

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

BROWN COUNTY
NEW ULM, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Year Ended December 31, 2005



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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

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**BROWN COUNTY
NEW ULM, MINNESOTA**

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**BROWN COUNTY
NEW ULM, MINNESOTA**

ORGANIZATION
2005

Office	Name	Term Expires
Commissioners		
1st District	Richard Seeboth	January 2009
2nd District	James Berg	January 2007
3rd District	Charles Guggisberg*	January 2009
4th District	Andrew Lochner	January 2007
5th District	Donald Wellner	January 2007
Officers		
Elected		
Attorney	James R. Olson	January 2007
Auditor/Treasurer	Marlin C. Helget	January 2007
County Recorder	Tom Weilage	January 2007
Sheriff	Tim Brennan	January 2007
Appointed		
Administrator	Charles Enter	Indefinite
Assessor	Judy Friesen	December 31, 2008
Family Services Director	Tom Henderson	Indefinite
Coroner	Terry Knowles, M.D.	December 31, 2006
Probation Director	Les Schultz	Indefinite
Highway Engineer	Wayne Stevens	May 31, 2006
Personnel Director	Leah Crabtree	Indefinite
Planning and Zoning Administrator	Jane Starz	Indefinite
Public Health Director	Anita Hoffman	Indefinite
Veterans Service Officer	Greg Peterson	April 12, 2009
Lay Board Member	Elizabeth Mohr	December 31, 2005
Lay Board Member	Judy Kuster	December 31, 2005

*Chair

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PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Brown County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown 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 Brown County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Brown County Economic Development Partners, Inc., the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us and, our opinion on the financial statements, insofar as it relates to the amounts included for the component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Brown County Economic Development Partners, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of December 31, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and the Road and Bridge, Family Services, and Landfill Special Revenue Funds 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 Brown 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 Brown 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 July 31, 2006, on our consideration of Brown County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BROWN COUNTY
NEW ULM, MINNESOTA**

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

As management of Brown County, we offer readers of the Brown County financial statements this narrative overview and analysis of the financial activities of Brown 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 Brown County exceeded its liabilities at the close of 2005 by \$66,614,269. Of this amount, \$9,695,995 (unrestricted net assets) may be used to meet Brown County's ongoing obligations to citizens and creditors.
- Brown County's total net assets increased by \$3,357,342 in 2005, or 5.3 percent. A significant part of the increase is attributable to increases in capital assets and capital grants for highway purposes and decreases in advances from other governments and in long-term debt.
- At the close of 2005, Brown County's governmental funds reported combined ending fund balances of \$14,230,242. The amount of \$8,302,180 is available for spending at the County's discretion and is noted as unreserved, undesignated fund balance.
- At the close of 2005, unreserved fund balance for the General Fund was \$3,702,736, or 40.1 percent, of total General Fund expenditures.
- Brown County's total debt decreased by \$300,000, or 10.7 percent, during 2005. The key factor to this decrease was the scheduled payment on existing general obligation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis is intended to serve as an introduction to Brown County's basic financial statements. Brown County's basic financial statements are comprised of three components: (1) County-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

County-Wide Financial Statements

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

The statement of net assets presents information on all of Brown 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 Brown 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 only result in cash flows in future fiscal periods (such as uncollected taxes and earned but unused vacation leave).

The County-wide financial statements list the functions of Brown County that are principally supported by taxes and intergovernmental revenues. The governmental activities of Brown County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, economic development, and conservation of natural resources. There are no business-type activities within Brown County's financial structure that are intended to recover all or a significant portion of their costs through use fees and charges.

The County-wide financial statements include not only Brown County itself (the primary government), but also the legally separate Economic Development Partners, Inc. (EDP). The EDP, although legally separate, functions for all practical purposes as an integral part of Brown County and, therefore, has been included in the County-wide financial statements.

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

Fund Financial Statements

A "fund" is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Brown 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 Brown County can be divided into two categories: governmental funds and fiduciary funds.

Because the focus of governmental funds is narrower than that of the County-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the County-wide financial statements. By doing so, readers may better understand the long-term impact of the County'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 County-wide financial statements. However, unlike the County-wide financial statements, County fund level financial statements focus on short-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 the County's short-term financing requirements.

Brown County reports five major funds and three nonmajor funds. The major funds are: the General Fund, Road and Bridge Special Revenue Fund, Family Services Special Revenue Fund, Landfill Special Revenue Fund, and Debt Service Fund. The nonmajor funds are: Building and Capital Improvements Special Revenue Fund, County Parks Special Revenue Fund, and County Ditch Special Revenue Fund. Information is presented separately for the major funds and in total for the nonmajor funds in Exhibits 3 and 4.

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. Brown County's fiduciary funds consist of ten 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 County-wide financial statements because those resources are not available to support the County's programs.

Brown County's governmental fund financial statements are on Exhibits 3 through 8, and Brown County's fiduciary funds are on Exhibit 9.

Notes to the Financial Statements

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, Brown County also provides supplementary information on Brown County's deposits and investments and intergovernmental revenues (Schedules 1 and 2).

Brown County adopts an annual appropriated budget for its General Fund, special revenue funds, and the Debt Service Fund. Budgetary comparison statements have been provided for the County's major funds to demonstrate compliance with these budgets.

COUNTY-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Brown County's assets exceeded liabilities by \$66,614,269 at the close of 2005. The largest portion of Brown County's net assets (80.3 percent) reflects its investment in capital assets (such as land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. However, it should be noted that these assets are not available for future spending. Comparative data with 2004 is presented.

Table 1
Governmental Net Assets

	2005	2004 (Restated)
Current and other assets	\$ 17,715,429	\$ 16,671,672
Capital assets	55,990,255	54,913,154
Total Assets	<u>\$ 73,705,684</u>	<u>\$ 71,584,826</u>
Long-term liabilities outstanding	\$ 5,826,670	\$ 5,868,096
Other liabilities	1,264,745	2,459,803
Total Liabilities	<u>\$ 7,091,415</u>	<u>\$ 8,327,899</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 53,485,255	\$ 52,108,157
Restricted	3,433,019	3,055,853
Unrestricted	<u>9,695,995</u>	<u>8,092,917</u>
Total Net Assets	<u>\$ 66,614,269</u>	<u>\$ 63,256,927</u>

The unrestricted net asset amount of \$9,695,995 as of December 31, 2005, may be used to meet the County's ongoing obligations to citizens and creditors.

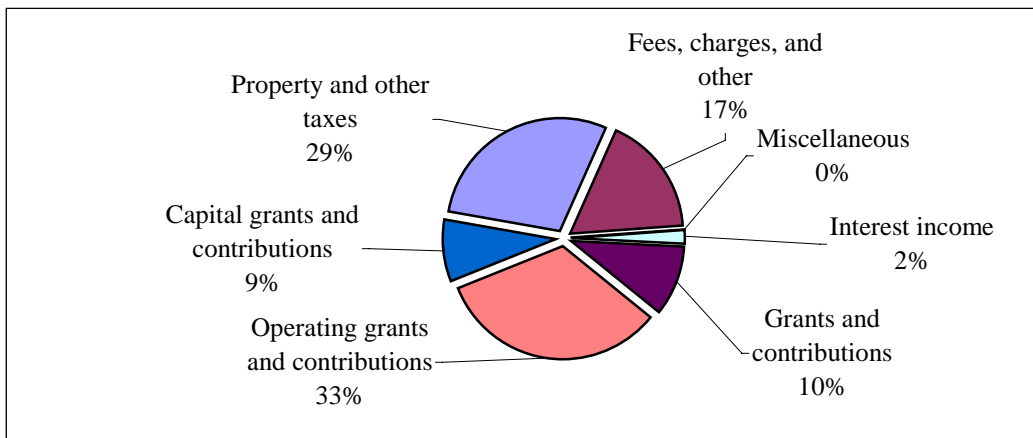
Governmental Activities

The County's activities increased net assets by 5.3 percent (\$63,256,927 in 2004 to \$66,614,269 in 2005). Table 2 summarizes the changes in net assets for 2005.

