

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

NOBLES COUNTY
WORTHINGTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

For the Year Ended December 31, 2004



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

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Elected and Appointed Officials		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	13
Statement of Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	16
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	25
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	26
Notes to the Financial Statements		27
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	59
Public Works Fund	Schedule 2	62
Family Services Fund	Schedule 3	64
Notes to the Required Supplementary Information		65

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Major Fund Budgetary Comparison Schedule		
Justice Center Debt Service Fund	Schedule 4	66
Nonmajor Governmental Funds		67
Combining Balance Sheet	Statement 1	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	Statement 2	69
Agency Funds		70
Combining Statement of Changes in Assets and Liabilities	Statement 3	71
Other Schedule		
Schedule of Intergovernmental Revenue	Schedule 5	73
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 6	75
Other Required Reports		
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		84
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		86
Schedule of Expenditures of Federal Awards	Schedule 7	88

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

ELECTED AND APPOINTED OFFICIALS
2004

Office	Name	Term Expires
Commissioners		
1st District	Marvin Zylstra	January 2007
2nd District	Diane Thier ¹	January 2005
3rd District	David Benson ²	January 2007
4th District	Norm Gallagher	January 2007
5th District	Claire Gerber	January 2005
Officials		
Elected		
Attorney	Gordon Moore	January 2007
Auditor/Treasurer	Sharon A. Balster	January 2007
County Judge	Jeffrey Flynn	January 2007
Recorder	Lynn Wilson	January 2007
Sheriff	Kent Wilkening	January 2007
Appointed		
County Administrator	Melvin Ruppert	Indefinite
Assessor	Byron A. Swart	Indefinite
Court Administrator	Nancy Vander Kooi	Indefinite
Coroner	Dr. John N. Mork	January 2007
Highway Engineer	Stephen Schnieder	Indefinite

¹Chair 2004

²Chair 2005

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STATE OF MINNESOTA

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PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Nobles County

We have audited the basic financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Nobles County as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Nobles County as of December 31, 2004, and the changes in financial position 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 (MD&A) 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 conducted for the purpose of forming opinions on the basic financial statements of Nobles County. The statements and schedules listed as supplementary information and other schedules in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Nobles County. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2005, on our consideration of the Nobles County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 16, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

(Unaudited)

As management of Nobles County, Minnesota, we offer the readers of the Nobles County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

The assets of Nobles County exceeded its liabilities on December 31, 2004, by \$57,326,999 (net assets). Of this amount, \$9,153,250 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

Nobles County's total net assets increased by \$4,602,252 in 2004. This is attributable primarily to an increase in intergovernmental revenues.

As of the close of 2004, Nobles County's governmental funds reported combined ending fund balances of \$19,385,575, an increase of \$7,355,344 in comparison with 2003. Of this amount, \$4,669,140 was unreserved and undesignated by Nobles County, and thus available for spending at the County's discretion.

At the end of 2004, unreserved and undesignated fund balance for the General Fund was \$1,979,351, or 29.73 percent, of the total General Fund expenditures for that year.

Nobles County's total debt increased by \$5,787,429, or 56.45 percent, during 2004. The key factor in this increase was the addition of general obligation refunding bonds issued.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Nobles County basic financial statements. Nobles County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund-level financial statements, and (3) notes to the financial statements. This report also contains other supplementary information.

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

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

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

Nobles County's government-wide financial statements distinguish functions of the County principally supported by taxes and intergovernmental revenues (*governmental activities*) from those intended to recover all or a significant portion of their costs through fees and charges (*business-type activities*). The *governmental activities* of Nobles County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, economic development, and interest. Nobles County has no *business-type activities*.

The *government-wide statements* include not only the financial data for Nobles County, (known as the primary government), but also the two discrete component units, Nobles-Rock Public Health Services and Rock-Nobles Community Corrections. The discrete component units are presented in separate columns from the primary government.

The government-wide statements are shown as Exhibits 1 and 2.

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

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

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

Nobles County adopts an annual appropriated budget for its General Fund, Public Works Special Revenue Fund, and Family Services Special Revenue Fund. Budgetary comparison schedules have been provided for these funds in the required supplementary information to demonstrate compliance with this budget.

The basic governmental fund financial statements are shown as Exhibits 3 through 6.

Fiduciary Funds are used to account for resources held for the benefit of parties outside of Nobles County. Fiduciary funds are not reflected in the *government-wide statements* because the resources of those funds are not available to support Nobles County's own programs or activities. The accounting for fiduciary funds is much like that used for business-type funds.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the *government wide* and *fund* financial statements. The notes to the financial statements can be found on pages 27 through 58 of this report.

Other information is provided as supplementary information regarding Nobles County's intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Nobles County's assets exceeded liabilities by \$57,326,999 at the close of 2004. The largest portion of Nobles County's net assets (66 percent) reflects the County's investment in capital assets (for example, land, buildings, equipment, and infrastructure such as roads and bridges), less any related debt (still outstanding) used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Nobles County Net Assets

	Governmental Activities 2004	Governmental Activities 2003
	<u>2004</u>	<u>2003</u>
Assets		
Current and other assets	\$ 24,847,591	\$ 18,861,450
Capital assets	<u>62,023,544</u>	<u>60,198,583</u>
Total Assets	<u>\$ 86,871,135</u>	<u>\$ 79,060,033</u>
Liabilities		
Long-term liabilities	\$ 27,569,970	\$ 22,054,788
Other liabilities	<u>1,974,166</u>	<u>4,280,498</u>
Total Liabilities	<u>\$ 29,544,136</u>	<u>\$ 26,335,286</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 38,143,544	\$ 41,724,196
Restricted	10,030,205	3,890,812
Unrestricted	<u>9,153,250</u>	<u>7,109,739</u>
Total Net Assets	<u>\$ 57,326,999</u>	<u>\$ 52,724,747</u>

The unrestricted net assets amount of \$9,153,250 as of December 31, 2004, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

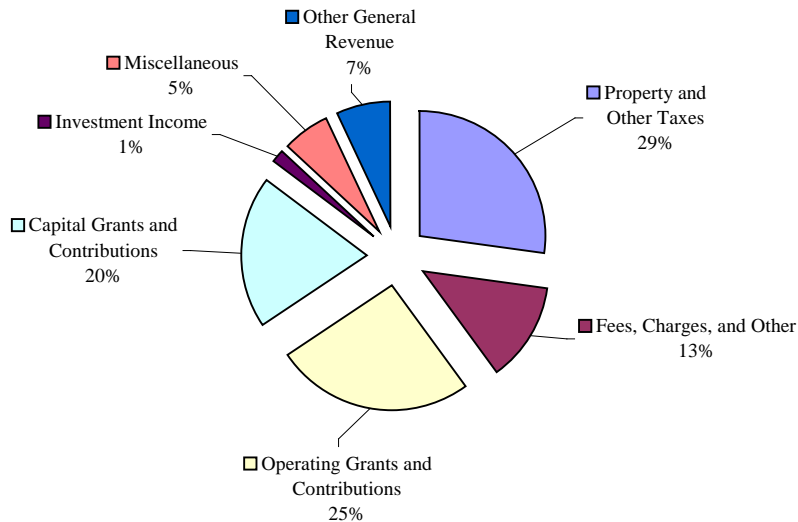
Nobles County's activities increased Nobles County's Net Assets during 2004 by \$4,602,252 (8.72 percent). Key elements in this increase in net assets are as follows:

Nobles County Changes in Net Assets

	2004	2003
	<u>2004</u>	<u>2003</u>
Revenues		
Program revenues		
Charges for services	\$ 2,629,969	\$ 2,155,090
Operating grants and contributions	5,096,636	7,467,011
Capital grants and contributions	4,138,136	106,834
General revenues		
Property taxes	6,074,791	5,824,066
Other	<u>2,804,056</u>	<u>2,088,030</u>
Total Revenues	<u>\$ 20,743,588</u>	<u>\$ 17,641,031</u>

	2004	2003
Expenses		
General government	\$ 3,252,595	\$ 2,752,063
Public safety	3,250,716	2,029,785
Highways and streets	2,992,063	2,711,222
Sanitation	320,959	335,608
Human services	4,240,925	4,780,329
Health	84,636	100,823
Culture and recreation	628,940	668,134
Conservation of natural resources	333,058	442,064
Economic development	38,026	2,565,749
Interest	999,418	996,460
Total Expenses	\$ 16,141,336	\$ 17,382,237
Increase in Net Assets	\$ 4,602,252	\$ 258,794
Net Assets - January 1	52,724,747	52,465,953
Net Assets - December 31	<u>\$ 57,326,999</u>	<u>\$ 52,724,747</u>

Revenues by Source 2004



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, Nobles County's governmental funds reported combined ending fund balances of \$19,385,575, an increase of \$7,355,344 in comparison with the prior year. Unreserved fund balance of \$10,420,326 is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Nobles County. At the end of the current fiscal year, it had an unreserved fund balance of \$4,078,608. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 61 percent of total General Fund expenditures. In 2004, the ending fund balance in the General Fund increased by \$98,782.

The Public Works Fund unreserved fund balance of \$2,414,208 at year-end represents 30.42 percent of the fund's annual expenditures. Unreserved fund balance increased \$347,600 in 2004 primarily due to the net change in fund balance.

The Family Services unreserved fund balance of \$2,694,731 at year-end represents 63.71 percent of the fund's annual expenditures. Unreserved fund balance increased \$249,154 during 2004, primarily due to the net change in fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no differences between the original expenditure budget and the final budget.

Actual revenues exceeded budgeted revenues by \$228,664 primarily due to intergovernmental and miscellaneous being more than expected.

