

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Year Ended December 31, 2006



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

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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ALBERT LEA, MINNESOTA**

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2006

Office	Name	Term Expires
Board of County Commissioners		
District 1	Glen Mathiason	January 2009
District 2	Daniel Belshan	January 2007
District 3	James Nelson	January 2009
District 4	David Mullenbach	January 2007
District 5	Mark Behrends*	January 2009
County Officers		
Elected		
Attorney	Craig Nelson	January 2007
Auditor/Treasurer	Dennis A. Distad	January 2007
District Judge	John Chesterman	January 2007
District Judge	James Broberg	January 2007
Recorder	Kelly Callahan	January 2007
Registrar of Titles	Kelly Callahan	January 2007
Sheriff	Mark Harig	January 2007
Appointed		
Administrator	Ronald Gabrielsen	Indefinite
Assessor	Ryan Rasmussen	Indefinite
County Engineer	Susan Miller	Indefinite
Court Services	Tom Jensen	Indefinite
Court Administrator	Kristi Maiers	Indefinite
Finance Manager	William Helfritz	Indefinite
Veterans Service Officer	Jon Rhiger	Indefinite
Human Services		
Board		
Chair	Glen Mathiason	January 2007
Vice Chair	James Nelson	January 2009
Member	David Mullenbach	January 2009
Member	Mark Behrends	January 2009
Member	Daniel Belshan	January 2007
Appointed		
Director	Brian Buhmann	Indefinite
Accountant	Alan Olson	Indefinite

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Freeborn County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Freeborn County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2006, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information as listed in the table of contents and the Management's Discussion and Analysis are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Freeborn County's basic financial statements. The supplementary information and other schedule listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Freeborn County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2007, on our consideration of Freeborn County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 28, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

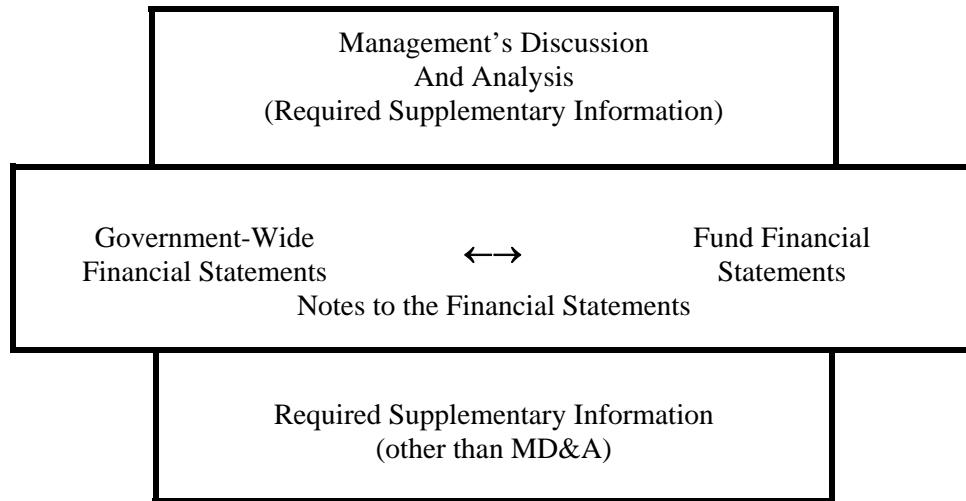
The Freeborn County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should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

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$71,892,114, of which \$54,287,159 is invested in capital assets, net of related debt, and \$3,936,919 is restricted to specific purposes.
- Freeborn County's net assets increased by \$4,327,876 for the year ended December 31, 2006.
- The net cost of governmental activities was \$12,379,815 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$16,707,691.
- During the year, Freeborn County issued \$3,020,000 in General Obligation Ditch Bonds. These bonds will be repaid with special assessments assessed directly to the benefited land owners and not the general populace of Freeborn County.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

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

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

In the Statement of Net Assets and the Statement of Activities, the County reports its governmental activities. The County has no business-type activities or discretely presented component units.

Governmental activities reported here include the County's basic services of general government, public safety, highways and streets, human services, health, environmental services, culture and recreation, and conservation of natural resources. Property taxes and state and federal grants finance most of these activities.

Fund Financial Statements

Our analysis of the County's major funds begins on Exhibit 3. These fund financial statements provide detailed information about the significant funds, not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and proprietary--use different accounting methods.

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

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets which can only be used for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 10 and 11. We

exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

The County's combined net assets increased from \$67,564,238 to \$71,892,114. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities.

Table 1
Net Assets
(in millions)

	Governmental Activities	
	2006	2005 (Restated)
Assets		
Current and other assets	\$ 27.2	\$ 20.8
Capital assets	78.1	77.8
Total Assets	<u>\$ 105.3</u>	<u>\$ 98.6</u>
Liabilities		
Long-term debt outstanding	\$ 30.0	\$ 28.6
Other liabilities	3.4	2.4
Total Liabilities	<u>\$ 33.4</u>	<u>\$ 31.0</u>
Net Assets		
Invested in capital assets, net of debt	\$ 54.3	\$ 52.6
Restricted	3.9	5.2
Unrestricted	13.7	9.8
Total Net Assets	<u>\$ 71.9</u>	<u>\$ 67.6</u>

Net assets of the County's governmental activities increased by 6.4 percent (\$71.9 million compared to \$67.6 million). Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from a \$9.8 million surplus at December 31, 2005, to \$13.7 million at the end of this year.

Table 2
Changes in Net Assets
(in millions)

	Governmental Activities	
	2006	2005
Revenues		
Program revenues		
Fees, fines, charges, and other	\$ 5.0	\$ 3.5
Operating grants and contributions	14.1	11.6
Capital grants and contributions	0.9	0.5
General revenues		
Property taxes	12.6	11.5
Grants and contributions	3.3	3.4
Other general revenues	0.8	3.2
Total Revenues	<u>\$ 36.7</u>	<u>\$ 33.7</u>
Program Expenses		
General government	\$ 6.5	\$ 4.2
Public safety	4.8	4.7
Highways and streets	7.5	4.9
Human services	8.1	8.4
Health	2.4	2.4
Sanitation	0.4	0.4
Culture and recreation	0.3	0.3
Conservation of natural resources	1.6	1.9
Economic development	0.1	0.1
Interest	0.7	0.6
Total Program Expenses	<u>\$ 32.4</u>	<u>\$ 27.9</u>
Increase (Decrease) in Net Assets	<u>\$ 4.3</u>	<u>\$ 5.8</u>

Governmental Activities

Revenues for the County’s governmental activities were \$36.7 million, while total expenses were \$32.4 million. This resulted in a \$4.3 million increase in net assets in the year ended December 31, 2006.

The amount that our taxpayers ultimately financed for these activities through County taxes and other general sources was only \$12.4 million because some of the cost was paid by those who directly benefited from the programs (\$5.0 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$15.0 million). The County paid for the remaining “public benefit” portion of governmental activities with \$16.7 million in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as interest and general entitlements. The balance of \$4.3 million was added to existing net assets.

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

**Table 3
Governmental Activities
(in millions)**

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Human services	\$ 8.1	\$ 2.4	\$ 8.4	\$ 4.1
Highways and streets	7.5	1.5	4.9	(0.5)
General government	6.5	5.0	4.2	3.1
Public safety	4.8	3.7	4.7	3.5
Health	2.4	0.5	2.4	0.6
Conservation of natural resources	1.6	(1.4)	1.9	0.9
All others	1.5	0.7	1.4	0.6
Total	\$ 32.4	\$ 12.4	\$ 27.9	\$ 12.3

THE COUNTY’S FUNDS

As the County completed the year, its governmental funds (as presented in the balance sheet on Exhibit 3) reported a combined fund balance of \$15.7 million, which is above last year’s total of \$12.5 million. Included in this year’s total fund balance is a surplus of \$4.6 million in the County’s General Fund, which is the same as last year. The Ditch Fund’s change in fund balance (an increase of \$3.0 million from 2005) represented 92 percent of the total increase (\$3.2 million) in governmental fund balances. This was caused by the issuance of \$3.0 million in Ditch General Revenue Bonds. The Social Services Special Revenue Fund’s increase of \$0.5 million; came from a return on investment in a joint venture of \$0.26 million. The Road and Bridge Special Revenue Fund shows a decrease (\$0.3 million) due to completing projects from the prior year.

General Fund Budgetary Highlights

During the year, the County made no budget amendments. The largest variance occurred in the General Fund. This was \$0.5 million, mostly in the public safety function. It consisted mainly of grants received that were not budgeted. The other large variance was the Ditch Special Revenue Fund (\$0.5 million). Ongoing reassessment of benefits on many of the ditch systems is incurring cost, which cannot be recovered until the new benefits can be finalized. These costs will be assessed directly to the landowners receiving the benefit and will have no monetary impact on the citizens of Freeborn County.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the County had \$78.2 million invested in a broad range of capital assets including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of just under \$0.4 million, or 0.4 percent, over last year.