**Table 2
Changes in Governmental Net Assets**

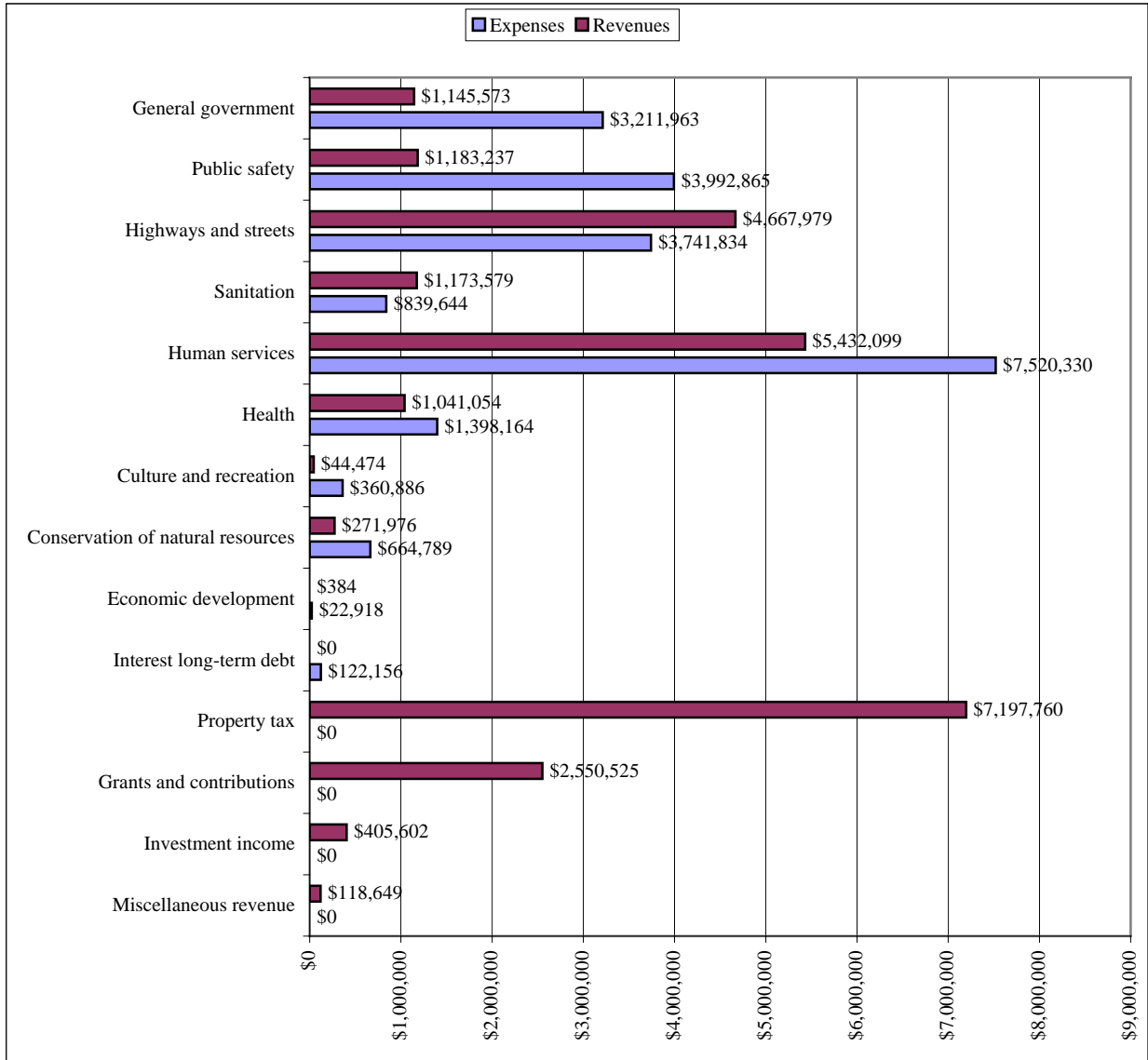
	2005	2004 (Restated)
Revenues		
Program revenues		
Charges for services	\$ 4,386,939	\$ 3,938,548
Operating grants and contributions	8,368,549	8,981,421
Capital grants and contributions	2,204,867	1,220,467
General revenues		
Property taxes	7,197,760	6,824,019
Other	3,074,776	2,688,591
Total Revenues	\$ 25,232,891	\$ 23,653,046
Expenses		
General government	\$ 3,211,963	\$ 3,063,183
Public safety	3,992,865	3,794,208
Highways and streets	3,741,834	5,232,145
Sanitation	839,644	755,692
Human services	7,520,330	7,546,358
Health	1,398,164	1,284,994
Culture and recreation	360,886	439,677
Conservation of natural resources	664,789	744,061
Economic development	22,918	21,755
Interest	122,156	132,636
Total Expenses	\$ 21,875,549	\$ 23,014,709
Increase in Net Assets	\$ 3,357,342	\$ 638,337
Net Assets - January 1, as restated	63,256,927	62,618,590
Net Assets - December 31	\$ 66,614,269	\$ 63,256,927

Revenues by Source 2005



(Unaudited)

Expenses and Revenues 2005



Total revenues for the County were \$25,232,891 while total expenses were \$21,875,549. This reflects a \$3,357,342 increase in net assets for the year ended December 31, 2005.

FINANCIAL ANALYSIS OF THE COUNTY'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.

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$14,230,242, an increase of \$2,026,389 in comparison with the prior year as restated. The majority of this amount (\$10,598,027) constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate this 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 Brown County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,702,736, while total fund balance was \$4,728,710. 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 40.1 percent of total General Fund expenditures, while total fund balance represents 51.2 percent of that same amount.

General Fund Budgetary Highlights

There were no changes between the original budget and the final amended budget. The actual revenues exceeded budgeted revenues by \$826,664. Intergovernmental revenues exceeded budgeted revenues by \$336,565, due primarily to grant revenue of \$150,440 received for the mobile data terminal project for squad cars throughout the County as non-budgeted revenue in this multi-year grant project and in other non-budgeted grant revenue. Investment earnings were \$300,602 greater than budgeted. Overall, the actual expenditures were more than budgeted expenditures by \$166,160. The variance between budget and actual was relatively small in all departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2005, amount to \$55,990,255 (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 2.0 percent. The major capital asset event in 2005 was due to improvements and betterments through construction (primarily bridges and County state-aid highway roads).

Table 3
Governmental Capital Assets
(Net of Depreciation)

	2005	2004 (Restated)
Land	\$ 711,397	\$ 670,023
Construction in progress	2,416,183	1,776,828
Land improvements	193,610	295,792
Buildings and improvements	10,401,339	10,421,340
Machinery, furniture, and equipment	1,870,049	1,742,396
Infrastructure	40,397,677	40,006,775
Totals	<u>\$ 55,990,255</u>	<u>\$ 54,913,154</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 \$2,505,000, which is backed by the full faith and credit of the government.

Table 4
Governmental Outstanding Debt

	2005	2004
General Obligation Bonds	<u>\$ 2,505,000</u>	<u>\$ 2,805,000</u>

The County's debt related to general obligation bonds decreased by \$300,000 (10.7 percent) during the fiscal year. The main reason for the decrease was debt repayment in 2005.

Brown County's bond rating is "A1" 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, Brown County is well below the two percent debt limit imposed by state statutes.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Brown County's average unemployment rate for 2005 was 4.4 percent as of the end of 2005. This was slightly above 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, Brown 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 Brown County Auditor/Treasurer, Brown County Courthouse, 14 South State Street, P. O. Box 115, New Ulm, Minnesota 56073.

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BASIC FINANCIAL STATEMENTS

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COUNTY-WIDE FINANCIAL STATEMENTS

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 1

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

	Primary Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 14,161,744	\$ 60,956
Taxes receivable		
Prior	108,305	-
Special assessments receivable		
Prior	12,546	-
Noncurrent	870,675	-
Accounts receivable	423,406	-
Accrued interest receivable	164,422	-
Loans receivable - net	34,000	224,273
Due from other governments	1,844,595	-
Inventories	95,736	-
Capital assets		
Non-depreciable	3,127,580	-
Depreciable - net of accumulated depreciation	52,862,675	-
Total Assets	\$ 73,705,684	\$ 285,229
<u>Liabilities</u>		
Accounts payable	\$ 388,723	\$ 1,079
Salaries payable	428,044	-
Contracts payable	65,925	-
Due to other governments	126,665	-
Accrued interest payable	7,531	250
Unearned revenue	21,087	-
Advance from other governments	226,770	-
Long-term liabilities		
Due within one year	424,117	-
Due in more than one year	5,402,553	5,000
Total Liabilities	\$ 7,091,415	\$ 6,329
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 53,485,255	\$ -
Restricted for		
General government	121,109	-
Public safety	219,543	-
Highways and streets	179,154	-
Sanitation	272,013	-
Human services	2,275	-
Conservation	559,171	-
Debt service	125,402	-
Closure/postclosure	1,954,352	-
Other purposes	-	4,200
Unrestricted	9,695,995	274,700
Total Net Assets	\$ 66,614,269	\$ 278,900

