

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

FARIBAULT COUNTY
BLUE EARTH, MINNESOTA

YEAR ENDED DECEMBER 31, 2007

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

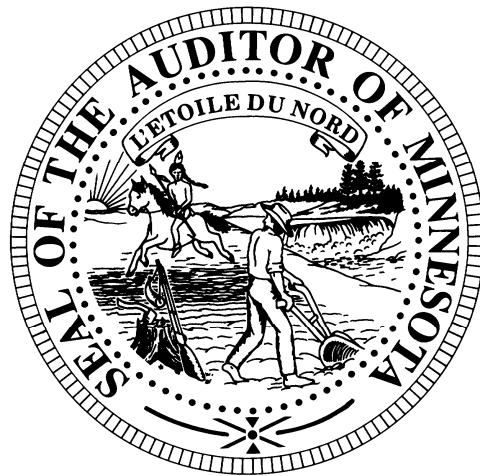
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Year Ended December 31, 2007



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

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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BLUE EARTH, MINNESOTA**

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2007

			<u>Term Expires</u>
Elected			
Commissioners			
Vice Chair	Barb Steier	District 1	January 2009
Board Member	Roland Erichsrud	District 2	January 2011
Board Member	William Groskreutz, Jr.	District 3	January 2009
Board Member	Tom Loveall	District 4	January 2011
Chair	Tom Warmka	District 5	January 2009
Attorney	Brian Roverud		January 2011
Auditor	John Thompson		January 2011
Judge	Douglas Richards		January 2009
County Recorder	Nancy Huff		January 2011
Registrar of Titles	Nancy Huff		January 2011
County Sheriff	Michael S. Gormley		January 2011
Treasurer	David Frank		January 2011
Appointed			
Assessor	Susan Wiltse		December 2008
County Engineer	John McDonald		April 2008
Veterans Service Officer	Bryan Schultz		Indefinite
Medical Examiner	Thomas Carpenter, M.D.		Indefinite
Economic Development Authority Board			
	Scott Johnson	Bricelyn	December 31, 2008
	Neil Eckles	Blue Earth	December 31, 2009
	Ann Schuster	Wells	December 31, 2010
	Rob Nelson	Winnebago	December 31, 2011
	Jake Anderson	Frost	December 31, 2011

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Faribault County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Faribault County Housing and Redevelopment Authority (HRA), which represent 4 percent, 4 percent, and 72 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Faribault County HRA, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented

component units, each major fund, and the aggregate remaining fund information of Faribault County as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison statements on Schedules 1 through 4 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2008, on our consideration of Faribault County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 24, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(Unaudited)**

Faribault County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2007. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$50,468,774, of which \$42,071,415 is invested in capital assets, net of related debt; \$3,015,089 is restricted to specific purposes.
- Business-type activities' total net assets are \$1,237,673, of which \$1,519,170 is invested in capital assets, net of related debt.
- Faribault County's governmental activities' net assets increased by \$2,873,097 for the year ended December 31, 2007. The net assets of the County's discretely presented component units decreased by \$29,774.
- The net cost of governmental activities was \$5,425,402 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$8,298,499. The net revenues of business-type activities were \$1,237,673.
- Governmental funds' fund balances increased by \$8,813,646. The Human Services Special Revenue Fund and Debt Service Fund increased \$12,243 and \$369,839, respectively. The General Fund increased \$9,241,162. Funding for a law enforcement center caused a significant increase. The Public Works Special Revenue Fund decreased by \$893,085 due to planned use of reserves. The Ditch Special Revenue Fund increased \$83,487.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

In the Statement of Net Assets and the Statement of Activities, we divide the County into three kinds of activities:

- Governmental activities--Most of the County's basic services are reported here, including general government, public safety, transportation, human services, sanitation, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities.
- Business-type activities--The County charges a fee to customers to help it cover all or most of the cost of the services it provides. The Huntley Sewer District activities are reported here.
- Component units--The County includes two separate legal entities in its report. The Housing and Redevelopment Authority and the Faribault County Economic Development Authority are presented in separate columns. Although legally separate, these "component units" are important because the County is financially accountable for them.