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

	Governmental Activities	
	2006	2005
Land	\$ 4.1	\$ 4.0
Land improvements	0.7	0.7
Construction in progress	2.8	3.3
Buildings and improvements	29.6	30.4
Machinery, vehicles, furniture, and equipment	2.3	2.3
Infrastructure	38.7	37.1
Total	<u>\$ 78.2</u>	<u>\$ 77.8</u>

This year's major additions included (in millions) the completion of various highway construction, adding (\$1.6 million) to infrastructure.

Debt

At year-end, the County had \$28.8 million in bonds and notes outstanding versus \$27.5 million last year, an increase of 5.0 percent, as shown in Table 5.

Table 5
Outstanding Debt at Year-End
(in millions)

	Governmental Activities	
	2006	2005
General obligation bonds and notes (backed by the County)	\$ 9.9	\$ 11.0
Special assessment bonds	3.5	0.5
General obligation lease revenue	6.7	7.0
Lease revenue bonds	8.7	9.0
Total	<u>\$ 28.8</u>	<u>\$ 27.5</u>

The County's general obligation bond rating was "A3" at its last bond issuance in November 2002, and there has been no change since then. Other obligations include accrued vacation pay and sick leave payable. The County also has an agreement with the State of Minnesota to make annual payments for an armory until 2009. More detailed information about the County's long-term liabilities is presented in Note 3.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- County General Fund expenditures for 2007 are budgeted to increase 7.7 percent over 2006.
- The combined budget for 2007 increased \$661,949, or 2.0 percent, over the 2006 budget.
- The state decreased County aids for 2007 by \$3,000.
- Property tax levies have increased 5.9 percent for 2007.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the County Finance Manager, William M. Helfritz, at 411 South Broadway, Albert Lea, Minnesota 56007.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	16,237,636
Petty cash and change funds		1,725
Investment in joint venture		1,915,138
Taxes receivable		
Prior - net		315,824
Special assessments receivable		
Current - net		485
Prior - net		26,661
Noncurrent - net		3,094,078
Accounts receivable - net		868,883
Loans receivable - net		342,491
Accrued interest receivable		204,837
Due from other governments		2,867,297
Inventories		156,235
Restricted assets		
Restricted cash and investments on deposit for debt service		1,011,005
Deferred charges		89,915
Capital assets		
Non-depreciable		7,646,577
Depreciable - net of accumulated depreciation		70,515,780
		70,515,780
Total Assets	\$	105,294,567

Liabilities

Accounts payable	\$	1,148,638
Salaries payable		495,588
Contracts payable		203,420
Due to other governments		781,273
Accrued interest payable		192,934
Unearned revenue		198,238
Restricted for debt service		
Interest payable		309,952
Long-term liabilities		
Due within one year		1,657,829
Due in more than one year		28,414,581
		28,414,581
Total Liabilities	\$	33,402,453

Net Assets

Invested in capital assets - net of related debt	\$	54,287,159
Restricted for		
General government		150,638
Public safety		540,986
Highways and streets		156,235
Conservation of natural resources		1,049,135
Human services		1,581,921
Economic development		353,445
Endowment - nonexpendable		104,559
Unrestricted		13,668,036
		13,668,036
Total Net Assets	\$	71,892,114

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 2

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

	Program Revenues			Net (Expense)	
Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets	
Functions/Programs					
Governmental activities					
General government	\$ 6,491,747	\$ 1,138,316	\$ 149,505	\$ 197,762	\$ (5,006,164)
Public safety	4,861,795	517,939	631,038	-	(3,712,818)
Highways and streets	7,470,689	88,847	5,306,352	568,012	(1,507,478)
Sanitation	407,856	26,487	314,890	-	(66,479)
Human services	8,158,567	1,600,821	4,199,129	-	(2,358,617)
Health	2,357,446	1,118,293	747,252	-	(491,901)
Culture and recreation	332,594	13,218	-	-	(319,376)
Conservation of natural resources	1,647,031	54,050	2,795,622	161,216	1,363,857
Economic development	95,086	467,706	-	-	372,620
Interest	653,459	-	-	-	(653,459)
Total governmental activities	<u>\$ 32,476,270</u>	<u>\$ 5,025,677</u>	<u>\$ 14,143,788</u>	<u>\$ 926,990</u>	<u>\$ (12,379,815)</u>
General Revenues					
Property taxes				\$ 12,581,279	
Gravel taxes				42,665	
Mortgage registry and deed tax				23,941	
Payments in lieu of tax				30,123	
Grants and contributions not restricted to specific programs				3,321,478	
Unrestricted investment earnings				676,309	
Miscellaneous				31,896	
Total general revenues				<u>\$ 16,707,691</u>	
Change in net assets				\$ 4,327,876	
Net Assets - Beginning, restated (Note 1.E.)				<u>67,564,238</u>	
Net Assets - Ending				<u>\$ 71,892,114</u>	

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 4,893,905	\$ 2,668,958
Petty cash and change funds	1,725	-
Taxes receivable		
Prior	128,357	41,596
Special assessments receivable		
Current	-	-
Prior	-	-
Noncurrent	21,884	-
Accounts receivable	177,374	1,532
Accrued interest receivable	203,981	-
Loans receivable	-	-
Due from other funds	46,670	347,208
Due from other governments	142,995	856,717
Inventories	-	156,235
Advances to other funds	410,396	-
	\$ 6,027,287	\$ 4,072,246
Total Assets	\$ 6,027,287	\$ 4,072,246

EXHIBIT 3

<u>Social Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,677,355	\$ 1,829,749	\$ 1,167,669	\$ 16,237,636
-	-	-	1,725
94,909	-	19,133	283,995
-	-	485	485
-	25,451	1,210	26,661
-	2,657,552	414,642	3,094,078
573,535	-	-	752,441
-	-	856	204,837
-	-	342,491	342,491
-	-	-	393,878
1,865,086	2,499	-	2,867,297
-	-	-	156,235
-	-	-	410,396
<u>\$ 8,210,885</u>	<u>\$ 4,515,251</u>	<u>\$ 1,946,486</u>	<u>\$ 24,772,155</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 738,511	\$ 13,092
Salaries payable	284,351	58,812
Contracts payable	-	203,420
Due to other funds	-	-
Due to other governments	66,278	556,937
Deferred revenue - unavailable	120,962	884,722
Deferred revenue - unearned	198,238	-
Advance from other funds	-	-
	\$ 1,408,340	\$ 1,716,983
Fund Balances		
Reserved for		
Debt service	\$ 44,635	\$ -
Inventories	-	156,235
Advances to other funds	410,396	-
Law library	81,701	-
Attorney's forfeited property	24,302	-
Health care	-	-
Endowments	-	-
Economic development	-	-
Unreserved		
Designated for future expenditures	-	765,346
Designated for cash flows	2,932,847	1,247,000
Designated for compensated absences	587,390	186,682
Designated for contingencies	537,676	-
Undesignated	-	-
Unreserved, reported in nonmajor		
Debt service funds	-	-
Permanent funds	-	-
	\$ 4,618,947	\$ 2,355,263
Total Liabilities and Fund Balances	\$ 6,027,287	\$ 4,072,246

EXHIBIT 3
(Continued)

<u>Social Services</u>	<u>Ditch</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 322,994	\$ 16,489	\$ 57,552	\$ 1,148,638
152,425	-	-	495,588
-	-	-	203,420
392,866	1,012	-	393,878
155,640	2,418	-	781,273
1,395,672	2,683,003	431,636	5,515,995
-	-	-	198,238
-	293,954	-	293,954
\$ 2,419,597	\$ 2,996,876	\$ 489,188	\$ 9,030,984
\$ -	\$ 665,061	\$ 933,309	\$ 1,643,005
-	-	-	156,235
-	-	-	410,396
-	-	-	81,701
-	-	-	24,302
259,825	-	-	259,825
-	-	104,559	104,559
-	-	345,196	345,196
-	-	-	765,346
2,210,000	-	-	6,389,847
268,939	-	-	1,043,011
-	-	-	537,676
3,052,524	853,314	-	3,905,838
-	-	71,748	71,748
-	-	2,486	2,486
\$ 5,791,288	\$ 1,518,375	\$ 1,457,298	\$ 15,741,171
\$ 8,210,885	\$ 4,515,251	\$ 1,946,486	\$ 24,772,155

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3) \$ 15,741,171

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

Investment in joint venture is not reported in the governmental funds because it is not a current financial resource. 1,915,138

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 78,162,357

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 5,515,995

An internal service fund is used by management to charge the costs of building facilities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. (See Exhibit 7.)