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 2

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

	Program Revenues			Net (Expense) Revenue and Change in Net Assets	Discretely Presented Component Unit
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions		
Functions/Programs					
Primary government					
Governmental activities					
General government	\$ 3,211,963	\$ 1,010,020	\$ 135,553	\$ -	\$ (2,066,390)
Public safety	3,992,865	413,902	581,482	187,853	(2,809,628)
Highways and streets	3,741,834	28,937	2,664,428	1,974,614	926,145
Sanitation	839,644	1,112,971	60,608	-	333,935
Human services	7,520,330	955,991	4,433,708	42,400	(2,088,231)
Health	1,398,164	608,997	432,057	-	(357,110)
Culture and recreation	360,886	11,710	32,764	-	(316,412)
Conservation of natural resources	664,789	244,027	27,949	-	(392,813)
Economic development	22,918	384	-	-	(22,534)
Interest	122,156	-	-	-	(122,156)
Total primary government	\$ 21,875,549	\$ 4,386,939	\$ 8,368,549	\$ 2,204,867	\$ (6,915,194)
Component unit					
Economic development partners	\$ 8,217	\$ 366	\$ -	\$ -	\$ (7,851)
General Revenues					
Property taxes				\$ 7,197,760	\$ -
Grants and contributions not restricted to specific programs				2,550,525	8,000
Payments in lieu of taxes				27,523	-
Investment income				405,602	11,189
Miscellaneous				91,126	-
Total general revenues				\$ 10,272,536	\$ 19,189
Change in net assets					
				\$ 3,357,342	\$ 11,338
Net Assets - January 1, as previously reported				\$ 64,441,190	\$ 267,562
Restatement (Note 1.E.)				(1,184,263)	-
Net Assets - January 1, restated				\$ 63,256,927	\$ 267,562
Net Assets - December 31				\$ 66,614,269	\$ 278,900

FUND FINANCIAL STATEMENTS

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 4,643,810	\$ 1,416,692
Taxes receivable		
Prior	62,571	12,575
Special assessments receivable		
Prior	591	-
Noncurrent	604,675	-
Accounts receivable	81,059	-
Accrued interest receivable	164,422	-
Due from other funds	8,699	6,158
Due from other governments	159,774	433,530
Inventories	-	95,736
Loans receivable	-	-
	\$ 5,725,601	\$ 1,964,691
Total Assets	\$ 5,725,601	\$ 1,964,691

EXHIBIT 3

Family Services	Landfill	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 2,560,389	\$ 4,362,289	\$ 124,622	\$ 1,053,942	\$ 14,161,744
27,197	-	4,131	1,831	108,305
-	10,759	-	1,196	12,546
-	-	-	266,000	870,675
321,735	20,612	-	-	423,406
-	-	-	-	164,422
-	-	-	-	14,857
630,002	-	590,504	30,785	1,844,595
-	-	-	-	95,736
-	-	-	34,000	34,000
\$ 3,539,323	\$ 4,393,660	\$ 719,257	\$ 1,387,754	\$ 17,730,286

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 68,852	\$ 29,737
Salaries payable	244,618	45,677
Contracts payable	-	65,925
Due to other funds	2,361	-
Due to other governments	25,635	1,812
Deferred revenue - unavailable	642,735	305,326
Deferred revenue - unearned	12,690	2,319
Advance from other governments	-	226,770
	\$ 996,891	\$ 677,566
Total Liabilities		
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 95,736
Donations	-	-
Sheriff's contingency	6,315	-
Law library	71,830	-
Enhanced 911	213,228	-
Loans receivable	-	-
Conservation	41,105	-
Recorder's equipment	49,279	-
Highway projects	-	1,812
Landfill closure/postclosure	-	-
Septic/sewer loan	644,217	-
Unreserved		
Designated for debt service	-	-
Designated for cash flows	750,000	500,000
Designated for boat and water	15,711	-
Designated for recycling	-	-
Designated for compensated absences	30,000	-
Designated for County septic loan program	54,675	-
Undesignated	2,852,350	689,577
Unreserved, reported in nonmajor		
Special revenue funds	-	-
	\$ 4,728,710	\$ 1,287,125
Total Fund Balances		
	\$ 5,725,601	\$ 1,964,691
Total Liabilities and Fund Balances		
	\$ 5,725,601	\$ 1,964,691

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Landfill</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 251,338	\$ 27,397	\$ -	\$ 11,399	\$ 388,723
132,955	3,073	-	1,721	428,044
-	-	-	-	65,925
12,496	-	-	-	14,857
82,589	-	-	16,629	126,665
412,861	6,592	593,156	267,303	2,227,973
5,140	-	699	239	21,087
-	-	-	-	226,770
\$ 897,379	\$ 37,062	\$ 593,855	\$ 297,291	\$ 3,500,044
\$ -	\$ -	\$ -	\$ -	\$ 95,736
2,275	-	-	-	2,275
-	-	-	-	6,315
-	-	-	-	71,830
-	-	-	-	213,228
-	-	-	34,000	34,000
-	-	-	518,066	559,171
-	-	-	-	49,279
-	-	-	-	1,812
-	1,954,352	-	-	1,954,352
-	-	-	-	644,217
-	-	125,402	-	125,402
750,000	-	-	-	2,000,000
-	-	-	-	15,711
-	70,059	-	-	70,059
-	-	-	-	30,000
-	-	-	-	54,675
1,889,669	2,332,187	-	-	7,763,783
-	-	-	538,397	538,397
\$ 2,641,944	\$ 4,356,598	\$ 125,402	\$ 1,090,463	\$ 14,230,242
\$ 3,539,323	\$ 4,393,660	\$ 719,257	\$ 1,387,754	\$ 17,730,286

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 3A

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

Fund balances - total governmental funds (Exhibit 3)	\$	14,230,242
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		55,990,255
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		2,227,973
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (2,505,000)	
Loans payable	(1,014,939)	
Compensated absences	(1,078,656)	
Accrued interest payable	(7,531)	
Estimated liability for landfill closure/postclosure	(1,228,075)	(5,834,201)
Net assets of governmental activities (Exhibit 1)		<u>\$ 66,614,269</u>

**BROWN COUNTY
NEW ULM, 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	\$ 4,193,491	\$ 856,325
Special assessments	165,469	-
Licenses and permits	37,769	-
Intergovernmental	2,897,043	4,786,242
Charges for services	1,718,058	-
Fines and forfeits	14,897	-
Gifts and contributions	110	-
Interest on investments	405,602	-
Miscellaneous	354,592	97,458
Total Revenues	\$ 9,787,031	\$ 5,740,025
Expenditures		
Current		
General government	\$ 3,130,690	\$ -
Public safety	3,951,669	-
Highways and streets	-	4,952,845
Sanitation	-	-
Human services	-	-
Health	1,377,853	-
Culture and recreation	218,904	-
Conservation of natural resources	432,937	-
Economic development	22,918	-
Debt service		
Principal	98,590	-
Interest	4,410	-
Administrative charges	-	-
Total Expenditures	\$ 9,237,971	\$ 4,952,845
Excess of Revenues Over (Under) Expenditures	\$ 549,060	\$ 787,180
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 34,539
Transfers out	(170,006)	-
Proceeds from loans	118,605	-
Total Other Financing Sources (Uses)	\$ (51,401)	\$ 34,539
Net Change in Fund Balances	\$ 497,659	\$ 821,719
Fund Balances - January 1	4,231,051	459,801
Increase (decrease) in reserved for inventories	-	5,605
Fund Balances - December 31	\$ 4,728,710	\$ 1,287,125

EXHIBIT 4

Family Services	Landfill	Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 1,790,164	\$ -	\$ 248,323	\$ 111,277	\$ 7,199,580
-	334,827	-	139,543	639,839
-	320	-	-	38,089
5,033,134	60,608	170,713	38,513	12,986,253
373,046	651,731	-	11,710	2,754,545
-	-	-	-	14,897
13,486	-	-	1,000	14,596
-	-	-	-	405,602
546,608	4,769	-	33,255	1,036,682
\$ 7,756,438	\$ 1,052,255	\$ 419,036	\$ 335,298	\$ 25,090,083
\$ -	\$ -	\$ -	\$ 53,207	\$ 3,183,897
-	-	-	1,235	3,952,904
-	-	-	-	4,952,845
-	597,034	-	-	597,034
7,548,320	-	-	-	7,548,320
-	-	-	-	1,377,853
-	-	-	145,375	364,279
-	-	-	233,002	665,939
-	-	-	-	22,918
-	-	300,000	-	398,590
-	-	109,334	-	113,744
-	-	9,581	-	9,581
\$ 7,548,320	\$ 597,034	\$ 418,915	\$ 432,819	\$ 23,187,904
\$ 208,118	\$ 455,221	\$ 121	\$ (97,521)	\$ 1,902,179
\$ 32,612	\$ 80,847	\$ -	\$ 22,008	\$ 170,006
-	-	-	-	(170,006)
-	-	-	-	118,605
\$ 32,612	\$ 80,847	\$ -	\$ 22,008	\$ 118,605
\$ 240,730	\$ 536,068	\$ 121	\$ (75,513)	\$ 2,020,784
2,401,214	3,820,530	125,281	1,165,976	12,203,853
-	-	-	-	5,605
\$ 2,641,944	\$ 4,356,598	\$ 125,402	\$ 1,090,463	\$ 14,230,242

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 4A

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

Net change in fund balances - total governmental funds (Exhibit 4) **\$ 2,020,784**

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures	\$ 2,689,882	
Depreciation expense	<u>(1,578,829)</u>	1,111,053

The net effect of various miscellaneous transactions involving capital assets (such as sales, trade-ins, and retirements) is to decrease net assets.