Actual expenditures exceeded budgeted expenditures by \$43,014 and were primarily a result of expenditures from the public safety and culture and recreation functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. Nobles County's capital assets for its governmental activities at December 31, 2004, totaled \$62,023,544 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The County's investment in capital assets increased \$1,824,961, or 3.03 percent, from the previous year. The majority of the change in capital assets was the increase in infrastructure.

Nobles County's Governmental Capital Assets (Net of Depreciation)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,125,332	\$ 1,800	\$ 128,665	\$ 998,467
Construction in progress	-	-	-	-
Total capital assets not depreciated	\$ 1,125,332	\$ 1,800	\$ 128,665	\$ 998,467
Capital assets depreciated				
Land improvements	\$ 1,680,521	\$ 128,665	\$ -	\$ 1,809,186
Buildings	23,409,117	-	-	23,409,117
Machinery and equipment	4,462,788	77,048	20,776	4,519,060
Infrastructure	45,132,758	3,939,086	-	49,071,844
Total capital assets depreciated	\$ 74,685,184	\$ 4,144,799	\$ 20,776	\$ 78,809,207
Less: accumulated depreciation for				
Land improvements	\$ 110,574	\$ 135,450	\$ -	\$ 246,024
Buildings	3,185,480	754,921	-	3,940,401
Machinery and equipment	2,016,789	329,913	20,776	2,325,926
Infrastructure	10,299,090	972,689	-	11,271,779
Total accumulated depreciation	\$ 15,611,933	\$ 2,192,973	\$ 20,776	\$ 17,784,130
Total capital assets depreciated, net	\$ 59,073,251	\$ 1,951,826	\$ -	\$ 61,025,077
Total Capital Assets, Net	\$ 60,198,583	\$ 1,953,626	\$ 128,665	\$ 62,023,544

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

Long-Term Debt. At the end of the current fiscal year, the County had total outstanding debt of \$27,569,970, which was backed by the full faith and credit of the government.

Nobles County's Outstanding Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2004
General Obligation Bonds					
1999 G.O. Jail Facility Bonds	2020	\$315,000 - \$645,000	4.50 to 5.45	\$ 8,320,000	\$ 7,175,000
2004 G.O. Jail Refunding Bonds	2020	\$425,000 - \$620,000	2.50 to 3.90	6,125,000	6,125,000
2003 G.O. Tax Increment Financing Bonds	2012	\$265,000 - \$405,000	2.15 to 4.35	<u>2,805,000</u>	<u>2,805,000</u>
Total general obligation bonds				<u>\$ 17,250,000</u>	\$ 16,105,000
Less: unamortized discount					<u>(66,505)</u>
Total General Obligation Bonds, Net					<u><u>\$ 16,038,495</u></u>

The County's debt related to general obligation bonds and notes increased by \$5,787,429 (56.45 percent) during the fiscal year due to issuance of general obligation refunding bonds.

On October 25, 2004, Nobles County issued General Obligation Jail Facility Refunding Bonds, Series 2004A, for \$6,125,000 with interest rates of 2.50 percent to 3.90 percent to crossover refund the General Obligation Jail Facility Bonds of 1999, dated December 1, 1999, maturing after February 1, 2008. The balance of the outstanding maturities to be refunded is \$5,885,000 and interest rates are 4.90 percent to 5.45 percent.

The proceeds from the bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury Securities were purchased. The County is responsible for the principal and interest on the original issue through February 1, 2008. The refunded bonds will be called and paid by the escrow agent on February 1, 2008. The escrow agent will pay the interest due on the 1999 bonds through February 1, 2008; thereafter, the County will be responsible for the payment of debt service. The principal balance of both the original issues and the refunding issue will be shown on the balance sheet until the call date of the refunded bonds, at which time the 1999 bonds will be paid and the liability for those bonds will be removed.

The General Obligation Jail Facility Crossover Refunding Bonds, Series 2004A were issued at a discount of \$52,986 and, after paying debt issuance costs of \$48,938, the net proceeds were \$6,023,076. The County deposited \$3,541 of excess proceeds into the debt service fund for future debt payments. The remaining \$6,019,535 of bond proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the General Obligation Jail Facility Crossover Refunding Bonds, Series 2004A, until February 1, 2008, at which time the refunded bonds will be paid off. As a result of the advance crossover refunding, the County reduced its total debt service requirements by \$470,026, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$337,213.

On April 1, 2003, the County issued \$2,805,000 of General Obligation Tax Increment Bonds, Series 2003 to finance certain public development costs relating to the construction of a soybean crushing and bio-diesel facility to be operated by Minnesota Soybean Processors. These bonds were to be paid with tax increment collections received from the Tax Increment District. On June 7, 2005, Nobles County entered into a termination agreement with the Minnesota Soybean Processors and the Rural Development Financing Authority whereby the Minnesota Soybean Processors agreed to pay \$3,201,318 to refund the General Obligation Tax Increment Bonds, Series 2003. This agreement also releases all parties from all obligations and liabilities of the original project.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2004, Nobles County's debt was 1.236 percent of its total market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Nobles County at the end of 2004 was 3.9 percent. This compares favorably with the state unemployment rate of 4.7 percent and shows a slight increase from the 3.8 percent rate of one year ago.

Mortgage interest rates continue to remain low, causing many to refinance their mortgages and/or finance new construction.

By the end of 2004, Nobles County approved its balanced 2005 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Nobles County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Melvin J. Ruppert, County Administrator, P. O. Box 757, Worthington, Minnesota 56187.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

EXHIBIT 1

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

	<u>Primary Government</u>	<u>Component Units</u>	
		<u>Nobles-Rock Public Health Services</u>	<u>Rock-Nobles Community Corrections</u>
<u>Assets</u>			
Cash and pooled investments	\$ 18,844,583	\$ 495,338	\$ 83,269
Receivables - net	5,714,215	145,977	28,355
Inventories	134,707	-	-
Prepaid items	64,128	-	4,378
Deferred charges	89,958	-	-
Capital assets			
Non-depreciable capital assets	998,467	-	-
Depreciable capital assets - net of accumulated depreciation	61,025,077	43,227	13,393
Total Assets	\$ 86,871,135	\$ 684,542	\$ 129,395
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 974,043	\$ 74,231	\$ 21,065
Accrued interest payable	408,627	-	-
Unearned revenue	591,496	111,425	-
Long-term liabilities			
Due within one year	740,629	7,335	3,584
Due in more than one year	26,829,341	101,111	44,301
Total Liabilities	\$ 29,544,136	\$ 294,102	\$ 68,950
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 38,143,544	\$ 43,227	\$ 13,393
Restricted for			
Highways and streets	2,424,647	-	-
Public safety	37,651	-	-
Debt service	7,454,275	-	-
Other purposes	113,632	-	-
Unrestricted	9,153,250	347,213	47,052
Total Net Assets	\$ 57,326,999	\$ 390,440	\$ 60,445

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary Government		
Governmental activities		
General government	\$ 3,252,595	\$ 934,218
Public safety	3,250,716	714,635
Highways and streets	2,992,063	270,042
Sanitation	320,959	401,493
Human services	4,240,925	187,304
Health	84,636	-
Culture and recreation	628,940	52,003
Conservation of natural resources	333,058	70,274
Economic development	38,026	-
Interest	999,418	-
	\$ 16,141,336	\$ 2,629,969
Component Units		
Nobles-Rock Public Health Services	\$ 1,606,136	\$ 941,709
Rock-Nobles Community Corrections	560,714	55,252
	\$ 2,166,850	\$ 996,961

General Revenues

Property taxes
Mortgage registry and deed tax
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment earnings
Miscellaneous

Total general revenues

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Primary Government Governmental Activities	Discretely Presented Component Units	
Operating Grants and Contributions	Capital Grants and Contributions		Nobles-Rock Public Health Services	Rock-Nobles Community Corrections
\$ 88,055	\$ -	\$ (2,230,322)		
108,526	19,121	(2,408,434)		
1,923,099	4,119,015	3,320,093		
49,099	-	129,633		
2,819,569	-	(1,234,052)		
-	-	(84,636)		
28,130	-	(548,807)		
80,158	-	(182,626)		
-	-	(38,026)		
-	-	(999,418)		
\$ 5,096,636	\$ 4,138,136	\$ (4,276,595)		
\$ 494,207	\$ -		\$ (170,220)	\$ -
424,309	-		-	(81,153)
\$ 918,516	\$ -		\$ (170,220)	\$ (81,153)
		\$ 6,064,362	\$ -	\$ -
		10,429	-	-
		45,552	-	-
		1,550,472	117,984	135,700
		221,300	-	-
		986,732	-	-
		\$ 8,878,847	\$ 117,984	\$ 135,700
		\$ 4,602,252	\$ (52,236)	\$ 54,547
		52,724,747	442,676	5,898
		\$ 57,326,999	\$ 390,440	\$ 60,445

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	General	Public Works
<u>Assets</u>		
Cash and pooled investments	\$ 4,252,573	\$ 3,392,599
Undistributed cash in agency funds	38,108	7,571
Petty cash and change funds	2,175	120
Departmental cash	5,989	-
Cash with fiscal agent	442,561	-
Taxes receivable		
Prior	60,751	16,402
Special assessments receivable		
Prior	-	2,614
Noncurrent	-	-
Accounts receivable	13,881	20,504
Accrued interest receivable	76,647	-
Loans receivable	639,967	-
Due from other funds	27,196	11,718
Due from other governments	237,134	3,455,750
Inventories	-	134,707
Prepaid items	64,128	-
	\$ 5,861,110	\$ 7,041,985
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 199,160	\$ 47,377
Salaries payable	106,187	48,515
Contracts payable	-	282,185
Due to other funds	4,776	1,402
Due to other governments	19,210	19,548
Deferred revenue - unavailable	28,718	3,438,870
Deferred revenue - unearned	2,425	-
Financial assurance	-	258,371
	\$ 360,476	\$ 4,096,268