Total internal service fund net assets	\$	2,060,598	
Net assets representing capital assets included above		(16,577,914)	
Net assets representing long-term debt included below		15,340,113	822,797

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	\$	(9,900,000)	
General obligation lease revenue bonds		(6,735,000)	
Lease revenue bonds		(8,710,000)	
Contract with State of Minnesota		(68,000)	
Compensated absences		(1,043,011)	
Loans payable		(273,993)	
Accrued interest payable		(192,934)	
Special assessments debt payable		(3,460,000)	
Unamortized discounts		117,594	(30,265,344)

Net assets of governmental activities (Exhibit 1) \$ 71,892,114

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 4,202,350	\$ 2,237,862
Special assessments	313,430	-
Licenses and permits	95,573	8,075
Intergovernmental	4,872,040	5,767,228
Charges for services	1,828,397	80,772
Fines and forfeits	68,954	-
Gifts and contributions	4,040	-
Interest on investments	671,227	-
Miscellaneous	457,094	31,896
	\$ 12,513,105	\$ 8,125,833
Expenditures		
Current		
General government	\$ 4,852,705	\$ -
Public safety	4,508,724	-
Highways and streets	7,608	8,476,860
Sanitation	407,856	-
Human services	-	-
Health	1,200,256	-
Culture and recreation	332,594	-
Conservation of natural resources	741,348	-
Economic development	37,534	-
Intergovernmental		
Conservation of natural resources	-	-
Capital outlay	322,276	-
Debt service		
Principal	34,000	-
Interest	-	-
Administrative (fiscal) charges	-	-
	\$ 12,444,901	\$ 8,476,860
Excess of Revenues Over (Under) Expenditures	\$ 68,204	\$ (351,027)
Other Financing Sources (Uses)		
Bonds and notes issued	\$ -	\$ -
Loans issued	-	-
Discount on bond issuance	-	-
	\$ -	\$ -
Net Change in Fund Balances	\$ 68,204	\$ (351,027)
Fund Balances - January 1	4,550,743	2,675,082
Increase (decrease) in reserved for inventories	-	31,208
	\$ 4,618,947	\$ 2,355,263
Fund Balances - December 31	\$ 4,618,947	\$ 2,355,263

EXHIBIT 5

Social Services	Ditch	Other Governmental Funds	Total Governmental Funds
\$ 3,913,277	\$ -	\$ 801,151	\$ 11,154,640
-	1,026,500	149,375	1,489,305
-	-	-	103,648
4,669,737	-	70,000	15,379,005
621,517	-	-	2,530,686
2,188	-	-	71,142
21,947	-	18,065	44,052
-	-	5,082	676,309
802,638	16,037	467,706	1,775,371
\$ 10,031,304	\$ 1,042,537	\$ 1,511,379	\$ 33,224,158
\$ -	\$ -	\$ -	\$ 4,852,705
242,680	-	-	4,751,404
-	-	-	8,484,468
-	-	-	407,856
8,174,241	-	-	8,174,241
1,148,539	-	-	2,348,795
-	-	-	332,594
-	771,731	2,954	1,516,033
-	-	57,552	95,086
-	-	131,015	131,015
-	-	-	322,276
-	-	1,176,007	1,210,007
-	170,862	487,135	657,997
-	-	2,952	2,952
\$ 9,565,460	\$ 942,593	\$ 1,857,615	\$ 33,287,429
\$ 465,844	\$ 99,944	\$ (346,236)	\$ (63,271)
\$ -	\$ 2,884,880	\$ 135,120	\$ 3,020,000
-	-	280,000	280,000
-	(8,602)	(4,105)	(12,707)
\$ -	\$ 2,876,278	\$ 411,015	\$ 3,287,293
\$ 465,844	\$ 2,976,222	\$ 64,779	\$ 3,224,022
5,325,444	(1,457,847)	1,392,519	12,485,941
-	-	-	31,208
\$ 5,791,288	\$ 1,518,375	\$ 1,457,298	\$ 15,741,171

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 3,224,022

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

In the fund, under the modified accrual basis, distributions of joint venture equity interest are recorded as revenues. In the statement of net assets, an asset is reported for the equity interest in joint ventures, and distributions (decreases) and increases in joint venture equity are reported in the statement of activities. The change in net assets differs from the change in fund balance by the increases and decreases in the investment in joint venture.

Equity distribution	\$ (1,492,215)	
Increase in investment in joint venture	746,845	(745,370)

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

Deferred revenue - December 31	\$ 5,515,995	
Deferred revenue - January 1	(2,588,983)	2,927,012

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. In the statement of activities, only the gain or loss on disposal of capital assets is reported, whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold. See Note 3.D.

807,862

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. See Note 3.D.

(2,077,286)

Some expenses reported in the statement of activities do not require the use of current financial resources and, so, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 19,601	
Change in inventories	31,208	
Change in compensated absences	(34,242)	16,567

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the Internal Service Fund is reported with governmental activities.

175,069

Change in net assets of governmental activities (Exhibit 2) \$ 4,327,876

PROPRIETARY FUND

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
DECEMBER 31, 2006**

Assets

Current assets

Taxes receivable	
Prior	<u>\$ 31,829</u>

Restricted assets

Cash and pooled investments on deposit for debt service	<u>\$ 1,011,005</u>
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Noncurrent assets

Deferred debt issuance costs	\$ 89,915
Capital assets	
Depreciable - net	<u>16,577,914</u>

Total noncurrent assets	<u>\$ 16,667,829</u>
--------------------------------	-----------------------------

Total Assets	<u>\$ 17,710,663</u>
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Liabilities

Current liabilities payable from restricted assets

Interest payable	\$ 309,952
Revenue bonds payable - current	<u>645,000</u>

Total current liabilities payable from restricted assets	<u>\$ 954,952</u>
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Noncurrent liabilities

Revenue bonds payable - long-term	<u>14,695,113</u>
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Total Liabilities	<u>\$ 15,650,065</u>
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Net Assets

Invested in capital assets - net of related debt	\$ 1,327,716
Restricted for debt service	56,053
Unrestricted	<u>676,829</u>

Total Net Assets	<u><u>\$ 2,060,598</u></u>
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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

Operating Expenses	
Depreciation	\$ 463,342
Operating Income (Loss)	<u>\$ (463,342)</u>
Nonoperating Revenues (Expenses)	
Property taxes	\$ 1,398,346
Interest expense	(747,824)
Bond issue expense	<u>(12,111)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 638,411</u>
Change in Net Assets	<u>\$ 175,069</u>
Net Assets - January 1	<u>1,885,529</u>
Net Assets - December 31	<u><u>\$ 2,060,598</u></u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Noncapital Financing Activities	
Taxes	\$ <u>1,395,929</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	\$ (625,000)
Interest paid on long-term debt	<u>(756,652)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (1,381,652)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 14,277
Cash and Cash Equivalents at January 1	<u>996,728</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 1,011,005</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (463,342)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	<u>463,342</u>
Net cash provided by operating activities	<u><u>\$ -</u></u>

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FIDUCIARY FUNDS

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 10

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

	Private-Purpose Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 11,417	\$ 782,846
Receivables		
Interest	64	-
Prepaid items	-	17,264
	-	17,264
Total Assets	\$ 11,481	\$ 800,110
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 11,275
Due to other governments	-	672,393
Advance from governmental funds	-	116,442
	-	116,442
Total Liabilities	\$ -	\$ 800,110
<u>Net Assets</u>		
Net assets, held in trust for other purposes	\$ 11,481	

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

EXHIBIT 11

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Private-Purpose Trust</u>
<u>Additions</u>	
Investment earnings	
Interest	\$ 400
<u>Deductions</u>	
Payments in accordance with trust agreements	400
Change in Net Assets	\$ -
Net Assets - Beginning of the Year	11,481
Net Assets - End of the Year	<u>\$ 11,481</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2006. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its proprietary funds, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Freeborn County was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Freeborn 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. The County Administrator, appointed by the Board, serves as the clerk of the Board of Commissioners but has no vote.

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. Freeborn County has one blended component unit.

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Freeborn County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-.047.	County Commissioners are the HRA Board, and the HRA is a financial burden.	Separate financial statements are not prepared.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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

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

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

Additionally, the County reports the following fund types:

The Internal Service Fund accounts for HRA building facilities (jail and other general office space) activities provided to other departments and funds on a cost-reimbursement basis.

Private-Purpose Trust funds are used to account for resources legally held in trust for others.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Freeborn County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general 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.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$671,227.

3. Receivables and Payables

Activity between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (the current portion of interfund loans) or "advances to/from other funds" (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All receivables are shown net of an allowance for uncollectibles.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due May 15 and the second half payment due October 15. Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

4. Inventories and Prepaid Items

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

6. Capital Assets

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

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

6. Capital Assets (Continued)

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

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 75
Building improvements	20 - 30
Public domain infrastructure	25 - 75
Furniture, equipment, and vehicles	3 - 15

7. Compensated Absences

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

8. Deferred Revenue

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

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

1. Summary of Significant Accounting Policies

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

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. 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.

10. 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.

11. 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.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Restatement of Net Assets

During 2006, the South Country Health Alliance joint powers agreement was amended to give the original participating counties an equity interest. The equity interest was calculated retroactive to 2001. As a result, the January 1, 2006, net assets were restated to include the investment in joint venture of \$2,660,508.