Net book value of capital assets disposed of		(33,952)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		211,257
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The issuance of long-term debt (such as bonds or loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Proceeds of debt issued	\$ (118,605)	
Principal payments on debt	<u>398,590</u>	279,985

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	\$ 5,605	
Accrued interest payable	1,169	
Compensated absences payable	(88,289)	
Landfill postclosure care costs	<u>(150,270)</u>	<u>(231,785)</u>

Change in net assets of governmental activities (Exhibit 2) **\$ 3,357,342**

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 5

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,571,714	\$ 4,138,881	\$ 4,193,491	\$ 54,610
Special assessments	108,233	108,233	165,469	57,236
Licenses and permits	28,120	28,120	37,769	9,649
Intergovernmental	1,127,645	2,560,478	2,897,043	336,565
Charges for services	1,679,856	1,679,856	1,718,058	38,202
Fines and forfeits	4,000	4,000	14,897	10,897
Gifts and contributions	-	-	110	110
Investment earnings	105,000	105,000	405,602	300,602
Miscellaneous	335,799	335,799	354,592	18,793
Total Revenues	\$ 8,960,367	\$ 8,960,367	\$ 9,787,031	\$ 826,664
Expenditures				
Current				
General government				
Commissioners	\$ 204,546	\$ 204,546	\$ 184,481	\$ 20,065
Courts	28,492	28,492	34,418	(5,926)
Law library	20,000	20,000	17,515	2,485
County auditor/treasurer	426,734	426,734	448,984	(22,250)
License bureau	139,572	139,572	141,422	(1,850)
County assessor	348,592	348,592	352,876	(4,284)
Elections	1,700	1,700	1,647	53
Accounting and auditing	45,000	45,000	49,687	(4,687)
Data processing	303,478	303,478	276,691	26,787
Central services	130,433	130,433	130,015	418
Personnel administration	119,414	119,414	119,292	122
Attorney	301,701	301,701	302,565	(864)
Recorder	371,938	371,938	362,509	9,429
Planning and zoning	83,997	83,997	89,145	(5,148)
Buildings and plant	445,541	445,541	467,300	(21,759)
Veterans service officer	102,842	102,842	103,868	(1,026)
Other	54,100	54,100	48,275	5,825
Total general government	\$ 3,128,080	\$ 3,128,080	\$ 3,130,690	\$ (2,610)
Public safety				
Sheriff	\$ 1,339,855	\$ 1,339,855	\$ 1,506,575	\$ (166,720)
Boat and water safety	6,103	6,103	17,448	(11,345)
Emergency services	79,036	79,036	30,643	48,393
Coroner	12,400	12,400	4,499	7,901
E-911 system	51,200	51,200	27,851	23,349
Law enforcement center	1,331,549	1,331,549	1,242,317	89,232
Juvenile detention center	91,000	91,000	114,401	(23,401)
Probation and parole	1,043,150	1,043,150	1,005,338	37,812
Sheriff's investigations	8,000	8,000	-	8,000
Snowmobile safety	4,000	4,000	2,597	1,403
Total public safety	\$ 3,966,293	\$ 3,966,293	\$ 3,951,669	\$ 14,624

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Health				
Nursing service	\$ 1,376,773	\$ 1,376,773	\$ 1,377,853	\$ (1,080)
Culture and recreation				
Historical society	\$ 100,518	\$ 100,518	\$ 105,768	\$ (5,250)
Regional library	64,920	64,920	64,920	-
Snowmobile trails	-	-	23,841	(23,841)
Other	20,884	20,884	24,375	(3,491)
Total culture and recreation	\$ 186,322	\$ 186,322	\$ 218,904	\$ (32,582)
Conservation of natural resources				
Cooperative extension	\$ 94,702	\$ 94,702	\$ 98,027	\$ (3,325)
Soil and water conservation	77,236	77,236	77,236	-
Agricultural society/County fair	34,500	34,500	34,500	-
Water planning	24,920	24,920	16,575	8,345
Wetlands	20,000	20,000	19,427	573
Septic loan program	127,083	127,083	175,020	(47,937)
Area flood control	12,152	12,152	12,152	-
Total conservation of natural resources	\$ 390,593	\$ 390,593	\$ 432,937	\$ (42,344)
Economic development				
Community development	\$ 13,795	\$ 13,795	\$ 13,795	\$ -
Housing and development authority	9,955	9,955	9,123	832
Total economic development	\$ 23,750	\$ 23,750	\$ 22,918	\$ 832
Debt service				
Principal	\$ -	\$ -	\$ 98,590	\$ (98,590)
Interest	\$ -	\$ -	\$ 4,410	\$ (4,410)
Total Expenditures	\$ 9,071,811	\$ 9,071,811	\$ 9,237,971	\$ (166,160)
Excess of Revenues Over (Under) Expenditures	\$ (111,444)	\$ (111,444)	\$ 549,060	\$ 660,504

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (170,006)	\$ (170,006)
Proceeds from loans	-	-	118,605	118,605
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (51,401)	\$ (51,401)
Net Change in Fund Balance	\$ (111,444)	\$ (111,444)	\$ 497,659	\$ 609,103
Fund Balance - January 1	4,231,051	4,231,051	4,231,051	-
Fund Balance - December 31	4,119,607	4,119,607	4,728,710	609,103

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 6

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,146,462	\$ 849,766	\$ 856,325	\$ 6,559
Intergovernmental	3,788,639	4,085,335	4,786,242	700,907
Miscellaneous	58,000	58,000	97,458	39,458
Total Revenues	\$ 4,993,101	\$ 4,993,101	\$ 5,740,025	\$ 746,924
Expenditures				
Current				
Highways and streets				
Administration	\$ 221,499	\$ 221,499	\$ 366,749	\$ (145,250)
Maintenance	1,298,450	1,298,450	1,163,292	135,158
Construction	2,550,764	2,550,764	2,397,985	152,779
Equipment maintenance and shop	837,888	837,888	825,597	12,291
Materials and services for resale	116,500	116,500	199,222	(82,722)
Total Expenditures	\$ 5,025,101	\$ 5,025,101	\$ 4,952,845	\$ 72,256
Excess of Revenues Over (Under) Expenditures	\$ (32,000)	\$ (32,000)	\$ 787,180	\$ 819,180
Other Financing Sources (Uses)				
Transfers in	32,000	32,000	34,539	2,539
Net Change in Fund Balance	\$ -	\$ -	\$ 821,719	\$ 821,719
Fund Balance - January 1	459,801	459,801	459,801	-
Increase (decrease) in reserved for inventories	-	-	5,605	5,605
Fund Balance - December 31	\$ 459,801	\$ 459,801	\$ 1,287,125	\$ 827,324

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 7

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,395,706	\$ 1,775,789	\$ 1,790,164	\$ 14,375
Intergovernmental	4,376,055	4,995,972	5,033,134	37,162
Charges for services	283,335	283,335	373,046	89,711
Gifts and contributions	5,000	5,000	13,486	8,486
Miscellaneous	486,117	486,117	546,608	60,491
Total Revenues	\$ 7,546,213	\$ 7,546,213	\$ 7,756,438	\$ 210,225
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,793,188	\$ 1,793,188	\$ 1,882,399	\$ (89,211)
Social services	5,269,759	5,269,759	5,159,137	110,622
Heartland express	507,086	507,086	506,784	302
Total Expenditures	\$ 7,570,033	\$ 7,570,033	\$ 7,548,320	\$ 21,713
Excess of Revenues Over (Under) Expenditures	\$ (23,820)	\$ (23,820)	\$ 208,118	\$ 231,938
Other Financing Sources (Uses)				
Transfers in	23,820	23,820	32,612	8,792
Net Change in Fund Balance	\$ -	\$ -	\$ 240,730	\$ 240,730
Fund Balance - January 1	2,401,214	2,401,214	2,401,214	-
Fund Balance - December 31	\$ 2,401,214	\$ 2,401,214	\$ 2,641,944	\$ 240,730