Fund Financial Statements

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

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

Reporting the County's Fiduciary Responsibilities

The County is the trustee, or fiduciary, over assets that can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

The County's combined net assets were increased from \$47,595,677 to \$51,706,447. Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the County's governmental activities and business-type activities.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 21,570,313	\$ 10,822,788	\$ (244,602)	\$ -	\$ 21,325,711	\$ 10,822,788
Capital assets	43,488,042	40,757,068	1,519,170	-	45,007,212	40,757,068
Total Assets	\$ 65,058,355	\$ 51,579,856	\$ 1,274,568	\$ -	\$ 66,332,923	\$ 51,579,856
Liabilities						
Long-term debt outstanding	\$ 13,737,532	\$ 3,463,093	\$ -	\$ -	\$ 13,737,532	\$ 3,463,093
Other liabilities	852,049	521,086	36,895	-	888,944	521,086
Total Liabilities	\$ 14,589,581	\$ 3,984,179	\$ 36,895	\$ -	\$ 14,626,476	\$ 3,984,179
Net Assets						
Invested in capital assets, net of debt	\$ 42,071,415	\$ 40,713,431	\$ 1,519,170	\$ -	\$ 43,590,585	\$ 40,713,431
Restricted	3,015,089	1,913,480	-	-	3,015,089	1,913,480
Unrestricted	5,382,270	4,968,766	(281,497)	-	5,100,773	4,968,766
Total Net Assets	\$ 50,468,774	\$ 47,595,677	\$ 1,237,673	\$ -	\$ 51,706,447	\$ 47,595,677

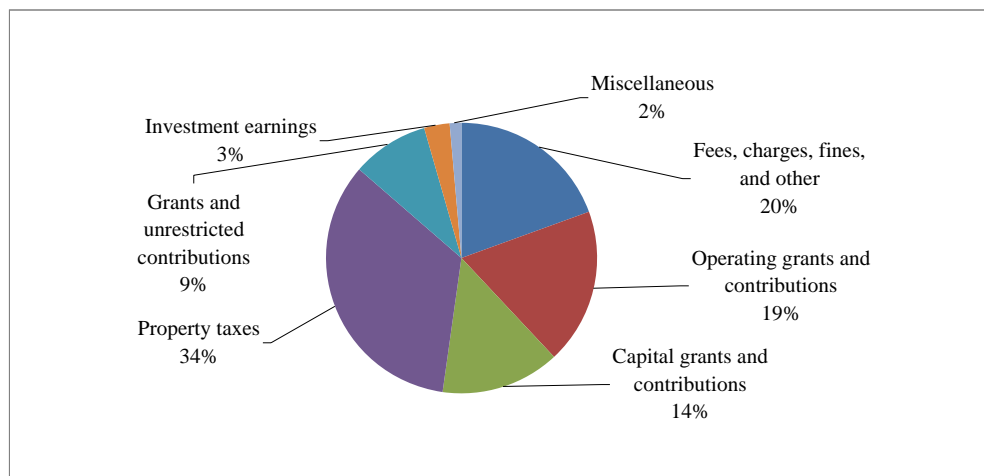
Net assets of the County's governmental activities increased by 6.0 percent (\$2,873,097). Unrestricted net assets--the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements--changed from \$4,968,766 at December 31, 2006, to \$5,382,270 at the end of this year. Net assets of the business-type activities increased by \$1,237,673. The first year the Huntley Sewer District was active was 2007.