Net Assets - January 1, as previously reported	\$	64,903,730
Investment in joint venture		2,660,508
Net Assets - January 1, as restated	\$	67,564,238

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

For the year ended December 31, 2006, expenditures exceeded budgeted amounts in the following funds:

	Final Budget	Expenditures	Excess
General Fund	\$ 11,904,211	\$ 12,444,901	\$ 540,690
Road and Bridge Special Revenue Fund	8,256,761	8,476,860	220,099
Ditch Special Revenue Fund	472,030	942,593	470,563
Capital Equipment Debt Service Fund	229,000	320,828	91,828

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental Funds		
Cash and pooled investments	\$	16,237,636
Petty cash and change funds		1,725
Internal Service Fund		
Cash and pooled investments on deposit for debt service		1,011,005

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Fiduciary Funds	
Cash and pooled investments	
Private-Purpose Trust Fund	11,417
Agency funds	<u>782,846</u>
 Total Cash and Investments	 <u>\$ 18,044,629</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 standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution 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 custodial credit risk as of December 31, 2006.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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 in both short-term and long-term investments 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 needed for operations.

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County does not have a policy on concentration of credit risk.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2006, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration	Interest	Carrying (Fair) Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association Note	AAA	S&P	10%	07/21/2008	\$ 495,150
Federal Home Loan Bank Bonds	AAA	S&P	6%	12/29/2008	\$ 300,000
Federal Home Loan Bank Note	AAA	S&P		05/21/2007	\$ 496,150
Federal Home Loan Bank Note	AAA	S&P		08/27/2007	494,100
Federal Home Loan Bank Note	AAA	S&P		01/24/2007	499,150
Federal Home Loan Bank Note	AAA	S&P		02/07/2007	498,750
Federal Home Loan Bank Step Up Note	AAA	S&P		10/29/2007	500,100
Total Federal Home Loan Bank			52%		\$ 2,488,250
Municipal bonds					
Freeborn County, Minnesota, G.O. Taxable Tax Increment Bonds	A3	Moody's	<5%	02/07/2009	\$ 225,653
Investment pools/mutual funds					
Wells Fargo Advantage Government Money Market	AAA	S&P	N/A	N/A	\$ 1,300,000
Wells Fargo Advantage 100% Treasury Money Market Fund	AAA	S&P	N/A	N/A	534
Total investment pools/mutual funds					\$ 1,300,534
Total investments					\$ 4,809,587
Deposits					13,233,317
Petty cash					1,725
Total Cash and Investments					\$ 18,044,629

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

S&P - Standard and Poor's

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2006, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

Accounts receivable, gross	\$	1,439,157
Less: allowance for uncollectible Human Services		(570,274)
Total Receivables	\$	868,883

Receivables are expected to be collected within the next year.

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land				
General	\$ 494,686	\$ 131,267	\$ -	\$ 625,953
Highway infrastructure	3,534,332	-	-	3,534,332
Improvements other than buildings	671,936	28,554	-	700,490
Construction in progress				
Highway infrastructure	3,327,590	2,785,802	3,327,590	2,785,802
Total capital assets not depreciated	\$ 8,028,544	\$ 2,945,623	\$ 3,327,590	\$ 7,646,577
Capital assets depreciated				
Buildings and improvements	\$ 31,886,633	\$ -	\$ -	\$ 31,886,633
Machinery, furniture, and equipment	4,876,237	644,206	271,601	5,248,842
Infrastructure - sewer	374,579	-	-	374,579
Infrastructure - highway	77,442,449	4,308,552	2,723,017	79,027,984
Total capital assets depreciated	\$ 114,579,898	\$ 4,952,758	\$ 2,994,618	\$ 116,538,038

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 1,499,207	\$ 811,506	\$ -	\$ 2,310,713
Machinery, furniture, and equipment	2,559,513	595,693	185,078	2,970,128
Infrastructure - sewer	91,147	14,984	-	106,131
Infrastructure - highway	<u>40,640,738</u>	<u>1,273,971</u>	<u>1,279,423</u>	<u>40,635,286</u>
Total accumulated depreciation	<u>\$ 44,790,605</u>	<u>\$ 2,696,154</u>	<u>\$ 1,464,501</u>	<u>\$ 46,022,258</u>
Total capital assets depreciated, net	<u>\$ 69,789,293</u>	<u>\$ 2,256,604</u>	<u>\$ 1,530,117</u>	<u>\$ 70,515,780</u>
Capital Assets, Net	<u>\$ 77,817,837</u>	<u>\$ 5,202,227</u>	<u>\$ 4,857,707</u>	<u>\$ 78,162,357</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
General government	\$ 883,580
Public safety	107,611
Highways and streets, including depreciation of infrastructure assets	1,692,936
Human services	<u>12,027</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,696,154</u>

B. Interfund Receivables and Payables

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ditch Special Revenue Fund	\$ 1,012
	Social Services Special Revenue Fund	<u>45,658</u>
Total Due to General Fund		\$ 46,670
Road and Bridge Special Revenue Fund	Social Services Special Revenue Fund	<u>347,208</u>
Total Due To/From Other Funds		<u>\$ 393,878</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables and Payables (Continued)

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Ditch Special Revenue Fund Insurance Agency Fund	\$ 293,954 116,442
Total Advances To/From Other Funds		\$ 410,396

C. Liabilities

1. Construction Commitments

The government has active construction projects as of December 31, 2006. The projects include the following (amounts in thousands):

	Spent-to-Date	Remaining Commitment
Governmental Activities Roads and bridges	\$ 2,785	\$ 300

2. Other Postemployment Benefits

Retirees

The County provides postemployment health care benefits for certain retirees and their dependents. The County contributes \$113.02 a month per participant for health insurance. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. This benefit is not available to anyone hired after April 7, 1987.

As of year-end, the County has 63 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2006, the County expended \$85,443 for these benefits.

The County also offered a one-time early retirement incentive in 1999. Eligible retirees can maintain their health insurance at the same cost formula as current employees. This benefit is funded on a pay-as-you-go basis. Freeborn County has

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Other Postemployment Benefits

Retirees (Continued)

one retiree eligible for this benefit. The County expended \$7,826 for this benefit in 2006. The County also had one deputy file for disability health care under Minn. Stat. § 299.465. The County expended \$7,826 for this benefit in 2006.

Elected Officials

The County offers the same benefit to elected officials. This benefit is funded on a pay-as-you-go basis. Freeborn County has eight former elected officials eligible for this benefit. The County expended \$10,850 for this benefit in 2006.

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation bonds					
1998 G.O. Tax Increment Bonds	2009	\$280,000 - \$450,000	5.90 - 6.40	\$ 3,220,000	\$ 1,275,000
2002 G.O. Criminal Justice Bonds	2023	\$255,000 - \$695,000	3.00 - 5.00	9,600,000	8,625,000
Total General Obligation Bonds				<u>\$ 12,820,000</u>	<u>\$ 9,900,000</u>
Ditch Series 2006 G.O. Special Assessment Bonds	2022	\$35,000 - \$325,000	3.625 - 4.15	\$ 3,020,000	\$ 3,020,000
Special Assessment Refunding Bonds with government commitment	2010	\$120,000 - \$105,000	2.25 - 3.35	\$ 800,000	\$ 440,000
2002 Law Enforcement Center G.O. Lease Revenue Bonds	2023	\$190,000 - \$550,000	3.25 - 5.00	\$ 7,470,000	\$ 6,735,000
Less: unamortized discount					(28,243)
Lease Revenue Bonds, Net					<u>\$ 6,706,757</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2002 Criminal Justice Lease Revenue Bonds	2023	\$230,000 - \$720,000	3.50 - 5.50	<u>\$ 9,630,000</u>	\$ 8,710,000
Less: unamortized discount					(76,643)
Lease Revenue Bonds, Net					<u>\$ 8,633,357</u>
Minnesota Department of Economic Development loan	2013	\$6,007 - \$42,606	3.00	<u>\$ 280,000</u>	<u>\$ 273,993</u>

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Special Assessment Ditch Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 775,000	\$ 429,928	\$ -	\$ -
2008	810,000	391,953	-	69,719
2009	845,000	350,890	325,000	105,166
2010	410,000	321,890	325,000	93,385
2011	425,000	305,703	325,000	81,603
2012 - 2016	2,370,000	1,253,776	1,320,000	255,854
2017 - 2021	2,910,000	681,686	655,000	64,231
2022 - 2023	1,355,000	67,800	70,000	2,900
Total	<u>\$ 9,900,000</u>	<u>\$ 3,803,626</u>	<u>\$ 3,020,000</u>	<u>\$ 672,858</u>

Year Ending December 31	Law Enforcement G.O. Lease Revenue Bonds		Criminal Justice Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 285,000	\$ 284,248	\$ 360,000	\$ 447,450
2008	295,000	274,098	375,000	432,281
2009	305,000	263,598	390,000	415,538
2010	315,000	252,354	405,000	397,144
2011	330,000	239,848	420,000	377,025
2012 - 2016	1,850,000	985,480	2,375,000	1,531,574
2017 - 2021	2,280,000	538,018	2,980,000	811,738
2022 - 2023	1,075,000	53,719	1,405,000	78,238
Total	<u>\$ 6,735,000</u>	<u>\$ 2,891,363</u>	<u>\$ 8,710,000</u>	<u>\$ 4,490,988</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Special Assessment Refunding Bonds		Loans Payable	
	Principal	Interest	Principal	Interest
2007	\$ 115,000	\$ 11,750	\$ 36,679	\$ 7,718
2008	110,000	8,606	37,794	6,603
2009	110,000	5,236	38,944	5,453
2010	105,000	1,759	40,128	4,269
2011	-	-	41,349	3,048
2012 - 2013	-	-	79,099	2,294
Total	<u>\$ 440,000</u>	<u>\$ 27,351</u>	<u>\$ 273,993</u>	<u>\$ 29,385</u>