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 8

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 335,000	\$ 335,000	\$ 334,827	\$ (173)
Licenses and permits	280	280	320	40
Intergovernmental	48,200	48,200	60,608	12,408
Charges for services	203,000	203,000	651,731	448,731
Miscellaneous	3,750	3,750	4,769	1,019
Total Revenues	\$ 590,230	\$ 590,230	\$ 1,052,255	\$ 462,025
Expenditures				
Current				
Sanitation				
Solid waste	527,892	527,892	597,034	(69,142)
Excess of Revenues Over (Under) Expenditures	\$ 62,338	\$ 62,338	\$ 455,221	\$ 392,883
Other Financing Sources (Uses)				
Transfers in	50,000	50,000	80,847	30,847
Net Change in Fund Balance	\$ 112,338	\$ 112,338	\$ 536,068	\$ 423,730
Fund Balance - January 1	3,820,530	3,820,530	3,820,530	-
Fund Balance - December 31	\$ 3,932,868	\$ 3,932,868	\$ 4,356,598	\$ 423,730

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 9

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

Assets

Cash and pooled investments	<u>\$ 799,778</u>
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Liabilities

Due to other governments	<u>\$ 799,778</u>
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**BROWN COUNTY
NEW ULM, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Brown County was established February 11, 1856, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Brown County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

Blended component units are legally separate organizations so intertwined with the County that they are, in substance, the same as the County and, therefore, are reported as if they were part of the County. Brown County has one blended component unit.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Brown County Housing and Redevelopment Authority (HRA)	County Commissioners are the members of the HRA Board.	Separate financial statements are not prepared.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

While part of the reporting entity, the discretely presented component unit is presented in a separate column in the County-wide financial statements to emphasize that it is legally separate from the County. The following component unit of Brown County is discretely presented:

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Brown County Economic Development Partners, Inc.	County appoints its governing board, and it is fiscally dependent on the County.	Brown County Economic Development Partners, Inc. c/o Brown County Administrator's Office 14 South State P. O. Box 248 New Ulm, Minnesota 56073-0248

Joint Ventures

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

B. Basic Financial Statements

1. County-Wide Statements

The County-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component units. These statements include the financial activities of the overall County government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

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 and blended component unit. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed in a separate column in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds.

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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The Landfill Special Revenue Fund is used to account for the cost of County landfill and recycling operations.

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

Additionally, the County reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

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

C. Measurement Focus and Basis of Accounting

The County-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Brown County

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair market value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds are allocated interest as transfers from the General Fund based on the average cash balance of the fund. Pooled investment earnings for 2005 were \$405,602.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. 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.

2. Receivables and Payables

Activities between funds are reported as “due to/from other funds.”

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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories

The Road and Bridge Special Revenue Fund inventory is valued using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories at the County-wide level are reported as expenses when consumed.

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items) are reported in the governmental activities column in the County-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 (\$100,000 for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the County, as well as its component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50 - 150
Land improvements	3 - 150
Infrastructure	50 - 75
Machinery, furniture, and equipment	2 - 20

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Compensated Absences

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

6. Deferred Revenue

All County funds and the County-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

7. Long-Term Obligations

In the County-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts 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.

9. Use of Estimates

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

E. Restatement of Net Assets

The net assets at January 1, 2005, were restated to exclude a portion of construction in progress that was not a County project. The following table summarizes this change:

	<u>Governmental Activities</u>
Net Assets - January 1, as previously reported	\$ 64,441,190
Restatement: Non-County construction in progress	<u>(1,184,263)</u>
Net Assets - January 1, as restated	<u>\$ 63,256,927</u>

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 special revenue funds. All annual appropriations lapse at year-end.

**BROWN COUNTY
NEW ULM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information (Continued)

On or before mid-August of each year, all departments submit requests for appropriations to the County Auditor/Treasurer 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.

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

B. Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2005.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 9,237,971	\$ 9,071,811	\$ 166,160
Landfill	597,034	527,892	69,142
Debt Service	418,915	416,788	2,127
Building and Capital Improvements	54,442	29,418	25,024
County Parks	145,375	138,589	6,786

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 14,161,744
Fiduciary funds	
Agency funds	
Cash and pooled investments	<u>799,778</u>
Total Cash and Investments	<u>\$ 14,961,522</u>

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, the County's deposits were not exposed to custodial credit risk.

**BROWN COUNTY
NEW ULM, 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. No more than 20 percent of the investment portfolio may be invested beyond 12 months, and the average maturity of the portfolio shall never exceed one year.

At December 31, 2005, the County had the following investments and maturities:

<u>Investment Type</u>	<u>Maturity Dates</u>		<u>Weighted Average Maturity (years)</u>	<u>Carrying (Fair) Value</u>
	<u>0 -1 year</u>	<u>Over 1 year</u>		
MAGIC Fund	\$ 2,643,602	\$ -	N/A	\$ 2,643,602
Certificates of deposit	9,545,000	2,236,000	0.67	11,781,000
Total Investments	<u>\$ 12,188,602</u>	<u>\$ 2,236,000</u>		<u>\$ 14,424,602</u>

N/A Not Applicable

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 the safest types of securities; pre-qualify the financial institutions, brokers/dealers, and advisors

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Credit Risk (Continued)

with which an entity will do business; and diversify the investment portfolio so that potential losses on individual securities are minimized. The investment types held by the County at December 31, 2005, are considered low risk and are not rated by a rating organization.

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.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the county's investment in a single issuer. The County's policy limits investments with one institution to \$7,000,000. As of December 31, 2005, the County's investments were not exposed to concentration of credit risk.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - prior	\$ 108,305	\$ -
Special assessments - prior	12,546	-
Special assessments - noncurrent	870,675	522,968
Accounts	423,406	-
Accrued interest	164,422	-
Loans receivable	34,000	25,500
Due from other governments	1,844,595	539,283
Total Governmental Activities	\$ 3,457,949	\$ 1,087,751

3. Capital Assets

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

	Beginning Balance, as Restated*	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 670,023	\$ 41,374	\$ -	\$ 711,397
Construction in progress	1,776,828	2,018,883	1,379,528	2,416,183
Total capital assets not depreciated	\$ 2,446,851	\$ 2,060,257	\$ 1,379,528	\$ 3,127,580
Capital assets depreciated				
Buildings and improvements	\$ 12,230,243	\$ 111,623	\$ 6,292	\$ 12,335,574
Land improvements	1,715,608	-	11,374	1,704,234
Machinery, furniture, and equipment	4,480,650	521,332	184,466	4,817,516
Infrastructure - highway	48,787,297	1,387,572	-	50,174,869
Infrastructure - dam	2,098,857	-	-	2,098,857
Total capital assets depreciated	\$ 69,312,655	\$ 2,020,527	\$ 202,132	\$ 71,131,050

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance, as Restated*	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings and improvements	\$ 1,808,903	\$ 125,332	\$ -	\$ 1,934,235
Land improvements	1,419,816	90,808	-	1,510,624
Machinery, furniture, and equipment	2,738,254	366,019	156,806	2,947,467
Infrastructure - highway	10,723,153	982,504	-	11,705,657
Infrastructure - dam	156,226	14,166	-	170,392
Total accumulated depreciation	<u>\$ 16,846,352</u>	<u>\$ 1,578,829</u>	<u>\$ 156,806</u>	<u>\$ 18,268,375</u>
Total capital assets depreciated, net	<u>\$ 52,466,303</u>	<u>\$ 441,698</u>	<u>\$ 45,326</u>	<u>\$ 52,862,675</u>
Governmental Activities Capital Assets, Net	<u>\$ 54,913,154</u>	<u>\$ 2,501,955</u>	<u>\$ 1,424,854</u>	<u>\$ 55,990,255</u>

*Construction in progress includes restatement of \$1,184,263 (see Note 1.E.)