EXHIBIT 3

<u>Family Services</u>	<u>Justice Center Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,416,239	\$ 978,837	\$ 1,268,207	\$ 12,308,455
13,135	6,231	658	65,703
-	-	45	2,340
-	-	-	5,989
-	6,019,535	-	6,462,096
27,693	13,121	-	117,967
-	-	266	2,880
-	-	61,314	61,314
7,664	-	-	42,049
-	-	-	76,647
-	-	-	639,967
-	-	-	38,914
1,080,507	-	-	4,773,391
-	-	-	134,707
-	-	-	64,128
<u>\$ 3,545,238</u>	<u>\$ 7,017,724</u>	<u>\$ 1,330,490</u>	<u>\$ 24,796,547</u>
\$ 133,377	\$ -	\$ 1,283	\$ 381,197
58,522	-	10,116	223,340
-	-	-	282,185
16,773	-	15,963	38,914
39,794	-	8,769	87,321
12,970	6,010	61,580	3,548,148
589,071	-	-	591,496
-	-	-	258,371
<u>\$ 850,507</u>	<u>\$ 6,010</u>	<u>\$ 97,711</u>	<u>\$ 5,410,972</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	General	Public Works
<u>Liabilities and Fund Balances</u>		
(Continued)		
Fund Balances		
Reserved for		
Debt service	\$ 442,561	\$ -
Encumbrances	83,355	32,142
Inventories	-	134,707
Loans receivable	639,967	-
Prepaid items	64,128	-
Missing heirs	2,189	-
Law library	13,627	-
Recorder's equipment purchases	15,340	-
E-911	14,720	-
Investments with fiscal agent	-	-
Sheriff's contingency	22,931	-
Canteen fund	27,105	-
Future revolving loans	96,103	-
Highway allotments	-	364,660
Unreserved		
Designated for capital equipment	696,449	820,275
Designated for insurance contingencies	1,246,151	-
Designated for out-of-home placements	-	-
Designated for vehicle replacement	109,397	-
Designated for geographic information systems	47,260	-
Designated for resource conservation and development	-	1,150,000
Undesignated	1,979,351	443,933
Unreserved, reported in nonmajor special revenue funds	-	-
Total Fund Balances	\$ 5,500,634	\$ 2,945,717
Total Liabilities and Fund Balances	\$ 5,861,110	\$ 7,041,985

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Justice Center Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 992,179	\$ -	\$ 1,434,740
-	-	-	115,497
-	-	-	134,707
-	-	-	639,967
-	-	-	64,128
-	-	-	2,189
-	-	-	13,627
-	-	-	15,340
-	-	-	14,720
-	6,019,535	-	6,019,535
-	-	-	22,931
-	-	-	27,105
-	-	-	96,103
-	-	-	364,660
65,374	-	-	1,582,098
-	-	-	1,246,151
1,600,000	-	-	1,600,000
-	-	-	109,397
-	-	-	47,260
-	-	-	1,150,000
1,029,357	-	-	3,452,641
-	-	1,232,779	1,232,779
<u>\$ 2,694,731</u>	<u>\$ 7,011,714</u>	<u>\$ 1,232,779</u>	<u>\$ 19,385,575</u>
<u>\$ 3,545,238</u>	<u>\$ 7,017,724</u>	<u>\$ 1,330,490</u>	<u>\$ 24,796,547</u>

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund balances - total governmental funds (Exhibit 3)	\$	19,385,575
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		62,023,544
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,548,148
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$	(9,980,000)
Refunding bonds		(6,125,000)
Capital leases		(10,580,000)
Compensated absences		(676,475)
Accrued interest payable		(408,627)
Remaining financial assurance liability to be funded		(16,629)
Unamortized discount on G.O. bonds		66,505
Deferred debt issuance charges		89,958
		(27,630,268)
Net assets of governmental activities (Exhibit 1)	\$	<u>57,326,999</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	General	Public Works
Revenues		
Taxes	\$ 3,498,645	\$ 681,612
Special assessments	-	52,208
Licenses and permits	7,987	80,224
Intergovernmental	1,500,441	5,410,086
Charges for services	1,195,594	220,735
Gifts and contributions	4,247	-
Investment earnings	215,284	-
Miscellaneous	707,368	378,414
	\$ 7,129,566	\$ 6,823,279
Expenditures		
Current		
General government	\$ 2,821,188	\$ 97,363
Public safety	2,434,787	-
Highways and streets	-	5,444,938
Sanitation	-	334,461
Human services	-	-
Health	1,417	-
Culture and recreation	95,467	109,428
Conservation of natural resources	101,455	187,473
Economic development	38,026	-
Intergovernmental	171,648	302,016
Debt service		
Principal retirement	370,000	-
Interest	621,253	-
Bond issuance costs	-	-
Administrative (fiscal) fees	2,202	-
	\$ 6,657,443	\$ 6,475,679
Excess of Revenues Over (Under) Expenditures	\$ 472,123	\$ 347,600

EXHIBIT 5

Family Services	Justice Center Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 1,310,474	\$ 621,253	\$ -	\$ 6,111,984
-	-	56,020	108,228
-	-	-	88,211
2,980,336	75,716	27,025	9,993,604
43,547	-	3,915	1,463,791
200	-	2,970	7,417
-	6,016	-	221,300
143,757	315,728	334,627	1,879,894
\$ 4,478,314	\$ 1,018,713	\$ 424,557	\$ 19,874,429
\$ -	\$ -	\$ 99,247	\$ 3,017,798
-	-	-	2,434,787
-	-	-	5,444,938
-	-	-	334,461
4,229,160	-	-	4,229,160
-	-	-	1,417
-	-	402,600	607,495
-	-	44,130	333,058
-	-	-	38,026
-	-	-	473,664
-	290,000	-	660,000
-	374,017	-	995,270
-	48,938	-	48,938
-	101	-	2,303
\$ 4,229,160	\$ 713,056	\$ 545,977	\$ 18,621,315
\$ 249,154	\$ 305,657	\$ (121,420)	\$ 1,253,114

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	General	Public Works
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ -
Transfers out	(373,341)	-
Refunding bonds issued	-	-
Discount on bonds issued	-	-
	-	-
Total Other Financing Sources (Uses)	\$ (373,341)	\$ -
Net Change in Fund Balances	\$ 98,782	\$ 347,600
Fund Balance - January 1	5,401,852	2,567,901
Increase (decrease) in reserved for inventories	-	30,216
Fund Balance - December 31	\$ 5,500,634	\$ 2,945,717

EXHIBIT 5
(Continued)

Family Services	Justice Center Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 373,341	\$ 373,341
-	-	-	(373,341)
-	6,125,000	-	6,125,000
-	(52,986)	-	(52,986)
\$ -	\$ 6,072,014	\$ 373,341	\$ 6,072,014
\$ 249,154	\$ 6,377,671	\$ 251,921	\$ 7,325,128
2,445,577	634,043	980,858	12,030,231
-	-	-	30,216
\$ 2,694,731	\$ 7,011,714	\$ 1,232,779	\$ 19,385,575

**NOBLES COUNTY
WORTHINGTON, 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, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 7,325,128

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

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 4,017,934	
Current year depreciation	<u>(2,192,973)</u>	1,824,961

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		869,159
--	--	---------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:		(6,023,076)
---	--	-------------

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments		
General obligation bonds	\$ 290,000	
Capital leases	<u>370,000</u>	660,000

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

Change in accrued interest payable	\$ 12,138	
Amortization of discounts and deferred issuance charges	(13,983)	
Change in compensated absences	(97,753)	
Change in inventories	30,216	
Amount of financial assurance liability funded during year	<u>15,462</u>	<u>(53,920)</u>

Change in net assets of governmental activities (Exhibit 2)		<u>\$ 4,602,252</u>
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FIDUCIARY FUNDS

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

EXHIBIT 7

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

Assets

Cash and pooled investments	<u>\$ 720,182</u>
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Liabilities

Due to other governments	<u>\$ 720,182</u>
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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Nobles County was established May 23, 1857, 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 Nobles County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

Blended component units are legally separate organizations that are 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. Nobles County has one blended component unit that is reported as part of the General Fund.

<u>Component Unit</u>	<u>Component Unit Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Nobles County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001 - .047.	County Commissioners are the members of the HRA Board.	Separate financial statements are not prepared.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

While part of the reporting entity, discretely component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. The following component units of Nobles County are discretely presented:

<u>Component Unit</u>	<u>Component Unit Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Nobles-Rock Public Health Services provides health services.	County appoints majority of the Board and entity is a financial burden to the County.	Nobles-Rock Public Health Services, P.O. Box 757, Worthington, Minnesota 56187
Rock-Nobles Community Corrections provides correctional services.	County appoints majority of the Board and entity is a financial burden to the County.	Rock-Nobles Community Corrections, P.O. Box 757, Worthington, Minnesota 56187

Significant accounting policies of the component units do not differ significantly from those of the County.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The government-wide statement of net assets is presented on a consolidated basis by column; and 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 is offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental funds, with each displayed as separate columns 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.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Public Works 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, parks, and other projects affecting County roadways and to account for environmental issues.

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

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Nobles County considers all revenues to be *available* if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2004, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2004 were \$203,531.