5. Changes in Long-Term Liabilities

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

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 10,640,000	\$ -	\$ 740,000	\$ 9,900,000	\$ 775,000
G.O. capital notes	315,000	-	315,000	-	-
Special assessment refunding bonds	555,000	-	115,000	440,000	115,000
Special Assessment G.O. bond	-	3,020,000	-	3,020,000	-
G.O. lease revenue	7,010,000	-	275,000	6,735,000	285,000
Lease revenue bonds	9,060,000	-	350,000	8,710,000	360,000
Less: deferred amounts for issuance discounts	(111,408)	(12,707)	(6,521)	(117,594)	-
Total bonds payable	\$ 27,468,592	\$ 3,007,293	\$ 1,788,479	\$ 28,687,406	\$ 1,535,000
Loans payable	-	280,000	6,007	273,993	36,679
Compensated absences	1,008,769	34,242	-	1,043,011	52,150
Armory commitment to state	102,000	-	34,000	68,000	34,000
Long-Term Liabilities	<u>\$ 28,579,361</u>	<u>\$ 3,321,535</u>	<u>\$ 1,828,486</u>	<u>\$ 30,072,410</u>	<u>\$ 1,657,829</u>

Payments on the general obligation bonds are made from the TIF #1 Debt Service Fund, and payments on the G.O. ditch special assessment bonds are made by the affected landowners, not the general populace of Freeborn County.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Reconciliation of Government-Wide and Fund Financial Statements

Exhibit 6 to the financial statements is a reconciliation between the changes in net assets of governmental activities reported in the statement of activities and the changes in fund balance reported in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Capital Asset Transactions

One element of that reconciliation explains that, “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.” The details of this \$807,862 are:

Capital outlay reported in governmental funds	\$ 4,570,791
Net book value of assets disposed of	(1,530,117)
Depreciation expense	(2,696,154)
Less: depreciation expense reported in the Internal Service Fund	<u>463,342</u>
Net Adjustment to Increase Net Changes in Fund Balances to Arrive at Changes in Net Assets of Governmental Activities	<u>\$ 807,862</u>

Long-Term Debt Transactions

Another element of that reconciliation explains that, “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

3. Detailed Notes on All Funds

D. Reconciliation of Government-Wide and Fund Financial Statements

Long-Term Debt Transactions (Continued)

funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities.” The details of this \$2,077,286 are:

Debt issued or incurred	
Bonds and notes	\$ (3,020,000)
Loans	(280,000)
Less: discounts	12,707
Principal repayments	
General obligation bonds	740,000
General obligation notes	315,000
Special assessment debt	115,000
Contract with State of Minnesota	34,000
Loans	<u>6,007</u>
Net Adjustment to Reduce Net Changes in Fund Balances to Arrive at Changes in Net Assets of Governmental Activities	<u>\$ (2,077,286)</u>

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund. 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.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

4. Employee Retirement Systems and Pension Plans (Continued)

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 are required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members are required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2006 and 2007

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

The County's contributions for the years ending December 31, 2006, 2005, and 2004, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 520,212	\$ 109,885	\$ 99,142
2005	473,661	90,944	91,017
2004	471,425	85,801	73,712

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

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. 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 for which the County carries commercial insurance. 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 \$390,000 and \$400,000 per claim in 2006 and 2007, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

The County has entered into a joint powers agreement with MCIT to authorize the Board to exercise the common powers of the participating governmental units in connection with certain matters pertaining to the administration and funding of group employee benefits and other financial risk management services. The County may choose to participate in any of the services offered. The County may withdraw from the pool at any time giving a 90-day written notice. There is no contingent liability after withdrawal.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

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

B. Contingent Liabilities

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

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

C. Joint Ventures

Family Services Collaborative

The Freeborn County Family Services Collaborative was established in 1996 under the authority of Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Freeborn County; the City of Albert Lea; and Independent School District Nos. 241, 242, and 2866, each of which appoints members to the Collaborative's governing Board. The purpose of the Collaborative is to provide a coordinated approach to support and nurture individuals and families through prevention and intervention so as to ensure success for every child.

Control of the Collaborative is vested in a Board of Directors. Freeborn County appoints two members to this 13-member Board. The Freeborn County Department of Human Services acts as fiscal agent for the Collaborative. The Collaborative is financed by state grants and appropriations from participating members. During 2005, Freeborn County provided no funding. In the event of withdrawal from the Collaborative, the withdrawing party shall give a 30-day notice. The 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 termination shall be distributed by the Minnesota Department of Education.

The Collaborative was not audited for 2006.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

5. 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 Section 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 purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. 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 aforementioned member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members based on the percentage of their utilization. The County's equity interest in the SCHA at December 31, 2006, was \$1,915,138. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as Human Services program expenses or revenues. The County reported distributions from the SCHA of \$1,492,215 in 2006 and does not anticipate any further distributions at this time.

Complete financial statements for the SCHA can be obtained from its fiscal agent at 630 Florence Avenue, P. O. Box 890, Owatonna, Minnesota 55060-0890.

FREEBORN COUNTY
ALBERT LEA, MINNESOTA

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

D. Jointly-Governed Organizations

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

Minnesota Counties Computer Cooperative

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, Freeborn County expended \$78,051 to the Cooperative.

South Central Minnesota County Comprehensive Water Planning Project

This Joint Powers was established to provide regional water quality to Minnesota River Basin member counties. During the year, Freeborn County expended \$500 to the Project.

Southeast Minnesota Emergency Management Services

This Joint Powers was established to provide various health services to member counties. During the year, Freeborn County made no payments to the EMS.

Southeast Minnesota Water Quality Board

The Southeast Minnesota Water Quality Board was established to provide regional water quality services to member counties. During the year, Freeborn County made payments of \$300 to the Board.

Southeastern Minnesota Library

This Joint Powers was established to provide library services to member counties. During the year, Freeborn County expended \$238,000 to the Library.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Southeastern Minnesota Narcotics Task Force

The Southeastern Minnesota Narcotics Task Force was established to provide drug investigation services to member counties. During the year, Freeborn County expended \$4,506 to the Task Force.

E. Tax Increment Financing

The Freeborn County Housing and Redevelopment Authority is the administrative authority for the following tax increment financing district:

Tax Increment Financing District #1-1	
An Economic Development District	
Authorizing Law: Minn. Stat. §§ 469.174-469.179	
Year Established	1998
Duration of District	11 years
Original Net Tax Capacity	\$ 1,632
Current Net Tax Capacity	79,124
Captured Net Tax Capacity	77,492
Retained by Authority	77,492
Shared with Other Taxing Districts	-
Total general obligation bonds issued	\$ 3,220,000
Total loans incurred	-
Amounts redeemed (principal only)	<u>(1,945,000)</u>
Outstanding Bonds and Loans at December 31, 2006	<u>\$ 1,275,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,516,431	\$ 4,516,431	\$ 4,202,350	\$ (314,081)
Special assessments	305,000	305,000	313,430	8,430
Licenses and permits	117,700	117,700	95,573	(22,127)
Intergovernmental	4,461,695	4,461,695	4,872,040	410,345
Charges for services	1,463,950	1,463,950	1,828,397	364,447
Fines and forfeits	45,500	45,500	68,954	23,454
Gifts and contributions	1,000	1,000	4,040	3,040
Investment earnings	801,000	801,000	671,227	(129,773)
Miscellaneous	735,721	735,721	457,094	(278,627)
Total Revenues	\$ 12,447,997	\$ 12,447,997	\$ 12,513,105	\$ 65,108
Expenditures				
Current				
General government				
Commissioners	\$ 175,944	\$ 175,944	\$ 178,533	\$ (2,589)
Courts	94,000	94,000	125,185	(31,185)
County administration	1,502,918	1,502,918	948,881	554,037
County auditor/treasurer	477,602	477,602	484,743	(7,141)
License bureau	254,911	254,911	211,696	43,215
County assessor	396,316	396,316	389,345	6,971
Elections	87,100	87,100	328,733	(241,633)
Attorney	487,310	487,310	440,036	47,274
Law library	29,500	29,500	19,592	9,908
Recorder	305,392	305,392	315,296	(9,904)
Surveyor	20,000	20,000	3,597	16,403
Planning and zoning	121,269	121,269	173,791	(52,522)
Buildings and plant	680,719	680,719	1,104,177	(423,458)
Veterans service officer	126,924	126,924	129,100	(2,176)
Other	1,275	1,275	-	1,275
Total general government	\$ 4,761,180	\$ 4,761,180	\$ 4,852,705	\$ (91,525)
Public safety				
Sheriff	\$ 1,702,427	\$ 1,702,427	\$ 1,850,938	\$ (148,511)
Boat and water safety	5,070	5,070	8,988	(3,918)
Ambulance	3,500	3,500	3,500	-
Coroner	22,428	22,428	23,441	(1,013)
E-911 system	60,000	60,000	30,147	29,853
County jail	1,502,182	1,502,182	1,714,036	(211,854)
Law enforcement center	133,500	133,500	166,233	(32,733)
Community corrections	560,458	560,458	625,535	(65,077)
DARE program	5,200	5,200	-	5,200
Civil defense	22,731	22,731	78,214	(55,483)
Other public safety	6,100	6,100	7,692	(1,592)
Total public safety	\$ 4,023,596	\$ 4,023,596	\$ 4,508,724	\$ (485,128)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Highways and streets				
Administration	\$ 8,000	\$ 8,000	\$ 7,608	\$ 392
Sanitation				
Recycling	\$ 394,785	\$ 394,785	\$ 407,856	\$ (13,071)
Health				
Community health services	\$ 317,442	\$ 317,442	\$ 307,802	\$ 9,640
Maternal and child health	76,306	76,306	76,392	(86)
Administration	268,767	268,767	246,509	22,258
Health education	27,716	27,716	20,917	6,799
WIC	52,295	52,295	71,164	(18,869)
Disease prevention	64,516	64,516	33,908	30,608
Child and teen checkups	46,179	46,179	33,202	12,977
Home health	437,590	437,590	410,362	27,228
Total health	\$ 1,290,811	\$ 1,290,811	\$ 1,200,256	\$ 90,555
Culture and recreation				
Parks	\$ 58,550	\$ 58,550	\$ 55,168	\$ 3,382
Museums	21,750	21,750	29,602	(7,852)
Regional library	238,000	238,000	238,000	-
Other	27,350	27,350	9,824	17,526
Total culture and recreation	\$ 345,650	\$ 345,650	\$ 332,594	\$ 13,056
Conservation of natural resources				
Cooperative extension	\$ 148,499	\$ 148,499	\$ 136,457	\$ 12,042
Soil and water conservation	139,550	139,550	139,500	50
Agricultural inspections	51,177	51,177	34,429	16,748
Agricultural society/County fair	65,000	65,000	64,711	289
Water planning	97,224	97,224	73,811	23,413
Water quality	24,700	24,700	145,885	(121,185)
Environmental services	64,139	64,139	146,555	(82,416)
Total conservation of natural resources	\$ 590,289	\$ 590,289	\$ 741,348	\$ (151,059)
Economic development				
Community development	\$ 20,000	\$ 20,000	\$ 5,000	\$ 15,000
Tourism	900	900	900	-
Other	38,000	38,000	31,634	6,366
Total economic development	\$ 58,900	\$ 58,900	\$ 37,534	\$ 21,366