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

Governmental Activities	
General government	\$ 64,965
Public safety	134,976
Highways and streets, including depreciation of infrastructure assets	1,211,963
Sanitation	92,340
Human services	44,932
Health	3,350
Culture and recreation, including depreciation of infrastructure assets	19,980
Conservation of natural resources	6,323
Total Depreciation Expense - Governmental Activities	<u>\$ 1,578,829</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	\$ 8,699
Road and Bridge	General	\$ 2,361
	Family Services	3,797
	Total Due to Road and Bridge Fund	\$ 6,158
	Total Due To/From Other Funds	\$ 14,857

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of transfers from the General Fund to allocate investment earnings:

Road and Bridge Fund	\$ 34,539
Family Services Fund	32,612
Landfill Fund	80,847
Other governmental funds	22,008
Totals	\$ 170,006

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Long-Term Debt

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General Obligation Bonds 2002A G.O. Capital Improvement Refunding Bonds	2010	\$80,000 - \$90,000	3.45 - 4.35	\$ 655,000	\$ 430,000
Revenue Bonds 2002 Jail Lease Revenue Refunding Bonds	2013	\$220,000 - \$300,000	3.40 - 4.75	\$ 2,900,000	2,075,000
Total Bonds Payable					\$ 2,505,000

Bond payments are made by the Debt Service Fund.

Loans Payable

The County entered into loan agreements with the Minnesota Pollution Control Agency for funding Clean Water Partnership (CWP) Projects and a loan agreement with the Minnesota Department of Agriculture for financing the repair of failing septic systems. The loans are secured by special assessments placed on the individual parcels. Loan payments are reported in the General Fund.

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
1997 Groundwater Protection CWP Project	2010	\$ 25,875	-	\$ 517,500	\$ 232,875
1998 Groundwater Protection CWP Project	2014	12,067	-	362,000	205,133
2001 Cottonwood River Restoration CWP Project	2013	4,447	2.00	80,244	61,655

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
2001 Little Cottonwood River Restoration CWP Project	2014	5,569	2.00	100,495	86,666
2001 Watonwan Watershed CWP Project	2014	3,543	2.00	63,932	55,135
2001 Septic System Replacement Project	2020	2,665	-	53,300	53,300
2003 Cottonwood River Restoration CWP Project	2015	16,618	2.00	236,892	236,892
2004 Watonwan Watershed Continuation CWP Project	2017	1,689	2.00	25,145	25,145
2004 Little Cottonwood River Restoration Continuation CWP Project	2017	5,763	2.00	58,138	<u>58,138</u>
Total Loans Payable					<u>\$ 1,014,939</u>

2. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 80,000	\$ 16,167	\$ 225,000	\$ 91,640
2007	85,000	12,967	235,000	82,865
2008	85,000	9,504	245,000	72,995
2009	90,000	5,828	250,000	62,460
2010	90,000	1,958	260,000	51,585
2011 - 2013	-	-	860,000	81,767
Total	<u>\$ 430,000</u>	<u>\$ 46,424</u>	<u>\$ 2,075,000</u>	<u>\$ 443,312</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable	
	Principal	Interest
2006	\$ 99,047	\$ 3,954
2007	99,512	3,488
2008	99,987	3,013
2009	100,472	2,529
2010	75,091	2,035
2011 - 2015	194,005	3,128
2016 - 2020	26,650	-
Total	<u>\$ 694,764</u>	<u>\$ 18,147</u>

The debt service requirements for the loans from the Minnesota Pollution Control Agency in the amounts of \$236,892, \$25,145, and \$58,138 are not known as of December 31, 2005.

3. 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	\$ 510,000	\$ -	\$ 80,000	\$ 430,000	\$ 80,000
Revenue bonds	2,295,000	-	220,000	2,075,000	225,000
Total bonds payable	\$ 2,805,000	\$ -	\$ 300,000	\$ 2,505,000	\$ 305,000
Landfill closure/postclosure liability	1,077,805	150,270	-	1,228,075	-
Loans payable	994,924	118,605	98,590	1,014,939	99,047
Compensated absences	990,367	88,289	-	1,078,656	20,070
Long-Term Liabilities	<u>\$ 5,868,096</u>	<u>\$ 357,164</u>	<u>\$ 398,590</u>	<u>\$ 5,826,670</u>	<u>\$ 424,117</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,228,075 landfill closure and postclosure care liability at December 31, 2005, represents the cumulative amount reported to date based on the use of 68 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$565,433 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2005. The County expects the landfill to continue operation beyond 2010 through approved permitting processes. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2005, investments of \$1,954,352 are held for these purposes. Accumulated annual contributions and any payments of landfill postclosure costs are reported in the Landfill Special Revenue Fund. Brown County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans

A. Plan Description

All full-time and certain part-time employees of Brown County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans

A. Plan Description (Continued)

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

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

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

B. 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.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans

B. Funding Policy (Continued)

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 422,938	\$ 55,237	\$ 53,303
2004	409,112	52,095	56,412
2003	403,893	52,923	48,806

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

5. Conduit Debt

In 2004, the County issued variable rate demand purchase revenue bonds in the amount of \$7,500,000 to finance the acquisition and construction of higher education facilities at Martin Luther College in New Ulm, Minnesota, as authorized by the Municipal Industrial Development Act, Minn. Stat. §§ 469.152-469.1651. The bonds are secured by an irrevocable direct-pay letter of credit provided by Wells Fargo Bank, NA.

The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2005, is \$7,265,000.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. 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. 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.

B. Contingent Liabilities

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

C. 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 Community 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. Complete financial information can be obtained from the Brown-Nicollet Community Health Services Board, 322 South Minnesota, St. Peter, Minnesota 56082.

Red Rock Rural Water System

The Red Rock Rural Water System was established pursuant to Minn. Stat. ch. 116A through a joint powers agreement pursuant to Minn. Stat. § 471.59 and under the jurisdiction of the Fifth Judicial District. Brown, Cottonwood, Jackson, Lyon, Martin, Murray, Redwood, and Watonwan Counties have agreed to guarantee their shares of debt arising within each respective County. The Red Rock Rural Water System provides water for participating rural water users and cities within the water district.

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2004, (the most current information available) amounted to \$6,835,000; and notes payable were \$30,487. The Water System's net assets increased by \$269,095 in 2004. Complete financial information can be obtained from the Red Rock Rural Water System, Jeffers, Minnesota 56145.

Families First Collaborative

The Families First Collaborative was established in 1997 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown County and nine other entities. The purpose of the Collaborative is to provide improved coordination and outcomes for children and families through information sharing, elimination of duplicate services, and cooperative efforts.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Families First Collaborative (Continued)

Control of the Collaborative is vested in a Board of Directors consisting of 11 members. Brown County Family Services acts as fiscal agent for the Collaborative. The Collaborative is financed by Local Collaborative Time Study (LCTS) funds. During 2005, Brown County provided \$100 in funding to the Collaborative. Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of the termination shall be distributed by the Families First Collaborative Board of Directors.

Financial information can be obtained by contacting the Brown County Family Services Department.

Three Counties for Kids Collaborative

The Three Counties for Kids Collaborative was established in 1996 under the authority of Minn. Stat. § 471.59. The Collaborative includes Brown, Sibley, and Watonwan Counties; the River Bend Education District; and the Sioux Trails Mental Health Center. The purpose of the Collaborative is to join local units of government together to ensure a unified, unduplicated, and family-friendly system of intervention and care for families and children.

Control of the Collaborative is vested in a Board of Directors, consisting of seven members. Brown County Family Services acts as fiscal agent for the Collaborative. The Collaborative is financed by LCTS funds. During 2005, Brown County did not provide any funding to the Collaborative. Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of the termination shall be distributed by the Three Counties for Kids Collaborative Board of Directors.

Financial information can be obtained by contacting the Brown County Family Services Department.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a board of directors to operate, control, and manage all matters concerning the nine participating member counties' health care functions, referred to as county-based purchasing.

The SCHA is authorized to provide prepaid comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the above-listed member counties.

In the event the SCHA incurs operating deficits, the member counties would maintain the SCHA's reserves to meet statutory and regulatory reserves and requirements. Minnesota statutes require the SCHA to maintain capital surplus equal to or greater than one month's expenditures, but less than three months expenditures. The SCHA is in compliance with these requirements at December 31, 2005. During the year, Brown County made no payments to the SCHA. Complete financial statements can be obtained from South Country Health Alliance, 110 West Fremont Street, Owatonna, Minnesota 55060.

D. Jointly-Governed Organizations

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

The Area II Minnesota River Basin Project provides programs for flood reduction measures to the area between the Cities of Ortonville and Mankato. During the year, the County paid \$12,152 to the Project.

The Minnesota River Valley Detention Center Joint Powers provides additional facilities for the detention of juveniles to several counties. During the year, the County paid \$112,337 to the Detention Center in grants received from the State of Minnesota.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

The Brown-Lyon-Redwood Drug Task Force provides drug enforcement services for member organizations. During the year, the County paid \$7,000 to the Task Force.