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

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;

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

2. Receivables and Payables

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

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

All receivables are shown net of an allowance for uncollectibles.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. 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 on May 15 and the second half payment due October 15.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as delinquent taxes receivable.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in the Public Works Fund are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses 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.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (such as roads, bridges, sidewalks, 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 (the component units use a cost of more than \$1,500) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30 - 40
Land improvements	5 - 20
Public domain infrastructure	20 - 80
Furniture, equipment, and vehicles	3 - 20

5. 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.

6. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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.

8. Fund Equity

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

9. Use of Estimates

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Revenues

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues for nonexchange transactions are recognized based on the principal characteristics of the revenue. Exchange transactions are recognized as revenue when the exchange occurs. The modified accrual basis of accounting is used by all governmental fund types. Under this basis, revenue is not recognized in the financial statements unless it is available to finance current expenditures.

Imposed Nonexchange Transactions

Imposed nonexchange transactions result from assessments by governments on nongovernmental entities and individuals. Property taxes, fines and penalties, and property forfeitures are imposed nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes were levied, to the extent they are collected in the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes receivable but not available are reported as deferred revenue and will be recognized as revenue in the fiscal year that they become available. Fines and penalties and property forfeitures are recognized in the period received.

Intergovernmental

Government-mandated nonexchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose. The provider government establishes purpose restrictions and also may establish time requirements. Federal and state grants mandating the County perform particular programs are government-mandated nonexchange transactions. Revenues are recognized when eligibility and time requirements are met, usually when the corresponding expenditure is incurred.

Voluntary nonexchange transactions result from legislative or contractual agreements, such as grants, entitlements, appropriations, and donations. The provider may establish purpose restrictions or eligibility requirements. Revenues are recognized in the year to which they apply according to the statute or contract. Gifts and contributions from individuals are also considered voluntary nonexchange transactions and are generally recognized when received.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Intergovernmental (Continued)

Tax credits paid by the state are included in intergovernmental revenues and are recognized as revenue in the fiscal year that they become available. Subject to the availability criterion, state-aid highway allotments for highway maintenance and construction are recognized as revenue in the year of allotment.

Exchange Transactions

Special assessments levied against benefiting properties are recognized under the modified accrual basis when available to finance current expenditures. Other revenues, such as licenses and permits, charges for services, and investment income, are recognized as revenue when earned.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2004:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 6,657,443	\$ 6,614,429	\$ 43,014
Justice Center Debt Service	713,056	664,218	48,838

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Governmental funds		
Cash and pooled investments	\$	12,308,455
Undistributed cash in agency funds		65,703
Petty cash and change funds		2,340
Departmental cash		5,989
Cash with fiscal agent		6,462,096
Fiduciary funds		
Agency funds		720,182
Total Cash and Investments	\$	19,564,765

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions designated by the County Auditor/Treasurer. At December 31, 2004, the carrying amount of the County's deposits totaled \$12,044,702. The bank balance deposit amount was \$12,249,812. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Nobles County acts as fiscal agent for the Discretely Presented Component Units and reports the cash transactions as agency funds in its basic financial statements.

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

	Bank Balance
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 752,596
Collateralized with securities held by the pledging financial institution's agent in the County's name	11,497,216
Total covered deposits	\$ 12,249,812
Uncollateralized	-
Total	\$ 12,249,812

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

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

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

	Category			Fair Value
	1	2	3	
Cash with fiscal agent	\$ -	\$ -	\$ 6,462,096	\$ 6,462,096
Add				
Checking accounts				1,088,279
Money market savings				4,206,423
Certificates of deposit				6,750,000
Minnesota Association of Governments Investing for Counties (MAGIC)				1,049,638
Departmental cash				5,989
Petty cash and change funds				2,340
Total Cash and Investments				\$ 19,564,765

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, year-end for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled For Collection During The Subsequent Year
Governmental Activities		
Taxes	\$ 117,967	\$ -
Special assessments	64,194	61,314
Accounts	42,049	-
Interest	76,647	-
Loans	639,967	611,988
Due from other governments	4,773,391	-
Total Governmental Activities	\$ 5,714,215	\$ 673,302

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,125,332	\$ 1,800	\$ 128,665	\$ 998,467
Construction in progress	-	-	-	-
Total capital assets not depreciated	\$ 1,125,332	\$ 1,800	\$ 128,665	\$ 998,467
Capital assets depreciated				
Land improvements	\$ 1,680,521	\$ 128,665	\$ -	\$ 1,809,186
Buildings	23,409,117	-	-	23,409,117
Machinery and equipment	4,462,788	77,048	20,776	4,519,060
Infrastructure	45,132,758	3,939,086	-	49,071,844
Total capital assets depreciated	\$ 74,685,184	\$ 4,144,799	\$ 20,776	\$ 78,809,207

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	\$ 110,574	\$ 135,450	\$ -	\$ 246,024
Buildings	3,185,480	754,921	-	3,940,401
Machinery and equipment	2,016,789	329,913	20,776	2,325,926
Infrastructure	10,299,090	972,689	-	11,271,779
 Total accumulated depreciation	 \$ 15,611,933	 \$ 2,192,973	 \$ 20,776	 \$ 17,784,130
 Total capital assets depreciated, net	 \$ 59,073,251	 \$ 1,951,826	 \$ -	 \$ 61,025,077
 Total Capital Assets, Net	 \$ 60,198,583	 \$ 1,953,626	 \$ 128,665	 \$ 62,023,544

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

General government	\$ 239,992
Public safety	738,823
Highways and streets, including depreciation of infrastructure assets	1,191,590
Environmental	790
Human services	2,691
Culture and recreation	19,087
 Total Depreciation Expense	 \$ 2,192,973

B. Interfund Receivables, Payables, and Transfers

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Public Works Family Services Other Governmental	\$ 1,402 16,773 <u>9,021</u>
Total Due to General Fund		<u>\$ 27,196</u>
Public Works	General Other Governmental	\$ 4,776 <u>6,942</u>
Total Due to Public Works Fund		<u>\$ 11,718</u>
Total To/From Other Funds		<u>\$ 38,914</u>

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2004, consisted of a \$373,341 transfer from the General Fund to the Library Fund to provide funding.

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

Accounts	\$ 381,197
Salaries	223,340
Contracts	282,185
Due to other governments	<u>87,321</u>
Total Payables	<u>\$ 974,043</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Capital Leases

The County has entered into lease agreements with the Nobles County Housing and Redevelopment Authority as lessee for financing of the construction of a joint jail and law enforcement center. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. They consist of the following at December 31, 2004:

<u>Capital Leases</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
2000 joint jail and law enforcement center	2022	\$50,000 - \$410,000	4.55 to 5.625	\$ 5,130,000	\$ 4,915,000
2001 joint jail and law enforcement center	2022	\$205,000 - \$455,000	4.00 to 4.88	5,870,000	5,665,000
Total Capital Leases				<u>\$ 11,000,000</u>	<u>\$ 10,580,000</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2005	\$ 896,299
2006	889,300
2007	891,557
2008	892,845
2009	893,100
2010 - 2014	4,454,019
2015 - 2019	4,458,948
2020 - 2021	<u>2,673,191</u>
Total minimum lease payments	\$ 16,049,259
Less: amount representing interest	<u>(5,469,259)</u>
Present Value of Minimum Lease Payments	<u>\$ 10,580,000</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

<u>Types of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General Obligation Bonds					
1999 G.O. Jail Facility Bonds	2020	\$315,000 - \$645,000	4.50 to 5.45	\$ 8,320,000	\$ 7,175,000
2004 G.O. Jail Refunding Bonds	2020	\$425,000 - \$620,000	2.50 to 3.90	6,125,000	6,125,000
2003 G.O. Tax Increment Financing Bonds	2012	\$265,000 - \$405,000	2.15 to 4.35	<u>2,805,000</u>	<u>2,805,000</u>
Total general obligation bonds				<u>\$ 17,250,000</u>	\$ 16,105,000
Less: unamortized discount					<u>(66,505)</u>
Total General Obligation Bonds, Net					<u>\$ 16,038,495</u>

4. Debt Service Requirements

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

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 300,000	\$ 602,741
2006	580,000	650,444
2007	660,000	628,065
2008	680,000	602,633
2009	1,140,000	569,035
2010 - 2014	5,965,000	2,136,885
2015 - 2019	5,515,000	938,098
2020	<u>1,265,000</u>	<u>29,666</u>
Total	<u>\$ 16,105,000</u>	<u>\$ 6,157,567</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 10,270,000	\$ 6,125,000	\$ 290,000	\$ 16,105,000	\$ 300,000
Less: deferred amounts for issuance discounts	(18,934)	(52,986)	(5,415)	(66,505)	-
Total bonds payable	\$ 10,251,066	\$ 6,072,014	\$ 284,585	\$ 16,038,495	\$ 300,000
Capital leases	10,950,000	-	370,000	10,580,000	390,000
Financial assurance	275,000	-	-	275,000	-
Compensated absences	578,722	97,753	-	676,475	50,629
Governmental Activity Long-Term Liabilities	<u>\$ 22,054,788</u>	<u>\$ 6,169,767</u>	<u>\$ 654,585</u>	<u>\$ 27,569,970</u>	<u>\$ 740,629</u>

6. Financial Assurance

On December 19, 1994, the County entered into an agreement with the Minnesota Pollution Control Agency and Schaap Sanitation to partially satisfy and supplement financial assurance for actual closure, postclosure care, and contingency action costs at the privately-owned and operated landfill. On December 6, 2001, the County amended this agreement to fund an additional \$75,000, for a total of \$275,000. The County is to pay \$1,250 per month for five years or until the additional \$75,000 balance is reached. At December 31, 2004, the County has funded \$258,371 of the agreement.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Crossover Refunding Debt

On October 25, 2004, Nobles County issued General Obligation Jail Facility Refunding Bonds, Series 2004A, in the amount of \$6,125,000 with interest rates of 2.50 percent to 3.90 percent to crossover refund the General Obligation Jail Facility Bonds, dated December 1, 1999, maturing after February 1, 2008. The balance of the outstanding maturities to be refunded is \$5,885,000 and interest rates are 4.90 percent to 5.45 percent.