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued)				
Capital outlay				
General government	\$ 360,500	\$ 360,500	\$ 253,635	\$ 106,865
Public safety	23,500	23,500	16,524	6,976
Highways and streets	22,000	22,000	52,117	(30,117)
Human services	25,000	25,000	-	25,000
Total capital outlay	\$ 431,000	\$ 431,000	\$ 322,276	\$ 108,724
Debt service				
Principal	\$ -	\$ -	\$ 34,000	\$ (34,000)
Total Expenditures	\$ 11,904,211	\$ 11,904,211	\$ 12,444,901	\$ (540,690)
Excess of Revenues Over (Under)				
Expenditures	\$ 543,786	\$ 543,786	\$ 68,204	\$ (475,582)
Fund Balance - January 1	4,550,743	4,550,743	4,550,743	-
Fund Balance - December 31	\$ 5,094,529	\$ 5,094,529	\$ 4,618,947	\$ (475,582)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,267,011	\$ 2,267,011	\$ 2,237,862	\$ (29,149)
Licenses and permits	-	-	8,075	8,075
Intergovernmental	5,933,000	5,933,000	5,767,228	(165,772)
Charges for services	20,750	20,750	80,772	60,022
Miscellaneous	36,000	36,000	31,896	(4,104)
Total Revenues	\$ 8,256,761	\$ 8,256,761	\$ 8,125,833	\$ (130,928)
Expenditures				
Current				
Highways and streets				
Administration	\$ 365,035	\$ 365,035	\$ 249,481	\$ 115,554
Maintenance	1,987,860	1,987,860	2,168,203	(180,343)
Construction	5,034,498	5,034,498	5,195,484	(160,986)
Equipment maintenance and shop	869,368	869,368	863,692	5,676
Total Expenditures	\$ 8,256,761	\$ 8,256,761	\$ 8,476,860	\$ (220,099)
Net Change in Fund Balance	\$ -	\$ -	\$ (351,027)	\$ (351,027)
Fund Balance - January 1	2,675,082	2,675,082	2,675,082	-
Increase (decrease) in reserved for inventories	-	-	31,208	31,208
Fund Balance - December 31	\$ 2,675,082	\$ 2,675,082	\$ 2,355,263	\$ (319,819)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,940,695	\$ 3,940,695	\$ 3,913,277	\$ (27,418)
Intergovernmental	4,989,680	4,989,680	4,669,737	(319,943)
Charges for services	666,800	666,800	621,517	(45,283)
Fines and forfeits	4,000	4,000	2,188	(1,812)
Gifts and contributions	40,300	40,300	21,947	(18,353)
Miscellaneous	500	500	802,638	802,138
Total Revenues	\$ 9,641,975	\$ 9,641,975	\$ 10,031,304	\$ 389,329
Expenditures				
Current				
Public safety				
Victim crisis	\$ 267,182	\$ 267,182	\$ 242,680	\$ 24,502
Human services				
Income maintenance	\$ 2,315,360	\$ 2,315,360	\$ 2,079,752	\$ 235,608
Social services	6,131,774	6,131,774	6,094,489	37,285
Total human services	\$ 8,447,134	\$ 8,447,134	\$ 8,174,241	\$ 272,893
Health				
Mental health center	\$ 1,269,670	\$ 1,269,670	\$ 1,148,539	\$ 121,131
Total Expenditures	\$ 9,983,986	\$ 9,983,986	\$ 9,565,460	\$ 418,526
Net Change in Fund Balance	\$ (342,011)	\$ (342,011)	\$ 465,844	\$ 807,855
Fund Balance - January 1	5,325,444	5,325,444	5,325,444	-
Fund Balance - December 31	\$ 4,983,433	\$ 4,983,433	\$ 5,791,288	\$ 807,855

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 472,030	\$ 472,030	\$ 1,026,500	\$ 554,470
Miscellaneous	-	-	16,037	16,037
Total Revenues	\$ 472,030	\$ 472,030	\$ 1,042,537	\$ 570,507
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 472,030	\$ 472,030	\$ 771,731	\$ (299,701)
Debt service				
Interest	-	-	170,862	(170,862)
Total Expenditures	\$ 472,030	\$ 472,030	\$ 942,593	\$ (470,563)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 99,944	\$ 99,944
Other Financing Sources (Uses)				
Proceeds from sale of bonds	\$ -	\$ -	\$ 2,884,880	\$ 2,884,880
Discount on bond issuance	-	-	(8,602)	(8,602)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 2,876,278	\$ 2,876,278
Net Change in Fund Balance	\$ -	\$ -	\$ 2,976,222	\$ 2,976,222
Fund Balance - January 1	(1,457,847)	(1,457,847)	(1,457,847)	-
Fund Balance - December 31	\$ (1,457,847)	\$ (1,457,847)	\$ 1,518,375	\$ 2,976,222

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, all special revenue funds other than the Revolving Loan Fund, and all debt service funds other than the Tax Increment District #1 Fund and the Turtle Creek Watershed District Fund. All annual appropriations lapse at fiscal year-end.

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

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

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2006, expenditures exceeded appropriations in the General Fund by \$540,690; the Road and Bridge Special Revenue Fund by \$220,099; and the Ditch Special Revenue Fund by \$470,563.

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SUPPLEMENTARY INFORMATION

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND

Special revenue funds account for proceeds of specific revenue sources legally restricted to expenditures for specified purposes.

The Revolving Loan Fund accounts for economic development relating to the loan from the State of Minnesota's Department of Employment and Economic Development. Part of the money received back will be used again for new loans.

DEBT SERVICE FUNDS

Debt service funds account for the resources used to pay the County's long-term debt principal and interest.

The Capital Equipment Fund accounts for the accumulation of resources for and the payment of principal, interest, and related costs of general long-term debt for the acquisition of capital equipment.

The Tax Increment District (TIF) #1 Fund accounts for the accumulation of resources used for the retirement of the 1998 General Obligation Taxable Tax Increment Bonds and related interest costs.

The Courthouse Improvement Fund accounts for the accumulation of resources used for the retirement of the 2002 General Obligation Criminal Justice Bonds and related interest costs.

The Turtle Creek Watershed District Fund accounts for the accumulation of resources used for the retirement of the 2002 Turtle Creek Watershed District Special Assessment Refunding Bonds and related interest costs.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS
(Continued)

PERMANENT FUND

Permanent funds report resources legally restricted to the extent that only earnings, and not principal, may be used to support the County's programs.