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.

The Minnesota River Board promotes orderly water quality improvement and management for the Minnesota River watersheds. During the year, the County paid \$2,000 to the Board.

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for participating counties. During the year, the County paid \$7,236 to the RCRCA.

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

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

The South Central Regional IMMTRACK (Immunization Registry) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County paid \$2,900 to the Joint Powers Board.

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2005.

**BROWN COUNTY
NEW ULM, MINNESOTA**

7. Brown County Economic Development Partners, Inc., Component Unit Disclosures

A. Summary of Significant Accounting Policies

The Brown County Economic Development Partners, Inc., (EDP) was organized on October 3, 1990, under Minn. Stat. ch. 317A, as a nonprofit corporation. The purpose is to promote the development and expansion of existing businesses within Brown County and to assist in the development of new businesses in Brown County, which will increase opportunities for employment. The Board of Directors consists of nine directors: one appointed from each of the County Commissioner Districts, two appointed at-large, and two appointed from the Brown County Board of Commissioners. Brown County Economic Development Partners, Inc., is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

The EDP's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the FASB in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the EDP is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Revenue

The EDP receives substantially all of its revenue from Brown County in the form of an annual appropriation.

Cash and Cash Equivalents

The EDP considers all highly liquid investments with a maturity of nine months or less when purchased to be cash equivalents.

**BROWN COUNTY
NEW ULM, MINNESOTA**

7. Brown County Economic Development Partners, Inc., Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

B. Loans Receivable

Loans receivable, totaling \$224,273 as of December 31, 2005, consist of 13 loans made for economic development.

C. Loans Payable

The EDP has an outstanding loan payable as of December 31, 2005, to the City of Sleepy Eye for \$5,000. Interest is at five percent. This loan can be paid at any time without penalty.

COMBINING FUND FINANCIAL STATEMENT AND SCHEDULES

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 332,012	\$ 246,075	\$ 248,323	\$ 2,248
Intergovernmental	84,776	170,713	170,713	-
Total Revenues	\$ 416,788	\$ 416,788	\$ 419,036	\$ 2,248
Expenditures				
Debt service				
Principal	\$ 416,788	\$ 300,000	\$ 300,000	\$ -
Interest	-	116,788	109,334	7,454
Administrative charges	-	-	9,581	(9,581)
Total Expenditures	\$ 416,788	\$ 416,788	\$ 418,915	\$ (2,127)
Net Change in Fund Balance	\$ -	\$ -	\$ 121	\$ 121
Fund Balance - January 1	125,281	125,281	125,281	-
Fund Balance - December 31	\$ 125,281	\$ 125,281	\$ 125,402	\$ 121

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**BROWN COUNTY
NEW ULM, MINNESOTA**

OTHER GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Building and Capital Improvements - to account for funds used for capital outlay and maintenance. Financing is provided by a tax levy.

County Parks - to account for the operations of the County parks. Financing is provided primarily by property taxes authorized by the County Board and state grants.

County Ditch - to account for the financing of maintenance and repairs to ditch systems.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 2

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

	Building and Capital Improvements	County Parks	County Ditch	Total Nonmajor Governmental Funds
<u>Assets</u>				
Cash and pooled investments	\$ 370,325	\$ 172,055	\$ 511,562	\$ 1,053,942
Taxes receivable				
Prior	243	1,588	-	1,831
Special assessments receivable				
Prior	-	-	1,196	1,196
Noncurrent	-	-	266,000	266,000
Due from other governments	-	-	30,785	30,785
Loans receivable	34,000	-	-	34,000
Total Assets	\$ 404,568	\$ 173,643	\$ 809,543	\$ 1,387,754
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 1,704	\$ 9,695	\$ 11,399
Salaries payable	-	1,721	-	1,721
Due to other governments	-	979	15,650	16,629
Deferred revenue - unavailable	144	1,027	266,132	267,303
Deferred revenue - unearned	-	239	-	239
Total Liabilities	\$ 144	\$ 5,670	\$ 291,477	\$ 297,291
Fund Balances				
Reserved for loans receivable	\$ 34,000	\$ -	\$ -	\$ 34,000
Reserved for conservation	-	-	518,066	518,066
Unreserved				
Designated for future expenditures	30,000	-	-	30,000
Undesignated	340,424	167,973	-	508,397
Total Fund Balances	\$ 404,424	\$ 167,973	\$ 518,066	\$ 1,090,463
Total Liabilities and Fund Balances	\$ 404,568	\$ 173,643	\$ 809,543	\$ 1,387,754

**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 3

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

	Building and Capital Improvements	County Parks	County Ditch	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ 16,978	\$ 94,299	\$ -	\$ 111,277
Special assessments	-	-	139,543	139,543
Intergovernmental	5,871	32,642	-	38,513
Charges for services	-	11,710	-	11,710
Gifts and contributions	-	1,000	-	1,000
Miscellaneous	5,674	-	27,581	33,255
Total Revenues	\$ 28,523	\$ 139,651	\$ 167,124	\$ 335,298
Expenditures				
Current				
General government	\$ 53,207	\$ -	\$ -	\$ 53,207
Public safety	1,235	-	-	1,235
Culture and recreation	-	145,375	-	145,375
Conservation of natural resources	-	-	233,002	233,002
Total Expenditures	\$ 54,442	\$ 145,375	\$ 233,002	\$ 432,819
Excess of Revenues Over (Under) Expenditures	\$ (25,919)	\$ (5,724)	\$ (65,878)	\$ (97,521)
Other Financing Sources (Uses)				
Transfers in	7,581	3,125	11,302	22,008
Net Change in Fund Balance	\$ (18,338)	\$ (2,599)	\$ (54,576)	\$ (75,513)
Fund Balance - January 1	422,762	170,572	572,642	1,165,976
Fund Balance - December 31	\$ 404,424	\$ 167,973	\$ 518,066	\$ 1,090,463

**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 22,800	\$ 17,017	\$ 16,978	\$ (39)
Intergovernmental	-	5,783	5,871	88
Miscellaneous	5,060	5,060	5,674	614
Total Revenues	\$ 27,860	\$ 27,860	\$ 28,523	\$ 663
Expenditures				
Current				
General government				
Buildings and plant	\$ 29,418	\$ 29,418	\$ 53,207	\$ (23,789)
Public safety				
Sheriff	-	-	1,235	(1,235)
Total Expenditures	\$ 29,418	\$ 29,418	\$ 54,442	\$ (25,024)
Excess of Revenues Over (Under) Expenditures	\$ (1,558)	\$ (1,558)	\$ (25,919)	\$ (24,361)
Other Financing Sources (Uses)				
Transfers in	4,816	4,816	7,581	2,765
Net Change in Fund Balance	\$ 3,258	\$ 3,258	\$ (18,338)	\$ (21,596)
Fund Balance - January 1	422,762	422,762	422,762	-
Fund Balance - December 31	\$ 426,020	\$ 426,020	\$ 404,424	\$ (21,596)

**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 5

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 126,139	\$ 93,497	\$ 94,299	\$ 802
Intergovernmental	-	32,642	32,642	-
Charges for services	8,450	8,450	11,710	3,260
Gifts and contributions	-	-	1,000	1,000
Total Revenues	\$ 134,589	\$ 134,589	\$ 139,651	\$ 5,062
Expenditures				
Current				
Culture and recreation				
Parks	138,589	138,589	145,375	(6,786)
Excess of Revenues Over (Under) Expenditures	\$ (4,000)	\$ (4,000)	\$ (5,724)	\$ (1,724)
Other Financing Sources (Uses)				
Transfers in	4,000	4,000	3,125	(875)
Net Change in Fund Balance	\$ -	\$ -	\$ (2,599)	\$ (2,599)
Fund Balance - January 1	170,572	170,572	170,572	-
Fund Balance - December 31	\$ 170,572	\$ 170,572	\$ 167,973	\$ (2,599)

**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 6

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 249,910	\$ 249,910	\$ 139,543	\$ (110,367)
Miscellaneous	-	-	27,581	27,581
Total Revenues	\$ 249,910	\$ 249,910	\$ 167,124	\$ (82,786)
Expenditures				
Current				
Conservation of natural resources				
Other	257,910	257,910	233,002	24,908
Excess of Revenues Over (Under) Expenditures	\$ (8,000)	\$ (8,000)	\$ (65,878)	\$ (57,878)
Other Financing Sources (Uses)				
Transfers in	8,000	8,000	11,302	3,302
Net Change in Fund Balance	\$ -	\$ -	\$ (54,576)	\$ (54,576)
Fund Balance - January 1	572,642	572,642	572,642	-
Fund Balance - December 31	\$ 572,642	\$ 572,642	\$ 518,066	\$ (54,576)

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**BROWN COUNTY
NEW ULM, MINNESOTA**

AGENCY FUNDS

Assurance - to account for the collection and payment to the state of assurance funds.