The proceeds from the bonds were placed with an escrow agent in an irrevocable trust from which U.S. Treasury Securities were purchased. The County is responsible for the principal and interest on the original issue through February 1, 2008. The refunded bonds will be called and paid by the escrow agent on February 1, 2008. The escrow agent will pay the interest due on the 1999 bonds through February 1, 2008; thereafter, the County will be responsible for the payment of debt service. The principal balance of both the original issues and the refunding issue will be shown on the balance sheet until the call date of the refunded bonds, at which time the 1999 bonds will be paid and the liability for those bonds will be removed.

The General Obligation Jail Facility Crossover Refunding Bonds, Series 2004A were issued at a discount of \$52,986 and, after paying debt issuance costs of \$48,938, the net proceeds were \$6,023,076. The County deposited \$3,541 of excess proceeds into the debt service fund for future debt payments. The remaining \$6,019,535 of bond proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the General Obligation Jail Facility Crossover Refunding Bonds, Series 2004A, until February 1, 2008, at which time the refunded bonds will be paid off.

As a result of the crossover refunding, the County reduced its total debt service requirements by \$470,026, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt service) of \$337,213.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined 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 remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining 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 for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent for each year of service.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

B. Funding Policy

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

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

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Public Employees Correctional Fund, were:

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2004	\$ 227,644	\$ 43,551	\$ 64,329
2003	230,202	37,074	57,938
2002	227,267	34,672	44,915

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

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters for which the County carries commercial insurance. The County has entered into a joint powers agreement with other 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 all 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

5. Risk Management (Continued)

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

6. Summary of Significant Contingencies and Other Items

A. Subsequent Events

On April 1, 2003, the County issued \$2,805,000 of General Obligation Tax Increment Bonds, Series 2003, to finance certain public development costs relating to the construction of a soybean crushing and bio-diesel facility to be operated by the Minnesota Soybean Processors. These bonds were to be paid with tax increment collections received from the tax increment district. At December 31, 2004, these bonds are a liability of the County.

On June 7, 2005, Nobles County entered into a termination agreement with the Minnesota Soybean Processors and the Rural Development Financing Authority whereby the Minnesota Soybean Processors agreed to pay \$3,201,318 to refund the General Obligation Tax Increment Bonds, Series 2003. This agreement also releases all parties from all obligations and liabilities of the original project.

B. Contingent Liabilities

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

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

C. Joint Ventures

The County has an ongoing financial interest or responsibility in the following joint ventures with surrounding governments.

Lincoln-Pipestone Rural Water System

Pursuant to Minn. Stat. ch. 116A, Nobles County entered into a joint powers agreement with Lincoln, Lyon, Murray, Pipestone, Rock, and Yellow Medicine Counties to establish the Lincoln-Pipestone Rural Water System. The system is responsible for storing, treating, and distributing water for domestic, commercial, and industrial use within the area it services. The cost of providing these services is recovered through user charges.

Bonds were issued by Lincoln County to finance the construction of the rural water system. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2004, are \$20,374,465.

The Water System's 2004 financial report shows total net assets of \$37,728,801, including unrestricted net assets of \$1,239,240. The increase in net assets for the year ended December 31, 2004, was \$2,037,687. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 88, Lake Benton, Minnesota 56149-0188.

Southwest Regional Solid Waste Commission

The County has entered into a joint powers agreement with Cottonwood, Jackson, Lac qui Parle, Lincoln, Lyon, Murray, Pipestone, Redwood, Renville, Rock, and Yellow Medicine Counties, creating and operating the Southwest Regional Solid Waste Commission under the authority of Minn. Stat. § 471.59. The Commission was formed to exercise the County's authority and obligation, pursuant to Minn. Stat. chs. 400 and 115A, to provide for the management of solid waste in the respective counties, and provide the greatest public service benefit possible for the entire contiguous 12-county area encompassed by the counties in planning, management, and implementation of

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

methods to deal with solid waste in Southwest Minnesota. The governing board is composed of one board member from each of the participating counties. Financing of the Commission's solid waste management program is from appropriations from the counties, grants and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to \$1,000 per county per year. The current assessment is \$400 per county per year.

The Commission is headquartered in Ivanhoe, Minnesota, where Lincoln County acts as fiscal host. A complete financial report of the Southwest Regional Solid Waste Commission can be obtained from the Lincoln County Auditor at 319 Rebecca Street, P. O. Box 29, Ivanhoe, Minnesota 56142.

City of Worthington/Nobles County Public Transportation

Nobles County participates with the City of Worthington in a joint venture to provide, cooperatively operate, administer, promote, and manage public transportation within the County and the City of Worthington. The governing board consists of seven members: two county commissioners and the County Administrator, two members of the City Council and the City Administrator, and one at-large member appointed by the aforesaid six-member board.

Financing is provided by state grants and appropriations from the members. Both the City of Worthington and Nobles County are required to contribute \$40,000 each year.

Current financial statements are not available.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Lincoln, Lyon & Murray

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

The Board takes actions and enters into such agreements as necessary to plan and develop within the Board's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The governing board is composed of one board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Board's annual financial report for the year ended December 31, 2003 (the most recent information available):

Total Assets	\$	220,978
Total Liabilities		5,230
Total Fund Equity		215,748
Total Revenues		889,414
Total Expenditures/Expenses		856,904
Increase (Decrease) in Fund Equity		32,510

The Board reported no long-term obligations at December 31, 2003.

A complete financial report of the Southwestern Minnesota Adult Mental Health Consortium Board can be obtained at Cottonwood County Family Services Agency, Windom, Minnesota 56101.

D. Jointly-Governed Organizations

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

Okabena-Ocheda Watershed District

The County Board is responsible for appointing all five of the board of managers for the Okabena-Ocheda Watershed District, but the County's responsibility does not extend beyond making the appointments.

Kanaranzi-Little Rock Watershed District

The County Board is also responsible for appointing a majority of the board of managers for the Kanaranzi-Little Rock Watershed District, but the County's responsibility does not extend beyond making the appointments.

Rural Development Financing Authority

The Rural Development Financing Authority is a jointly-governed authority of Nobles and Jackson Counties. Each county appoints three members, and each county has one vote. The Authority must obtain approval by resolution of the Boards of County Commissioners of Nobles and Jackson Counties prior to exercising any powers granted to rural development financing authorities under Minn. Stat. §§ 469.142 through 469.151. Each county is responsible for financing projects within the project area established by the Authority.

Heron Lake Watershed District

The County Board is also responsible for appointing two of the board of managers for the Heron Lake Watershed District, but the County's responsibility does not extend beyond making the appointments.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

7. Tax Increment Financing

Name of District:	Tax Increment Financing District, No. 1-1
Type of District:	Economic Development
Authorizing Law:	§§ 469.142 to 469.151 and §§ 469.174 to 469.1799
Date Established:	July 3, 2003
Duration of District:	9 years
Original Tax Capacity:	\$1,809
Current Tax Capacity:	\$1,809
Captured Tax Capacity Retained by Authority:	\$0
Total G.O. Taxable Tax Increment Bonds Issued:	\$2,805,000
Amounts Redeemed:	\$0
Outstanding Bonds at December 31, 2004:	\$2,805,000

The project in this District is a soybean crushing and bio-diesel facility. As of December 31, 2004, no other tax increment obligations were issued on behalf of private entities for facilities located in the District. On June 7, 2005, the County terminated this Tax Increment Financing District.

8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those policies identified in Note 1, the County's discretely presented component units have the following significant accounting policies.

Reporting Entities

Nobles-Rock Public Health Services is governed by a seven-member Board. The Board consists of two commissioners from each county, one appointed member from each county and one member selected by the Health Services' Advisory Committee.

Rock-Nobles Community Corrections is governed by a seven-member Board. The Board consists of two commissioners from each county, one appointed member from each county and one member selected by the Corrections' Advisory Committee.

The entities are component units because Nobles County appoints the majority of the Advisory Committees which appoints the final member to these boards and they are financially dependent upon the County.

Because of the significance of their financial relationship, Nobles County considers these entities major component units.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

8. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

Each component unit presents its one fund as a governmental fund.

Cash and Pooled Investments

All cash of the component units is on deposit with the Nobles County Treasurer and included within its pooled cash and investments.