**Table 2
Change in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Fees, charges, fines, and other	\$ 3,360,870	\$ 2,249,542	\$ 147,900	\$ -	\$ 3,508,770	\$ 2,249,542
Operating grants and contributions	3,222,428	4,270,150	-	-	3,222,428	4,270,150
Capital grants and contributions	2,478,175	494,120	1,089,773	-	3,567,948	494,120
General revenues						
Property taxes	5,916,393	5,390,758	-	-	5,916,393	5,390,758
Grants and restricted contributions	1,607,369	1,610,642	-	-	1,607,369	1,610,642
Unrestricted investment earnings	513,057	317,749	-	-	513,057	317,749
Miscellaneous	261,680	58,731	-	-	261,680	58,731
Total Revenues	\$ 17,359,972	\$ 14,391,692	\$ 1,237,673	\$ -	\$ 18,597,645	\$ 14,391,692

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Expenses						
General government	\$ 2,967,409	\$ 2,810,036	\$ -	\$ -	\$ 2,967,409	\$ 2,810,036
Public safety	2,108,658	2,252,879	-	-	2,108,658	2,252,879
Highways and streets	5,972,611	5,458,404	-	-	5,972,611	5,458,404
Sanitation	85,017	90,424	-	-	85,017	90,424
Human services	1,516,936	1,326,215	-	-	1,516,936	1,326,215
Conservation of natural resources	1,025,541	1,113,461	-	-	1,025,541	1,113,461
Culture and recreation	356,500	379,260	-	-	356,500	379,260
Economic development	188,509	117,316	-	-	188,509	117,316
Interest	265,694	124,037	-	-	265,694	124,037
Total Expenses	\$ 14,486,875	\$ 13,672,032	\$ -	\$ -	\$ 14,486,875	\$ 13,672,032
Net Change	\$ 2,873,097	\$ 719,660	\$ 1,237,673	\$ -	\$ 4,110,770	\$ 719,660

Total County Revenues - Percent of Total



Governmental Activities

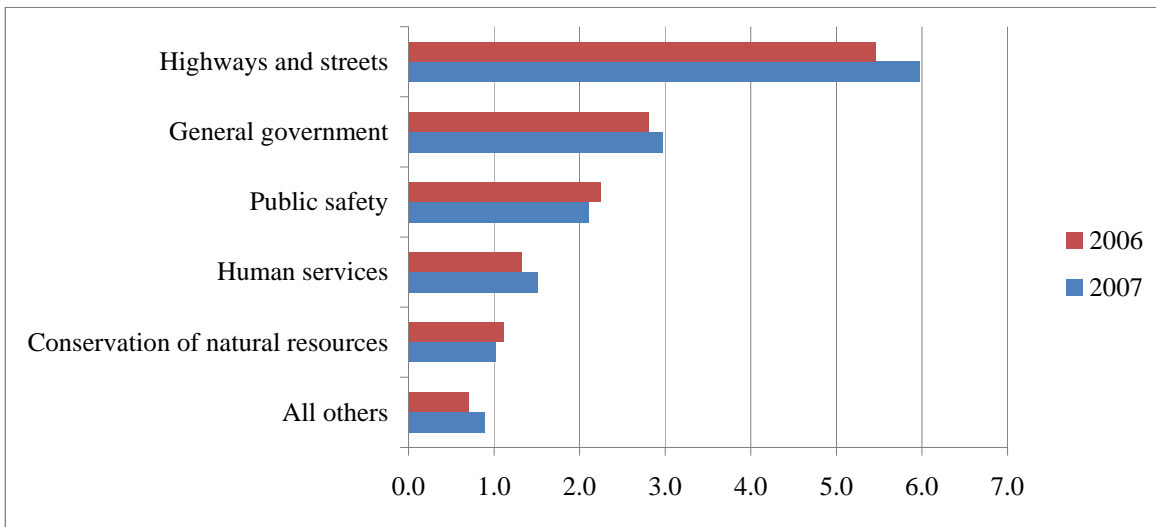
Revenues for the County's governmental activities were \$17,359,972, while total expenses were \$14,486,875. However, as shown in the Statement of Activities (Exhibit 2), the amount that our taxpayers ultimately financed for these activities through County taxes was \$5,916,393 because some of the cost was paid by those who directly benefited from the programs (\$3,360,870) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,700,603). Overall, the County's governmental program revenues, including intergovernmental aid and fees for services, totaled \$9,061,473. The County paid for the remaining "public benefit" portion of governmental activities with \$8,298,499 in general revenues, primarily taxes (some of which could be used only for certain programs) and other revenues, such as interest and general entitlements.

