - December 31	\$ 242,663	\$ 242,663	\$ 495,849	\$ 253,186

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

AGENCY FUNDS

The Agency Fund is used to account for all assets not accounted for by other agency funds and held by the County as an agent for individuals, private organizations, other governments, or other funds.

The Settlement Fund accounts for all taxes and penalties collected and the distribution of the taxes.

The State Revenue Fund accounts for collections for and disbursements to the State of Minnesota.

The Community Health Service Fund accounts for collections and disbursements for the Brown-Nicollet Community Health Service.

The Family Services Collaborative Fund accounts for collections and disbursements for the Family Services Collaborative.

The Tri-County Solid Waste Fund accounts for collections and disbursements for the Tri-County Solid Waste joint venture.

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Statement 2

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 7,669	\$ 986,557	\$ 990,545	\$ 3,681
<u>Liabilities</u>				
Due to other governments	\$ 7,669	\$ 986,557	\$ 990,545	\$ 3,681
 <u>SETTLEMENT FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 207,809	\$ 52,382,065	\$ 52,398,876	\$ 190,998
<u>Liabilities</u>				
Due to other governments	\$ 207,809	\$ 52,382,065	\$ 52,398,876	\$ 190,998
 <u>STATE REVENUE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 78,694	\$ 4,564,963	\$ 4,548,532	\$ 95,125
<u>Liabilities</u>				
Due to other governments	\$ 78,694	\$ 4,564,963	\$ 4,548,532	\$ 95,125

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

*Statement 2
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>COMMUNITY HEALTH SERVICE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 267,010	\$ 1,161,397	\$ 1,136,719	\$ 291,688
<u>Liabilities</u>				
Due to other governments	\$ 267,010	\$ 1,161,397	\$ 1,136,719	\$ 291,688
 <u>FAMILY SERVICES COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 703,552	\$ 533,996	\$ 429,417	\$ 808,131
<u>Liabilities</u>				
Due to other governments	\$ 703,552	\$ 533,996	\$ 429,417	\$ 808,131
 <u>TRI-COUNTY SOLID WASTE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 150,922	\$ -	\$ 150,922	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 150,922	\$ -	\$ 150,922	\$ -

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

*Statement 2
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,415,656	\$ 59,628,978	\$ 59,655,011	\$ 1,389,623
<u>Liabilities</u>				
Due to other governments	\$ 1,415,656	\$ 59,628,978	\$ 59,655,011	\$ 1,389,623

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2005**

	<u>Interest Rate</u>	<u>Amount</u>
Deposits and Investments		
Checking accounts	Varies	\$ 2,579,418
Cash on hand	None	1,327
Savings or money market accounts	Varies	6,121,984
Mutual funds	Varies	1,413,007
Certificates of deposit	2.94% to 4.67%	5,861,184
Negotiable certificates of deposit	3.24%	<u>98,000</u>
Total Deposits and Investments		<u>\$ 16,074,920</u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 2

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

	2004		2005		2006	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 20,664,856		\$ 22,414,299		\$ 24,193,033	
Personal property	640,645		722,600		703,449	
Less: tax increment	(481,714)		(603,000)		(737,392)	
Net Tax Capacity	\$ 20,823,787		\$ 22,533,899		\$ 24,159,090	
Taxes Levied for County Purposes						
County Revenue	\$ 6,102,350	26.096	\$ 6,815,701	26.645	\$ 7,596,470	27.861
Road and Bridge	1,495,910	6.223	1,700,000	6.657	1,800,000	6.626
Human Services	2,721,054	13.067	2,738,176	10.598	2,890,340	10.520
Regional Library*	94,644	1.090	94,644	1.029	94,644	0.908
Debt Service	699,197	3.358	936,266	4.153	785,044	3.249
Total Levy for County Purposes	\$ 11,113,155	49.834	\$ 12,284,787	49.082	\$ 13,166,498	49.164
Less State Aids	(868,275)		(1,361,538)		(1,418,931)	
Net Levy for County Purposes	\$ 10,244,880		\$ 10,923,249		\$ 11,747,567	
Tax Capacity - Light and Power						
Transmission	\$ 4,012		\$ 4,542		\$ 4,890	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.42, as amended)						
Transmission	\$ 6,157	94.355	\$ 6,800	94.167	\$ 7,376	94.568
Special Assessments						
Ditch liens and assessments	\$ 536,310		\$ 387,777		\$ 440,545	
Percentage of Current Collections for All Purposes	98.710%		98.990%		N/A	

*Not applicable to all sections of the County.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 3

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

Shared Revenue

State

Highway users tax	\$	2,946,979
County program aid		1,361,538
PERA rate reimbursement		34,276
Disparity reduction aid		11,716
Police aid		39,853
Enhanced 911		64,247
Market value credit		1,120,419
Market value credit - manufactured homes		26,473
		26,473

Total Shared Revenue **\$ 5,605,501**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,852,932
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Payments

Local

Local	\$	150,922
Payments in lieu of taxes		12,674
		12,674

Total Payments **\$ 163,596**

Grants

State

Minnesota Department of		
Corrections	\$	184,964
Public Safety		361
Health		75,292
Natural Resources		14,840
Human Services		985,992
Office of Environmental Assistance		35,049
Pollution Control Agency		34,910
Peace Officer Standards and Training Board		4,230
		4,230

Total State **\$ 1,335,638**

Federal

Department of		
Agriculture	\$	83,595
Justice		18,119
Transportation		2,000
Health and Human Services		666,941
Homeland Security		55,448
		55,448

Total Federal **\$ 826,103**

Total State and Federal Grants **\$ 2,161,741**

Total Intergovernmental Revenue **\$ 9,783,770**

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 4

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Nicollet County.
- B. No matters involving internal control over financial reporting were reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
- C. No instances of noncompliance material to the financial statements of Nicollet 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 program for Nicollet 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:
 - Temporary Assistance for Needy Families (TANF) CFDA #93.558
- H. The threshold for distinguishing between Type A and B programs was \$300,000.
- I. Nicollet County was determined to be a low risk auditee.