B. Detailed Notes

1. Assets

Receivables

Receivables as of December 31, 2004, year-end for each discretely presented component unit, including the applicable allowances for uncollectible accounts, are as follows:

	Nobles-Rock Public Health Services	Rock-Nobles Community Corrections	Total Receivables	Amounts Not Scheduled for Collection During the Year
Accounts	\$ 62,501	\$ -	\$ 62,501	\$ -
Due from other governments	<u>83,476</u>	<u>28,355</u>	<u>111,831</u>	<u>-</u>
Total Component Units	<u>\$ 145,977</u>	<u>\$ 28,355</u>	<u>\$ 174,332</u>	<u>\$ -</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Capital Assets

Component unit capital asset activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Furniture and equipment				
Public Health Services	\$ 66,279	\$ 31,331	\$ 26,540	\$ 71,070
Community Corrections	<u>45,673</u>	<u>-</u>	<u>8,000</u>	<u>37,673</u>
 Total furniture and equipment	 <u>\$ 111,952</u>	 <u>\$ 31,331</u>	 <u>\$ 34,540</u>	 <u>\$ 108,743</u>
Less: accumulated depreciation for				
Furniture and equipment				
Public Health Services	\$ 41,086	\$ 13,297	\$ 26,540	\$ 27,843
Community Corrections	<u>26,448</u>	<u>5,832</u>	<u>8,000</u>	<u>24,280</u>
 Total accumulated depreciation	 <u>\$ 67,534</u>	 <u>\$ 19,129</u>	 <u>\$ 34,540</u>	 <u>\$ 52,123</u>
 Capital Assets, Net	 <u>\$ 44,418</u>	 <u>\$ 12,202</u>	 <u>\$ -</u>	 <u>\$ 56,620</u>

Depreciation expense was charged to functions/programs of the discretely presented component units as follows:

Public Health Services	\$ 13,297
Community Corrections	<u>5,832</u>
 Total Depreciation Expense	 <u>\$ 19,129</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Liabilities

Payables

Payables at December 31, 2004, were as follows:

	Nobles-Rock Public Health Services	Rock-Nobles Community Corrections	Total Discretely Presented Component Units
Accounts	\$ 24,051	\$ 2,421	\$ 26,472
Salaries	44,778	16,972	61,750
Due to other governments	5,402	171	5,573
Due to primary government	-	1,501	1,501
Total Payables	\$ 74,231	\$ 21,065	\$ 95,296

Changes in Long-Term Liabilities

The following is a summary of the long-term liabilities of the Component Units for the year ended December 31, 2004.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences					
Public Health Services	\$ 91,252	\$ 17,194	\$ -	\$ 108,446	\$ 7,335
Community Corrections	43,100	4,785	-	47,885	3,584
Total Long-Term Liabilities	\$ 134,352	\$ 21,979	\$ -	\$ 156,331	\$ 10,919

REQUIRED SUPPLEMENTARY INFORMATION

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 4,023,499	\$ 4,023,499	\$ 3,498,645	\$ (524,854)
Licenses and permits	8,433	8,433	7,987	(446)
Intergovernmental	835,365	835,365	1,500,441	665,076
Charges for services	1,320,822	1,320,822	1,195,594	(125,228)
Gifts and contributions	-	-	4,247	4,247
Investment earnings	205,400	205,400	215,284	9,884
Miscellaneous	507,383	507,383	707,368	199,985
Total Revenues	\$ 6,900,902	\$ 6,900,902	\$ 7,129,566	\$ 228,664
Expenditures				
Current				
General government				
Commissioners	\$ 172,696	\$ 172,696	\$ 150,594	\$ 22,102
Courts	-	-	1,178	(1,178)
Law library	25,000	25,000	28,480	(3,480)
County administration	138,061	138,061	139,415	(1,354)
Auditor/Treasurer	415,628	415,628	430,787	(15,159)
Assessor	210,163	210,163	209,780	383
Elections	57,129	57,129	40,025	17,104
Accounting and auditing	36,000	36,000	34,754	1,246
Data processing	99,887	99,887	34,472	65,415
Personnel	105,162	105,162	116,974	(11,812)
Attorney	468,602	468,602	438,325	30,277
Recorder	150,027	150,027	180,283	(30,256)
Buildings and plant	789,837	789,837	825,425	(35,588)
Veterans service officer	36,228	36,228	36,503	(275)
Other general government	228,952	228,952	154,193	74,759
Total general government	\$ 2,933,372	\$ 2,933,372	\$ 2,821,188	\$ 112,184

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 910,684	\$ 910,684	\$ 1,005,360	\$ (94,676)
Boat and water safety	2,950	2,950	1,578	1,372
Coroner	22,500	22,500	23,766	(1,266)
Security	43,000	43,000	38,493	4,507
County jail	1,285,257	1,285,257	1,305,467	(20,210)
Civil defense	35,850	35,850	60,123	(24,273)
Total public safety	\$ 2,300,241	\$ 2,300,241	\$ 2,434,787	\$ (134,546)
Health				
Ambulance	\$ 2,500	\$ 2,500	\$ 1,417	\$ 1,083
Culture and recreation				
Historical society	\$ 26,350	\$ 26,350	\$ 26,350	\$ -
Fairgrounds	23,800	23,800	23,800	-
Minnesota trails	-	-	13,882	(13,882)
Senior citizens	20,415	20,415	20,415	-
Other	11,350	11,350	11,020	330
Total culture and recreation	\$ 81,915	\$ 81,915	\$ 95,467	\$ (13,552)
Conservation of natural resources				
Extension	\$ 85,000	\$ 85,000	\$ 99,455	\$ (14,455)
Geographic information systems	50,000	50,000	-	50,000
Other	2,000	2,000	2,000	-
Total conservation of natural resources	\$ 137,000	\$ 137,000	\$ 101,455	\$ 35,545
Economic development				
Community development	\$ 35,000	\$ 35,000	\$ 38,026	\$ (3,026)
Intergovernmental				
Public safety	\$ 52,990	\$ 52,990	\$ 92,990	\$ (40,000)
Health	\$ 78,658	\$ 78,658	\$ 78,658	\$ -

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Debt service				
Principal retirement	\$ 370,000	\$ 370,000	\$ 370,000	\$ -
Interest	\$ 621,253	\$ 621,253	\$ 621,253	\$ -
Administrative (fiscal) fees	\$ 1,500	\$ 1,500	\$ 2,202	\$ (702)
Total Expenditures	\$ 6,614,429	\$ 6,614,429	\$ 6,657,443	\$ (43,014)
Excess of Revenues Over (Under) Expenditures	\$ 286,473	\$ 286,473	\$ 472,123	\$ 185,650
Other Financing Sources (Uses)				
Transfers in	\$ 133,667	\$ 133,667	\$ -	\$ (133,667)
Transfers out	(373,341)	(373,341)	(373,341)	-
Total Other Financing Sources (Uses)	\$ (239,674)	\$ (239,674)	\$ (373,341)	\$ (133,667)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 46,799	\$ 46,799	\$ 98,782	\$ 51,983
Fund Balance - January 1	5,401,852	5,401,852	5,401,852	-
Fund Balance - December 31	\$ 5,448,651	\$ 5,448,651	\$ 5,500,634	\$ 51,983

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 766,892	\$ 766,892	\$ 681,612	\$ (85,280)
Special assessments	-	-	52,208	52,208
Licenses and permits	54,433	54,433	80,224	25,791
Intergovernmental	5,837,663	5,837,663	5,410,086	(427,577)
Charges for services	248,300	248,300	220,735	(27,565)
Miscellaneous	261,536	261,536	378,414	116,878
Total Revenues	\$ 7,168,824	\$ 7,168,824	\$ 6,823,279	\$ (345,545)
Expenditures				
Current				
General government				
Planning and zoning	\$ 77,524	\$ 77,524	\$ 97,363	\$ (19,839)
Highways and streets				
Administration	\$ 211,011	\$ 211,011	\$ 193,698	\$ 17,313
Maintenance	828,654	828,654	723,076	105,578
Construction	4,409,736	4,409,736	3,992,226	417,510
Equipment and maintenance shops	405,719	405,719	535,938	(130,219)
Total highways and streets	\$ 5,855,120	\$ 5,855,120	\$ 5,444,938	\$ 410,182
Sanitation				
Solid waste	\$ 52,800	\$ 52,800	\$ 35,652	\$ 17,148
Recycling	281,347	281,347	293,215	(11,868)
Hazardous waste	6,636	6,636	5,594	1,042
Total sanitation	\$ 340,783	\$ 340,783	\$ 334,461	\$ 6,322
Culture and recreation				
Parks	\$ 113,189	\$ 113,189	\$ 109,428	\$ 3,761

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

*Schedule 2
(Continued)*

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Agricultural inspection	\$ 72,290	\$ 72,290	\$ 60,582	\$ 11,708
Water planning	128,434	128,434	126,891	1,543
Total conservation of natural resources	\$ 200,724	\$ 200,724	\$ 187,473	\$ 13,251
Intergovernmental				
Highways and streets	\$ -	\$ -	\$ 302,016	\$ (302,016)
Total Expenditures	\$ 6,587,340	\$ 6,587,340	\$ 6,475,679	\$ 111,661
Excess of Revenues Over (Under) Expenditures	\$ 581,484	\$ 581,484	\$ 347,600	\$ (233,884)
Fund Balance - January 1	2,567,901	2,567,901	2,567,901	-
Increase (decrease) in reserved for inventories	-	-	30,216	30,216
Fund Balance - December 31	\$ 3,149,385	\$ 3,149,385	\$ 2,945,717	\$ (203,668)

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,477,710	\$ 1,477,710	\$ 1,310,474	\$ (167,236)
Intergovernmental	3,276,019	3,276,019	2,980,336	(295,683)
Charges for services	49,739	49,739	43,547	(6,192)
Gifts and contributions	-	-	200	200
Miscellaneous	144,742	144,742	143,757	(985)
Total Revenues	\$ 4,948,210	\$ 4,948,210	\$ 4,478,314	\$ (469,896)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,255,485	\$ 1,255,485	\$ 1,294,411	\$ (38,926)
Social services	3,692,725	3,692,725	2,934,749	757,976
Total Expenditures	\$ 4,948,210	\$ 4,948,210	\$ 4,229,160	\$ 719,050
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 249,154	\$ 249,154
Fund Balance - January 1	2,445,577	2,445,577	2,445,577	-
Fund Balance - December 31	\$ 2,445,577	\$ 2,445,577	\$ 2,694,731	\$ 249,154

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

1. Budgetary Data

General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and the special revenue funds. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. In 2004, the County Board did not amend its budgets.