The U.S. Fish and Wildlife Fund accounts for money received because of land acquired and taken off the tax rolls. Interest is to be used to offset the taxes.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

	Special Revenue Revolving Loan	Capital Equipment
<u>Assets</u>		
Cash and pooled investments	\$ 1,849	\$ 71,637
Taxes receivable		
Prior	-	2,294
Special assessments receivable		
Current	-	-
Noncurrent	-	-
Delinquent	-	-
Accrued interest receivable	856	-
Loans receivable	342,491	-
	\$ 345,196	\$ 73,931
Total Assets	\$ 345,196	\$ 73,931
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ -	\$ -
Deferred revenue - unavailable	-	2,183
	\$ -	\$ 2,183
Total Liabilities	\$ -	\$ 2,183
Fund Balances		
Reserved for		
Debt service	\$ -	\$ -
Endowments	-	-
Economic development	345,196	-
Unreserved		
Undesignated	-	71,748
	\$ 345,196	\$ 71,748
Total Fund Balances	\$ 345,196	\$ 71,748
Total Liabilities and Fund Balances	\$ 345,196	\$ 73,931

Statement 1

Debt Service				
TIF #1	Courthouse Improvement	Turtle Creek Watershed District	Permanent U.S. Fish and Wildlife	Total (Exhibit 3)
\$ 65,801	\$ 537,263	\$ 384,074	\$ 107,045	\$ 1,167,669
-	16,839	-	-	19,133
-	-	485	-	485
-	-	414,642	-	414,642
-	-	1,210	-	1,210
-	-	-	-	856
-	-	-	-	342,491
<u>\$ 65,801</u>	<u>\$ 554,102</u>	<u>\$ 800,411</u>	<u>\$ 107,045</u>	<u>\$ 1,946,486</u>
\$ 57,552	\$ -	\$ -	\$ -	\$ 57,552
-	13,116	416,337	-	431,636
<u>\$ 57,552</u>	<u>\$ 13,116</u>	<u>\$ 416,337</u>	<u>\$ -</u>	<u>\$ 489,188</u>
\$ 8,249	\$ 540,986	\$ 384,074	\$ -	\$ 933,309
-	-	-	104,559	104,559
-	-	-	-	345,196
-	-	-	2,486	74,234
<u>\$ 8,249</u>	<u>\$ 540,986</u>	<u>\$ 384,074</u>	<u>\$ 107,045</u>	<u>\$ 1,457,298</u>
<u>\$ 65,801</u>	<u>\$ 554,102</u>	<u>\$ 800,411</u>	<u>\$ 107,045</u>	<u>\$ 1,946,486</u>

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

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

	Special Revenue Revolving Loan	Capital Equipment
Revenues		
Taxes	\$ -	\$ 2,711
Special assessments	-	-
Intergovernmental	70,000	-
Investment earnings	2,596	-
Gifts and contributions	-	-
Miscellaneous	-	-
	\$ 72,596	\$ 2,711
Expenditures		
Current		
Conservation of natural resources	\$ -	\$ -
Economic development	-	-
Intergovernmental		
Conservation of natural resources	-	-
Debt service		
Principal	6,007	315,000
Interest	1,393	5,828
Administrative (fiscal) charges	-	-
	\$ 7,400	\$ 320,828
Excess of Revenues Over (Under) Expenditures	\$ 65,196	\$ (318,117)
Other Financing Sources (Uses)		
Loans issued	\$ 280,000	\$ -
Bonds issued	-	-
Discount on bonds/notes issued	-	-
	\$ 280,000	\$ -
Net Change in Fund Balance	\$ 345,196	\$ (318,117)
Fund Balance - January 1	-	389,865
Fund Balance - December 31	\$ 345,196	\$ 71,748

Statement 2

Debt Service				
TIF #1	Courthouse Improvement	Turtle Creek Watershed District	Permanent U.S. Fish and Wildlife	Total (Exhibit 5)
\$ 57,552	\$ 740,888	\$ -	\$ -	\$ 801,151
-	-	149,375	-	149,375
-	-	-	-	70,000
-	-	-	2,486	5,082
-	-	-	18,065	18,065
467,706	-	-	-	467,706
\$ 525,258	\$ 740,888	\$ 149,375	\$ 20,551	\$ 1,511,379
\$ -	\$ -	\$ -	\$ 2,954	\$ 2,954
57,552	-	-	-	57,552
-	-	131,015	-	131,015
375,000	365,000	115,000	-	1,176,007
92,706	372,640	14,568	-	487,135
2,100	700	152	-	2,952
\$ 527,358	\$ 738,340	\$ 260,735	\$ 2,954	\$ 1,857,615
\$ (2,100)	\$ 2,548	\$ (111,360)	\$ 17,597	\$ (346,236)
\$ -	\$ -	\$ -	\$ -	\$ 280,000
-	-	135,120	-	135,120
-	-	(4,105)	-	(4,105)
\$ -	\$ -	\$ 131,015	\$ -	\$ 411,015
\$ (2,100)	\$ 2,548	\$ 19,655	\$ 17,597	\$ 64,779
10,349	538,438	364,419	89,448	1,392,519
\$ 8,249	\$ 540,986	\$ 384,074	\$ 107,045	\$ 1,457,298

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 5

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 2,711	\$ 2,711
Expenditures				
Debt service				
Principal	\$ 229,000	\$ 229,000	\$ 315,000	\$ (86,000)
Interest	-	-	5,828	(5,828)
Total Expenditures	\$ 229,000	\$ 229,000	\$ 320,828	\$ (91,828)
Net Change in Fund Balance	\$ (229,000)	\$ (229,000)	\$ (318,117)	\$ (89,117)
Fund Balance - January 1	389,865	389,865	389,865	-
Fund Balance - December 31	\$ 160,865	\$ 160,865	\$ 71,748	\$ (89,117)

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 6

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 748,000	\$ 748,000	\$ 740,888	\$ (7,112)
Expenditures				
Debt service				
Principal	\$ 365,000	\$ 365,000	\$ 365,000	\$ -
Interest	373,000	373,000	372,640	360
Administrative (fiscal) charges	1,500	1,500	700	800
Total Expenditures	\$ 739,500	\$ 739,500	\$ 738,340	\$ 1,160
Net Change in Fund Balance	\$ 8,500	\$ 8,500	\$ 2,548	\$ (5,952)
Fund Balance - January 1	538,438	538,438	538,438	-
Fund Balance - December 31	\$ 546,938	\$ 546,938	\$ 540,986	\$ (5,952)

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS

The Agency Collections Fund accounts for the following:

The Assurance Section accounts for fees collected in accordance with Minn. Stat. § 508.74.

The Current School Section accounts for collection of penalty and interest on property taxes and transmission tax. These taxes are distributed according to Minn. Stat. §§ 276.131 and 127A.34.

The Group Insurance Section accounts for payroll deductions for group health insurance.

The Mortgage Registry Tax Section accounts for the taxes received in registering a mortgage within the County.

The Post Placement Program Section accounts for money received by court services to help adolescents adapt to living in the community.

The Prepaid Tax Section accounts for payments received on taxes before the preparation of the tax statements or prior to January 1 of the year due.

The Refunding Section accounts for the refunding of property taxes.

The State Deed Tax Section accounts for the transfer of money to the state received from the sale of state deed stamps.

The Armory Debt Service Section accounts for funds received for repayment of armory debt.

The State Revenue Section accounts for funds held pending remittance to the state.

The Stream Maintenance Agreement Section accounts for money received to help maintain area streams.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

FIDUCIARY FUNDS

AGENCY FUNDS
(Continued)

The Collaborative Fund accounts for funds associated with the Family Collaborative Joint Powers Board.

The Recorder's - Clearing Fund accounts for funds collected by the recorder's department for other governments.

The Tax Collection Fund accounts for the collection and distribution of property taxes and other amounts.

The Payroll Clearing Fund accounts for payroll withholdings.

The Insurance Fund accounts for insurance payments.

The Motor Vehicle Fund accounts for drivers' licenses and vehicle licenses.

The Turtle Creek Watershed Fund accounts for the operations of the watershed district.