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

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Ditch Fund Deficit Cash Balances

Minn. Stat. § 103E.655, subd. 2, authorizes loans from ditch systems with a surplus or from the General Fund to a ditch system with insufficient cash to pay expenditures. This statute requires that the fund from which the funds were borrowed be repaid with interest. Allowing a ditch fund to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other funds of the County and, as such, is in noncompliance with Minnesota Law.

At December 31, 2005, 52 ditch systems had negative cash balances totaling \$343,414, and 40 ditch systems had negative fund balances totaling \$284,978.

We recommend that the County eliminate cash and fund balance deficits in individual ditches by borrowing from an eligible fund with a surplus cash balance, as permitted by statute, or by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the creation of a repair fund to provide for the repair and maintenance costs of a ditch system.

99-1A Security for Deposits

At December 31, 2005, the total amount of deposits not covered by pledged collateral was \$474,394. Deposits held at ProGrowth Bank of Nicollet exceeded the amount of federal insurance and collateral placed in safekeeping.

Minn. Stat. § 118A.03, subd. 3, requires that cash balances in excess of the maximum amounts of federal deposit insurance be protected by a surety bond or pledged collateral whose fair market value is at least ten percent more than the uninsured amount on deposit plus accrued interest.

We recommend that the County implement procedures to ensure compliance with the provisions of Minn. Stat. § 118A.03.

PREVIOUSLY REPORTED ITEM RESOLVED

Security of Deposits (99-1B)

Pledged collateral for deposits held at First National Bank of St. Peter had been placed into safekeeping at a financial institution (Vining Sparks IBG, L.P.), which did not meet legal requirements.

Resolution

In February 2006, pledged collateral for deposits held at First National Bank of St. Peter was placed into safekeeping at Wells Fargo, which meets the requirements of Minn. Stat. § 118A.03, subd. 7.

B. **MANAGEMENT PRACTICES**

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-1 **Business Continuity Plan**

The County does not have a formal business continuity plan if a disaster or major computer breakdown were to occur. A business continuity plan would give greater assurance that the County is prepared for a disaster or major computer breakdown.

A business continuity plan should include, but is not limited to, the following:

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

- a plan as to how the County should continue operations until normal operations are re-established, including the use of alternative computer facilities or the use of manual procedures;
- a list of materials the County would need to continue operations and how they are to be obtained;
- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

We recommend that the County develop and implement a business continuity plan. All County employees should be familiar with the plan. The plan should detail the steps to be taken to continue operations in the event of a disaster or major computer breakdown.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

Schedule 4
(Continued)

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

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

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

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OTHER REQUIRED REPORTS

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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

Board of County Commissioners
Nicollet County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nicollet County as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nicollet 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 tests indicate that, for the items tested, Nicollet County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-1 and 99-1A.

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 26, 2006



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
Nicollet County

Compliance

We have audited the compliance of Nicollet 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, 2005. Nicollet 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.

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 Nicollet County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Nicollet 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, 2005.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nicollet County as of and for the year ended December 31, 2005, and have issued our report thereon dated September 26, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: September 26, 2006

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 5

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 75,492
Passed Through Minnesota Department of Human Services Administrative Matching Grant for Food Stamp Program	10.561	8,103
Total U.S. Department of Agriculture		\$ 83,595
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 5,674
Local Law Enforcement Block Grant Program	16.592	12,445
Total U.S. Department of Justice		\$ 18,119
U.S. Department of Transportation		
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	\$ 2,000
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Immunization Grant	93.268	\$ 1,370
Center for Disease Control and Prevention	93.283	33,347
Temporary Assistance for Needy Families	93.558	20,075
Preventive Health and Human Services	93.991	5,000
Maternal and Child Health Services Block Grant	93.994	34,176
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	13,153
Temporary Assistance for Needy Families	93.558	279,355
Child Care Development Block Grant	93.575	10,382
Child Care Mandatory and Matching Funds	93.596	18,219
Foster Care - Title IV-E	93.658	80,097
Social Services Block Grant - Title XX	93.667	156,361
Independent Living	93.674	11,780
Community Mental Health Services Block Grant	93.958	9,570
Total U.S. Department of Health and Human Services		\$ 672,885

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 5
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Homeland Security Grant Program	97.004	\$ 7,943
Homeland Security Grant Program - Emergency Response	97.067	47,505
Total U.S. Department of Homeland Security		\$ 55,448
Total Federal Awards		\$ 832,047

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 Nicollet 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 greater than reported revenues because they were not available.
3. During 2005, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.