Budget Basis of Accounting

Budgets for the General Fund and the special revenue funds are adopted on a basis consistent with generally accepted accounting principles.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2004, expenditures exceeded appropriations in the General Fund by \$43,014. These expenditures were funded by greater than anticipated revenues.

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SUPPLEMENTARY INFORMATION

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
JUSTICE CENTER DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 700,715	\$ 700,715	\$ 621,253	\$ (79,462)
Intergovernmental	-	-	75,716	75,716
Investment earnings	800	800	6,016	5,216
Miscellaneous	-	-	315,728	315,728
Total Revenues	\$ 701,515	\$ 701,515	\$ 1,018,713	\$ 317,198
Expenditures				
Debt service				
Principal	\$ 290,000	\$ 290,000	\$ 290,000	\$ -
Interest	374,218	374,218	374,017	201
Bond issuance costs	-	-	48,938	(48,938)
Administrative (fiscal) fees	-	-	101	(101)
Total Expenditures	\$ 664,218	\$ 664,218	\$ 713,056	\$ (48,838)
Excess of Revenues Over (Under) Expenditures	\$ 37,297	\$ 37,297	\$ 305,657	\$ 268,360
Other Financing Sources (Uses)				
Proceeds from sale of refunding bonds	\$ -	\$ -	\$ 6,125,000	\$ 6,125,000
Discount on bonds issued	-	-	(52,986)	(52,986)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 6,072,014	\$ 6,072,014
Net Change in Fund Balance	\$ 37,297	\$ 37,297	\$ 6,377,671	\$ 6,340,374
Fund Balance - January 1	634,043	634,043	634,043	-
Fund Balance - December 31	\$ 671,340	\$ 671,340	\$ 7,011,714	\$ 6,340,374

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Ditch - to account for funds to be used for the maintenance, repair, and construction of the County ditch system. Financing is provided by special assessments levied against benefited property owners.

Building - to account for funds being accumulated for building, reconstruction, maintenance, and acquisition. Financing is provided by property taxes authorized by the County Board.

Library - to account for the operating costs of the library. Financing is provided by an annual property tax levy and intergovernmental revenue from the state.

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Statement 1

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

	Special Revenue			Total
	Ditch	Building	Library	
<u>Assets</u>				
Cash and pooled investments	\$ 105,558	\$ 1,030,211	\$ 132,438	\$ 1,268,207
Undistributed cash in agency funds	658	-	-	658
Petty cash and change funds	-	-	45	45
Special assessments receivable				
Prior	266	-	-	266
Noncurrent	61,314	-	-	61,314
Total Assets	\$ 167,796	\$ 1,030,211	\$ 132,483	\$ 1,330,490
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 7	\$ -	\$ 1,276	\$ 1,283
Salaries payable	-	-	10,116	10,116
Due to other funds	15,942	-	21	15,963
Due to other governments	8,703	-	66	8,769
Deferred revenue - unavailable	61,580	-	-	61,580
Total Liabilities	\$ 86,232	\$ -	\$ 11,479	\$ 97,711
Fund Balances				
Unreserved				
Designated for capital equipment	\$ -	\$ -	\$ 16,280	\$ 16,280
Undesignated	81,564	1,030,211	104,724	1,216,499
Total Fund Balances	\$ 81,564	\$ 1,030,211	\$ 121,004	\$ 1,232,779
Total Liabilities and Fund Balances	\$ 167,796	\$ 1,030,211	\$ 132,483	\$ 1,330,490

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Statement 2

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

	Special Revenue			Total
	Ditch	Building	Library	
Revenues				
Special assessments	\$ 56,020	\$ -	\$ -	\$ 56,020
Intergovernmental	-	-	27,025	27,025
Charges for services	-	-	3,915	3,915
Gifts and contributions	-	-	2,970	2,970
Miscellaneous	-	330,728	3,899	334,627
Total Revenues	\$ 56,020	\$ 330,728	\$ 37,809	\$ 424,557
Expenditures				
Current				
General government	\$ -	\$ 99,247	\$ -	\$ 99,247
Culture and recreation	-	-	402,600	402,600
Conservation of natural resources	44,130	-	-	44,130
Total Expenditures	\$ 44,130	\$ 99,247	\$ 402,600	\$ 545,977
Excess of Revenues Over (Under) Expenditures	\$ 11,890	\$ 231,481	\$ (364,791)	\$ (121,420)
Other Financing Sources (Uses)				
Transfers in	-	-	373,341	373,341
Net Change in Fund Balances	\$ 11,890	\$ 231,481	\$ 8,550	\$ 251,921
Fund Balance - January 1	69,674	798,730	112,454	980,858
Fund Balance - December 31	\$ 81,564	\$ 1,030,211	\$ 121,004	\$ 1,232,779

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

AGENCY FUNDS

Conservation Reserve - to account for the proceeds of the sale of County land to the U.S. Fish and Wildlife Service; funds are to be held for the affected townships. The County made a final distribution in 2004 and closed this fund.

Nobles-Rock Public Health Services - to account for the receipts and disbursements of the Board of Health.

Rock-Nobles Community Corrections - to account for the receipts and disbursements of the Community Corrections Board.

State Revenue Tax - to account for the collection of mortgage registry and deed tax and their distribution to the County funds.

Taxes and Penalties - to account for the collection of taxes and penalties and their distribution to the various funds.

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Statement 3

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CONSERVATION RESERVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 58,980	\$ 394	\$ 59,374	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 58,980	\$ 394	\$ 59,374	\$ -
 <u>NOBLES-ROCK PUBLIC HEALTH SERVICES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 441,746	\$ 1,649,613	\$ 1,596,121	\$ 495,238
<u>Liabilities</u>				
Due to other governments	\$ 441,746	\$ 1,649,613	\$ 1,596,121	\$ 495,238
 <u>ROCK-NOBLES COMMUNITY CORRECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 30,571	\$ 637,306	\$ 584,808	\$ 83,069
<u>Liabilities</u>				
Due to other governments	\$ 30,571	\$ 637,306	\$ 584,808	\$ 83,069

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

*Statement 3
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1	Additions	Deductions	Balance December 31
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 23,512	\$ 651,328	\$ 638,896	\$ 35,944
<u>Liabilities</u>				
Due to other governments	\$ 23,512	\$ 651,328	\$ 638,896	\$ 35,944
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 110,541	\$ 16,404,744	\$ 16,409,354	\$ 105,931
<u>Liabilities</u>				
Due to other governments	\$ 110,541	\$ 16,404,744	\$ 16,409,354	\$ 105,931
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 665,350	\$ 19,343,384	\$ 19,288,553	\$ 720,182
<u>Liabilities</u>				
Due to other governments	\$ 665,350	\$ 19,343,384	\$ 19,288,553	\$ 720,182

OTHER SCHEDULE

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Total Primary Government	Component Units	
		Nobles-Rock Public Health Services	Rock-Nobles Community Corrections
Shared Revenue			
State			
Highway users tax	\$ 3,858,899	\$ -	\$ -
County program aid	713,023	-	-
PERA rate reimbursement	28,842	-	-
Disparity reduction aid	72,996	-	-
Police aid	37,074	-	-
Enhanced 911	47,374	-	-
Market value credit	733,746	-	-
Total Shared Revenue	\$ 5,491,954	\$ -	\$ -
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 1,143,295	\$ -	\$ -
Payments			
Local			
Payments in lieu of taxes	\$ 45,552	\$ -	\$ -
Contributions from counties	-	117,984	135,700
Total Payments	\$ 45,552	\$ 117,984	\$ 135,700
Grants			
State			
Minnesota Department/Board of			
Corrections	\$ 1,839	\$ -	\$ 424,309
Health	-	223,954	-
Human Services	1,278,192	-	-
Natural Resources	18,457	-	-
Public Safety	1,000	-	-
Soil and Water Resources	67,154	-	-
Office of Environmental Assistance	49,099	-	-
Peace Officers Board	3,939	-	-
Total State	\$ 1,419,680	\$ 223,954	\$ 424,309

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 5
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Total Primary Government	Component Units	
		Nobles-Rock Public Health Services	Rock-Nobles Community Corrections
Grants (Continued)			
Federal			
Department of			
Agriculture	\$ 8,457	\$ 153,429	\$ -
Justice	180	-	-
Labor	1,500	-	-
Transportation	1,338,636	-	-
Health and Human Services	452,680	116,824	-
Homeland Security	64,645	-	-
National Foundation on Arts and Humanities	27,025	-	-
Total Federal	\$ 1,893,123	\$ 270,253	\$ -
Total State and Federal Grants	\$ 3,312,803	\$ 494,207	\$ 424,309
Total Intergovernmental Revenue	\$ 9,993,604	\$ 612,191	\$ 560,009

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-2 Internal Accounting Controls

Due to the limited number of office personnel within the various County departments, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small departmental situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that County management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

Nobles County is aware that due to concentration of duties and responsibilities, there is a lack of office personnel in various County Departments to ensure adequate internal accounting controls. County management will periodically monitor these offices to assure established policies and procedures are being followed.

ITEM ARISING THIS YEAR

04-1 County Attorney's Checking Account

The County Attorney's Office has a separate checking account for forfeitures. These funds are to be used for prosecutorial purposes by the County Attorney's Office. At December 31, 2004, the checking account has a balance of \$13,245.43. It is not clear when this account was opened and we are unaware of a board resolution authorizing this account.

Minn. Stat. § 375.18, subd. 2, places all County property under the care of the County Board. Expenditures made by the County Attorney's Office out of this account bypass County Board approval for final disposition of these funds. Minnesota state law requires all county disbursements to be made by warrants signed by the County Treasurer,

Auditor, and Board Chair. Minn. Stat. § 384.13. County funds disbursed by a check signed by the County Attorney violate this statute. Furthermore, since the activity is not reported, it is not recorded in the County's financial statements.