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY COLLECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 97,226	\$ 6,677,089	\$ 6,673,090	\$ 101,225
<u>Liabilities</u>				
Due to other governments	\$ 97,226	\$ 6,677,089	\$ 6,673,090	\$ 101,225
 <u>COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 314,461	\$ 155,821	\$ 181,394	\$ 288,888
<u>Liabilities</u>				
Due to other governments	\$ 314,461	\$ 155,821	\$ 181,394	\$ 288,888
 <u>RECORDER'S - CLEARING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 2,385	\$ 35,048	\$ 34,093	\$ 3,340
<u>Liabilities</u>				
Due to other governments	\$ 2,385	\$ 35,048	\$ 34,093	\$ 3,340

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

*Statement 3
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAX COLLECTION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 261,129	\$ 31,217,197	\$ 31,221,658	\$ 256,668
<u>Liabilities</u>				
Due to other funds	\$ -	\$ 12,847,918	\$ 12,847,918	\$ -
Due to other governments	261,129	18,369,279	18,373,740	256,668
Total Liabilities	\$ 261,129	\$ 31,217,197	\$ 31,221,658	\$ 256,668
<u>PAYROLL CLEARING</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (1,155)	\$ 99,583	\$ 115,692	\$ (17,264)
Prepaid items	-	17,264	-	17,264
Total Assets	\$ (1,155)	\$ 116,847	\$ 115,692	\$ -
<u>Liabilities</u>				
Accounts payable	\$ (1,155)	\$ 116,847	\$ 115,692	\$ -
<u>INSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 119,958	\$ 11,668	\$ 3,909	\$ 127,717
<u>Liabilities</u>				
Accounts payable	\$ 3,909	\$ 11,275	\$ 3,909	\$ 11,275
Advance from governmental funds	116,049	393	-	116,442
Total Liabilities	\$ 119,958	\$ 11,668	\$ 3,909	\$ 127,717

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

*Statement 3
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>MOTOR VEHICLE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 6,084,091	\$ 6,084,091	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 6,084,091	\$ 6,084,091	\$ -
 <u>TURTLE CREEK WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 18,081	\$ 202,150	\$ 197,959	\$ 22,272
Accounts receivable	58,500	-	58,500	-
Total Assets	\$ 76,581	\$ 202,150	\$ 256,459	\$ 22,272
<u>Liabilities</u>				
Due to other funds	\$ 2,073	\$ -	\$ 2,073	\$ -
Due to other governments	16,008	202,150	195,886	22,272
Advance from governmental funds	58,500	-	58,500	-
Total Liabilities	\$ 76,581	\$ 202,150	\$ 256,459	\$ 22,272

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Statement 3
(Continued)

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 812,085	\$ 44,482,647	\$ 44,511,886	\$ 782,846
Accounts receivable	58,500	-	58,500	-
Prepaid items	-	17,264	-	17,264
Total Assets	<u>\$ 870,585</u>	<u>\$ 44,499,911</u>	<u>\$ 44,570,386</u>	<u>\$ 800,110</u>
<u>Liabilities</u>				
Accounts payable	\$ 2,754	\$ 128,122	\$ 119,601	\$ 11,275
Due to other funds	2,073	12,847,918	12,849,991	-
Due to other governments	691,209	31,523,478	31,542,294	672,393
Advance from governmental funds	174,549	393	58,500	116,442
Total Liabilities	<u>\$ 870,585</u>	<u>\$ 44,499,911</u>	<u>\$ 44,570,386</u>	<u>\$ 800,110</u>

OTHER SCHEDULE

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 7

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

Shared Revenue

State

Highway users tax	\$	4,745,924
Homestead credit		1,672,410
Market value credit		1,558,495
PERA rate reimbursement		44,126
Disparity reduction aid		46,447
Police aid		90,944
Enhanced 911		113,473
		113,473

Total Shared Revenue **\$ 8,271,819**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	2,165,574
		2,165,574

Payments

Local

Payments in lieu of taxes	\$	30,123
		30,123

Grants

State

Minnesota Department of		
Corrections	\$	189,289
Public Safety		77,888
Health		362,506
Employment and Economic Development		70,000
Natural Resources		22,800
Human Services		1,076,211
Office of Environmental Assistance		79,589
Pollution Control Agency		219,791
Peace Officer Standards and Training Board		8,682
		8,682

Total State **\$ 2,106,756**

Federal

Department of		
Agriculture	\$	130,042
Justice		40,941
Transportation		1,039,643
Health and Human Services		1,378,037
Homeland Security		18,308
Election Assistance Commission		197,762
		197,762

Total Federal **\$ 2,804,733**

Total State and Federal Grants **\$ 4,911,489**

Total Intergovernmental Revenue **\$ 15,379,005**

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 8

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Freeborn County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Freeborn County and are 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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Freeborn County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Freeborn 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 programs are:

Highway Planning and Construction	CFDA #20.205
Assistance Voting Grant	CFDA #90.401
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Freeborn County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

06-1 Recorder's Department

The Recorder's Department is not depositing receipts in a timely manner. Out of the 25 receipts tested, the time until the receipted money was deposited ranged from 12 to 30 days. Internal controls would be increased if deposits were made in a timely manner.

We recommend collections be deposited in a timely manner.

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal control, even if management subsequently corrects the misstatement.

Adjustments were made to reclassify various revenues in the Social Services Special Revenue Fund and various expenditures in the General Fund. Adjustments were needed in the General Fund to record interest receivable and also to adjust deferred revenue for grants. In the Social Services Special Revenue Fund, adjustments were needed to record additional receivables and to record the equity distribution in the South Country Health Alliance joint venture. Adjustments were needed to receivables, payables, and deferred revenue in the Road and Bridge Special Revenue Fund for state-aid highway allotments. The Capital Improvement Debt Service Fund had adjustments for receivables, and the Internal Service Fund had an adjustment for interest payable. All of these adjustments were made by Freeborn County.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the government's internal control.

We recommend the County establish internal procedures to ensure the trial balances are correct.

06-3 Annual Capital Asset Inventory

The County does not perform an annual inventory of capital assets nor does it tag capital assets that meet the capital asset policy threshold. Good internal control over capital assets should include a method of determining that all assets that should be included in the capital asset records. One way to achieve this is to take an inventory of capital assets.

We recommend the County perform an annual inventory of capital assets to ensure the capital asset records are accurate.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Ditch Deficit Balances (99-1)

Under the modified accrual basis of accounting, 31 of the 97 active individual ditch systems had deficit fund balances totaling \$2,277,184 at December 31, 2005. Under the full accrual basis of accounting, which recognizes special assessment levies as revenue when levied, 20 ditches had fund balance deficits totaling \$1,283,173, with the largest at \$775,076. The Ditch Special Revenue Fund had long-term advances payable to the General Fund of \$2,566,489.

Resolution

Ditch systems did not have deficit fund balances.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-5 Disaster Recovery Plan

Freeborn County has an informal disaster recovery agreement with another county but does not have a formal disaster recovery plan. A disaster recovery plan gives assurance the County is prepared for a disaster or major computer breakdown. The County needs to provide services to County residents after a disaster and during a major computer breakdown. Services that need to be addressed include the continuance of several important applications processed by its computer system, including the preparation of payroll, the calculation of tax assessments and settlements, and the recording of receipts and disbursements.

A disaster recovery plan should include, but not be limited to, the following:

- a list of key personnel, including the actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and of all other County employees;
- a plan of how the County will continue operations until normal operations are re-established--this should include the use of alternative computer facilities and/or the use of manual procedures, a list of master operating schedules, and critical job schedules;
- a list of materials the County needs to continue operations and how they would be obtained;
- hardware configurations and minimum equipment requirements;
- information relative to off-site back-up storage facilities;
- a list of vendor contracts;
- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

We again recommend the County develop, implement, and test a disaster recovery plan. The Board should approve the formal plan. A copy should be stored at an off-site facility and with the leader of each recovery team. All County employees should detail the steps to be taken to continue operations in the event of a disaster. We also recommend the County periodically determine if the alternative computer system is compatible with the County's system.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, 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 Freeborn County, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2007 and 2008, respectively.

OTHER REQUIRED REPORTS

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REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioners
Freeborn County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 through 06-3 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, Freeborn County complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Questioned Costs is a management practices comment and an other item for consideration. We believe these recommendations and information to be of benefit to Freeborn County and are reported for that purpose.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Freeborn County, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 28, 2007

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REBECCA OTTO
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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
Freeborn County

Compliance

We have audited the compliance of Freeborn 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 each of its major federal programs for the year ended December 31, 2006. Freeborn County's major federal programs are 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 each of its major federal programs 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 Freeborn 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, Freeborn County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of Freeborn 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeborn County as of and for the year ended December 31, 2006, and have issued our report thereon dated September 28, 2007. 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 as 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 others within the County, 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 28, 2007

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**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 9

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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	\$ 123,013
Passed Through Minnesota Department of Human Services Matching Grants for Food Stamp Program	10.561	7,029
Total U.S. Department of Agriculture		\$ 130,042
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Crime Victim Assistance Grant	16.575	\$ 39,081
Enforcing Underage Drinking Laws Program	16.727	1,860
Total U.S. Department of Justice		\$ 40,941
U.S. Department of Transportation		
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	20.005	\$ 4,344
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	975,000
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	56,090
Interagency Hazardous Materials Planning Grant	20.703	4,209
Total U.S. Department of Transportation		\$ 1,039,643
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act Requirement Payments	90.401	\$ 197,762
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	\$ 45,227
Temporary Assistance for Needy Families (TANF)	93.558	22,703
National Bioterrorism Hospital Preparedness Program	93.889	32,000
Maternal and Child Health Services Block Grant	93.994	39,044

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

Schedule 9
(Continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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		
Family Preservation and Support Services	93.556	65,722
Temporary Assistance for Needy Families (TANF)	93.558	414,713
Child Care Development Block Grant	93.575	396,163
Foster Care Title IV-E	93.658	121,431
Social Services Block Grant Title XX	93.667	226,061
Independent Living Grant	93.674	6,337
Community Mental Health Block Grant	93.958	8,636
Total U.S. Department of Health and Human Services		\$ 1,378,037
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness	97.004	\$ 18,308
Total Federal Awards		\$ 2,804,733

**FREEBORN COUNTY
ALBERT LEA, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Freeborn County. The County's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accounting records for grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, that is, both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.