Mortgage Registry Tax - to account for the collection and distribution to the County and other governments of mortgage registry tax.

Prepaid Tax - to account for taxes paid in advance.

Region Nine - to account for the collection and distribution of funds to the Region Nine Regional Development Commission.

School Districts - to account for the school districts' share of taxes collected by the County.

State Deed Tax - to account for the collection and distribution to the County and other governments of state deed tax.

Three Counties for Kids Collaborative - to account for the funds of a multi-county/school district children's mental health collaborative.

Families First Family Services Collaborative - to account for the funds of the County/multi-school district family services collaborative.

Taxes and Penalties - to account for the collection and payment to the various taxing districts of taxes and penalties collected.

Towns and Cities - to account for the collection and payment of taxes due to towns and cities.

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 7

**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>ASSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,628	\$ 339	\$ 274	\$ 1,693
<u>Liabilities</u>				
Due to other governments	\$ 1,628	\$ 339	\$ 274	\$ 1,693
 <u>MORTGAGE REGISTRY TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 19,197	\$ 289,875	\$ 275,111	\$ 33,961
<u>Liabilities</u>				
Due to other governments	\$ 19,197	\$ 289,875	\$ 275,111	\$ 33,961
 <u>PREPAID TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 5,365	\$ 94,023	\$ 60,653	\$ 38,735
<u>Liabilities</u>				
Due to other governments	\$ 5,365	\$ 94,023	\$ 60,653	\$ 38,735

**BROWN COUNTY
NEW ULM, MINNESOTA**

*Statement 7
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>REGION NINE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>572</u>	\$ <u>53,625</u>	\$ <u>53,643</u>	\$ <u>554</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>572</u>	\$ <u>53,625</u>	\$ <u>53,643</u>	\$ <u>554</u>
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>47,916</u>	\$ <u>3,524,801</u>	\$ <u>3,517,556</u>	\$ <u>55,161</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>47,916</u>	\$ <u>3,524,801</u>	\$ <u>3,517,556</u>	\$ <u>55,161</u>
 <u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>17,264</u>	\$ <u>241,675</u>	\$ <u>237,964</u>	\$ <u>20,975</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>17,264</u>	\$ <u>241,675</u>	\$ <u>237,964</u>	\$ <u>20,975</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

*Statement 7
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>THREE COUNTIES FOR KIDS COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>248,912</u>	\$ <u>220,926</u>	\$ <u>184,133</u>	\$ <u>285,705</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>248,912</u>	\$ <u>220,926</u>	\$ <u>184,133</u>	\$ <u>285,705</u>
 <u>FAMILIES FIRST FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>195,351</u>	\$ <u>297,220</u>	\$ <u>224,440</u>	\$ <u>268,131</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>195,351</u>	\$ <u>297,220</u>	\$ <u>224,440</u>	\$ <u>268,131</u>
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>125</u>	\$ <u>20,854,777</u>	\$ <u>20,854,792</u>	\$ <u>110</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>125</u>	\$ <u>20,854,777</u>	\$ <u>20,854,792</u>	\$ <u>110</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

*Statement 7
(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>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 87,381	\$ 13,499,121	\$ 13,491,749	\$ 94,753
<u>Liabilities</u>				
Due to other governments	\$ 87,381	\$ 13,499,121	\$ 13,491,749	\$ 94,753
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 623,711	\$ 39,076,382	\$ 38,900,315	\$ 799,778
<u>Liabilities</u>				
Due to other governments	\$ 623,711	\$ 39,076,382	\$ 38,900,315	\$ 799,778

SCHEDULES

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 1

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

	<u>Interest Rate</u>	<u>Amount</u>
Deposits and Investments		
Checking accounts	2.69%	\$ 535,945
Cash on hand	None	975
Certificates of deposit	2.65% to 5.00%	11,781,000
Mutual fund (MAGIC)	Varies	<u>2,643,602</u>
Total Deposits and Investments		<u>\$ 14,961,522</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 2

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

Shared Revenue

State

Highway users tax	\$	3,782,199
County program aid		1,337,390
PERA rate reimbursement		39,317
Disparity reduction aid		27,182
Police aid		52,095
Enhanced 911		79,643
Market value credit		1,102,077
Market value credit - manufactured homes		7,247
		7,247

Total Shared Revenue **\$ 6,427,150**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	2,214,254
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Payments

Local

City contributions	\$	84,776
Local contributions		236,713
Payments in lieu of taxes		27,523
		27,523

Total Payments **\$ 349,012**

Grants

State

Minnesota Department of Revenue	\$	25
Corrections		358,812
Transportation		271,471
Health		113,359
Natural Resources		31,764
Human Services		1,205,730
Board of Water and Soil Resources		77,297
Office of Environmental Assistance		30,453
Pollution Control Agency		30,155
Peace Officer Standards and Training Board		5,992
		5,992

Total State **\$ 2,125,058**

**BROWN COUNTY
NEW ULM, MINNESOTA**

***Schedule 2
(Continued)***

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

Grants (Continued)

Federal

Department of Agriculture	\$	85,803
Justice		153,043
Transportation		848,247
Health and Human Services		734,042
Homeland Security		49,644

Total Federal **\$ 1,870,779**

Total State and Federal Grants **\$ 3,995,837**

Total Intergovernmental Revenue **\$ 12,986,253**

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 3

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 Brown 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 Brown 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 Brown County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Brown 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. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-6 County Ditch Special Revenue Fund - Deficit Fund Balances

Six of the 90 ditches in the County Ditch Special Revenue Fund had deficit fund balances as of December 31, 2005, totaling \$20,877. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County continue to levy assessments pursuant to Minnesota statutes which permit the accumulation of a surplus balance to provide for the repair and maintenance costs of a ditch system.

Client's Response:

Brown County will continue to levy assessments pursuant to Minnesota statutes to provide for the repair and maintenance of its ditch systems.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and

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

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

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

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

If applicable for Brown 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

**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
Brown County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of and for the year ended December 31, 2005, and have issued our report thereon dated July 31, 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. We did not audit the financial statements of Brown County Economic Development Partners, Inc., a discretely presented component unit of the County. Those financial statements were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Brown 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 Brown County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, Brown County complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: July 31, 2006



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Brown County

Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of and for the year ended December 31, 2005, and have issued our report thereon dated July 31, 2006. We did not audit the financial statements of Brown County Economic Development Partners, Inc., a discretely presented component unit of the County. 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: July 31, 2006

**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 4

**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	\$ 77,172
Passed Through Minnesota Department of Human Services Administrative Matching Grant for Food Stamp Program	10.561	8,631
Total U.S. Department of Agriculture		\$ 85,803
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 2,602
Direct Public Safety Partnership and Community Policing Grant	16.710	150,441
Total U.S. Department of Justice		\$ 153,043
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 707,347
Federal Transit Metro Planning Grant	20.505	715
Public Transportation for Non-Urbanized Areas	20.509	130,991
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	12,406
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	233
Total U.S. Department of Transportation		\$ 851,692
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Commerce Low-Income Home Energy Assistance	93.568	\$ 104,783
Passed Through Minnesota Department of Health Center for Disease Control and Prevention	93.283	33,532
Temporary Assistance for Needy Families	93.558	15,110
Maternal and Child Health Services Block Grant	93.994	34,176

**BROWN COUNTY
NEW ULM, MINNESOTA**

**Schedule 4
(Continued)**

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	123,476
Temporary Assistance for Needy Families	93.558	153,534
Child Care Development Block Grant	93.575	10,530
Child Care Mandatory and Matching Funds	93.596	10,313
Children's Justice Grants to State	93.643	1,500
Child Welfare Services	93.645	10,919
Foster Care - Title IV-E	93.658	88,516
Social Services Block Grant - Title XX	93.667	167,305
Independent Living	93.674	6,686
Community Mental Health Services	93.958	<u>7,840</u>
Total U.S. Department of Health and Human Services		<u>\$ 768,220</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety Homeland Security Grant Program	97.004	\$ 37,412
Homeland Security Grant Program - Emergency Response	97.067	<u>12,232</u>
Total U.S. Department of Homeland Security		<u>\$ 49,644</u>
Total Federal Awards		<u>\$ 1,908,402</u>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Brown County. The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting. In some instances, expenditures shown are different than reported revenues because they are not available.
3. During the year, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.