We recommend that the County close the County Attorney's account and remit the balance plus any cash on hand to the County Treasury. All future collections should be deposited with the County Treasury, and all disbursements should be run through the County's disbursement system.

Client's Response:

It is our understanding that the issue raised in this Audit finding has also been raised by the Office of the State Auditor in other counties, and that the issue is before the Board of the Minnesota County Attorneys Association. The Board and the County Attorney believe that this important issue should be resolved at the State level rather than on a case-by-case basis in each of the 87 counties of this state. We will continue to monitor this issue and work with the Office of the State Auditor over the next year in an effort to resolve this issue in a manner satisfactory to all parties.

PREVIOUSLY REPORTED ITEM RESOLVED

Double Payment on Contract (03-1)

The County paid M. J. Dalsin twice for the same work on the Prairie Justice Center Project. A payment was made on October 10, 2003, and again on December 5, 2003, for \$14,806. This double payment was not noticed until the audit.

Resolution

All contract payments being submitted for payment are subjected to an audit to prevent overpayment and/or double payment.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

04-2 No Perfected Interest in Collateral Assignments

The County did not have current documentation demonstrating that it had a perfected interest in pledged collateral with the First State Bank Southwest and First National Bank of Brewster-Worthington. These resolutions were signed in 2001. The resolution on file for Wells Fargo does not acknowledge the securities pledged to Nobles County at the time the resolution was signed in 2003.

In a Federal Court decision, the Court ruled that if a municipality fails to perfect a security interest under federal law, its right to such collateral in the event of default is not enforceable. Minn. Stat. § 118A.03, subd. 3, requires the County to obtain an assignment of pledged collateral equal to “at least ten percent more than the amount on deposit plus accrued interest at the close of the business day,” in excess of federal deposit insurance.

The County is not complying with the collateral requirement unless it obtains an enforceable assignment of pledged collateral. To obtain an enforceable assignment under federal law (12 U.S.C. § 1823(e)), the County must obtain a written assignment of collateral which is approved by the depository bank’s Board of Directors or loan committee and is a continuous official record of the bank.

We recommend that the County obtain the documentation indicating it has perfected a security interest in pledged collateral.

Client's Response:

The Nobles County Auditor/Treasurer has contacted First State Bank Southwest and the First National Bank of Brewster-Worthington to obtain current documentation indicating that Nobles County has perfected a security interest in pledged collateral. The Auditor/Treasurer has also contacted Wells Fargo to obtain acknowledgment of the securities pledged to Nobles County and to obtain an enforceable assignment of pledged collateral under federal law.

04-3 Depository Pledge Agreement

The depository pledge agreement between the County and Wells Fargo states that the County is required to give notice of a failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County can collect the collateral from the Custodian so the bank has time to cure the default.

Minn. Stat. § 118A.03, subd. 4, states “The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client's Response:

The Nobles County Auditor/Treasurer has contacted Wells Fargo to obtain a new depository pledge agreement that is consistent with the default language of Minnesota Statutes that the financial institution shall release to Nobles County on demand any collateral pledged upon default.

PREVIOUSLY REPORTED ITEMS RESOLVED

Collateral Pledged to Secure Deposits (03-2)

Federal deposit insurance (FDIC) and collateral pledged at December 31, 2003, was insufficient for the amount on deposit at the Community First National Bank by \$309,436.

Resolution

The County Auditor/Treasurer monitors the deposits in designated depositories to ensure that County funds are fully protected at all times.

Claim Documentation - Public Purpose (03-3)

Our review of County disbursements disclosed that the County paid for meals for Board members after a retreat meeting. Per diems were also paid for this open meeting held in Worthington at Michael's Steakhouse.

The County did not document the need for the meeting to be held at a time that required meal costs, who was at the meeting, and how the meal costs were added to members' taxable compensation.

Resolution

The County now documents the public purpose of all expenditures for in-town meals, including those in attendance and the need for meetings to occur during mealtimes.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-7 Budgeting Procedures

Although the County adopts a formal budget, expenditure estimates and the annual budget appropriations to the various operational funds within the County are not always clear. The County adopts the budget in summary form.

In reconciling the budget, we noted the following:

- The summary budget on file did not agree with the Board-approved budget in the minutes or the Revenue and Expenditure Budget Report on the Integrated Financial System (IFS). The automated IFS general ledger system is the accounting record of the County, yet it has incomplete and inaccurate budget detail.
- The County Board did not adopt a budget for the County Library Fund.

Generally accepted accounting principles and the County Financial Accounting and Reporting Standards recommend that expenditure estimates and the annual budget be appropriated to the various operational entities within the County and that line-item budget detail by fund should be available. The appropriations constitute maximum expenditure authorizations during the fiscal year and cannot

legally be exceeded unless subsequently amended by the Board. Good budget accounting requires: (1) an annual budget be adopted by every governmental unit; (2) the accounting system to provide the basis for appropriate budgetary control; and (3) a common terminology and classification that can be used consistently throughout the budgets, accounts, and financial reports of each fund. The County Board should adopt an accurate budget to be followed by the County.

The adopted budget should be designed so that comparisons can be made between current year and budget year. Any amendments to the budget should be Board-approved and documented in the Board minutes.

We recommend that the County implement procedures to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenue and expenditure budget. We also recommend that any changes to the original budget be approved by formal Board resolution and so documented.

Client's Response:

Nobles County will review and implement budget procedures deemed necessary to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenue and expenditure budget and that any changes made to the original budget be approved by formal Board resolution and documented.

ITEM ARISING THIS YEAR

04-4

Preparation of the Annual Financial Statements

The County Board has oversight responsibility to ensure that the annual financial report is prepared for audit in a timely manner. Generally, this means that the County Board should provide the necessary directives to County staff for the preparation and the timely completion of the annual financial report. The annual financial report consists of County fund financial statements prepared in accordance with generally accepted accounting principles for governments, related notes to the financial statements, and schedules. As part of the fund financial statements, summary schedules and worksheets should be prepared by County staff to demonstrate how the accounts in the financial records are classified/summarized for the financial report.

These objectives can be achieved by using the Integrated Financial System (IFS). The IFS has been upgraded to accommodate the modified accrual basis of accounting in a separate general ledger system. The first step in the process would be for a county to change its accounting practices and account structure to be COFARS compliant and that all receipts and disbursements are coded to revenue and expenditure accounts.

During our audit we noted the following that will prevent the IFS from providing modified accrual financial statements:

- The County has not translated the general ledger accounts to be COFARS compliant.
- The General Fund consists of components of four different funds and parts of four others.
- County budget information on the IFS is incomplete and inaccurate.
- Transactions for the M&I Trust Company, an escrow agent, are not recorded in the general ledger.
- The escrow transactions for the crossover refunding bonds of 2004 were not recorded.
- Debt service payments are shown in the general ledger net of interest income from the refunding bond escrow account.
- Cash transactions from the County Attorney's forfeiture account are not recorded in the general ledger.

We recommend that the County Board work directly with County staff to provide the necessary directives to prepare modified accrual financial statements on the IFS. In order to accomplish this, the County Board should provide training to ensure that staff assigned to prepare this information have a good understanding of generally accepted accounting principles for governments. Staff should also have the time necessary to have the draft financial report completed by a date mutually agreed upon with the Office of the State Auditor.

Client's Response:

Nobles County will implement directives to prepare modified accrual financial statements using the Integrated Financial System (IFS) and to have draft financial reports completed for audit by a date mutually agreed to with the Office of the State Auditor.

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OTHER REQUIRED REPORTS

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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Nobles County

We have audited the financial statements of Nobles County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 16, 2005. 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 Nobles County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-2 and 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nobles 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, Nobles County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 04-2 and 04-3.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 16, 2005



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Nobles County

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, Nobles County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Nobles County as of and for the year ended December 31, 2004, and have issued our report thereon dated August 16, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 16, 2005

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 7

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 153,429
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	8,457
Total U.S. Department of Agriculture		\$ 161,886
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Enforcing Underage Drinking Laws Program	16.727	\$ 180
U.S. Department of Labor		
Passed Through Minnesota Department of Labor and Industry Occupational Safety and Health	17.503	\$ 1,500
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,338,367
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	269
Total U.S. Department of Transportation		\$ 1,338,636
National Foundation on Arts and Humanities		
Passed Through Minnesota Department of Education State Library Program	45.310	\$ 27,025
U.S. Department of Health and Human Services		
Passed Through Southwest Regional Development Commission Special Programs for the Aging - Title III, Part B	93.044	\$ 17,299
Passed Through Minnesota Department of Health Immunization Grants	93.268	1,400
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	47,052
Passed Through Minnesota Department of Human Services Temporary Assistance for Needy Families (TANF)	93.558	181,062

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 7
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Human Services (continued)		
Child Care Mandatory and Matching Funds	93.596	130,595
Foster Care Title IV-E	93.658	4,232
Social Services Block Grant Title XX	93.667	140,073
Chafee Foster Care Independent Living	93.674	2,890
Block Grants for Community Mental Health Services	93.958	4,345
Passed Through Minnesota Department of Health Maternal and Child Health Services Block Grant	93.994	40,556
Total U.S. Department of Health and Human Services		\$ 569,504
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 19,121
Public Assistance Grants	97.036	13,858
Emergency Management Performance Grants	97.042	24,515
State and Local All Hazards Emergency Operations Planning	97.051	7,151
Total U.S. Department of Homeland Security		\$ 64,645
Total Federal Awards		\$ 2,163,376

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Nobles County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.