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Highways and streets	\$ 5,972,611	\$ 5,458,404	\$ 630,145	\$ 840,449
General government	2,967,409	2,810,036	2,035,482	2,009,483
Public safety	2,108,658	2,252,879	1,630,226	1,878,266
Human services	1,516,936	1,326,215	1,516,936	1,326,215
Conservation of natural resources	1,025,541	1,113,461	(1,096,037)	221,657
All others	895,720	711,037	708,650	382,150
Total Expenses	\$ 14,486,875	\$ 13,672,032	\$ 5,425,402	\$ 6,658,220

**Governmental Activities Expense
(In Millions)**



THE COUNTY’S FUNDS

As the County completed the year, its governmental funds (as presented in the Balance Sheet on Exhibit 3) reported a combined fund balance of \$15,240,274, which is above last year’s total of \$6,414,025. The General Fund showed an increase of \$9,241,162. The majority of the increase was due to funds received for the building of a law enforcement center. Encumbered funds for the law enforcement center were \$9,306,738. The Public Works Special Revenue Fund had the largest decline in fund balance, primarily due to a planned use of fund balances to complete road projects. The Ditch Special Revenue Fund increased by \$83,487. The General Fund’s fund balance is 79.5 percent of the total governmental funds, compared to 44.9 percent at the end of 2006.

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the County's General Fund budget to include \$10,000,000 of bond proceeds for the construction of the law enforcement center and the related building and plant expenditure. Actual charges to appropriations (expenditures) were \$8,272,039 under the budget amounts. Law enforcement center construction costs were under budgeted amounts due to the timing of construction. Much of construction is now planned to happen in 2008 and early 2009. Public safety was \$99,708 over budget. Conservation of natural resources expenditures also reflected a higher than expected amount of loans for subsurface sewage septic systems (\$231,347). Economic development expenditures exceeded budgeted amounts by \$66,555 due to the County acting as fiscal agent for an unbudgeted Small Cities Development Loan program. Positive variances in other functional areas along with increased revenues provided resources to offset the excess spending.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the County had \$45,007,212 invested in a broad range of capital assets, including land, buildings, highways and streets, and equipment. (See Table 4.) This amount represents a net increase (including additions and deductions) of \$4,250,144 or 10.4 percent, over last year.

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

	<u>2007</u>	<u>2006</u>
Governmental Activities		
Land	\$ 1,022,882	\$ 789,945
Construction in progress	3,471,101	68,452
Building and improvements	1,355,153	1,518,590
Other improvements	116,104	165,789
Machinery and equipment	2,027,740	2,357,154
Infrastructure	<u>35,495,062</u>	<u>35,857,138</u>
Total	<u>\$ 43,488,042</u>	<u>\$ 40,757,068</u>
Business-Type Activities		
Construction in progress	<u>\$ 1,519,170</u>	<u>\$ -</u>

The majority of the increase came from the County's law enforcement center project starting in 2007. Construction in progress under business-type activities reports progress on the Huntley Sewer District project, which will be completed in 2008. There is more detailed information on capital assets in the notes to the financial statements.

Debt

At year-end, the County had \$12,940,000 in bonds and notes outstanding, versus \$2,745,000 for last year. Table 5 shows the outstanding debt.

Table 5
Outstanding Debt at Year-End

	<u>2007</u>	<u>2006</u>
Bonds payable	\$ 12,940,000	\$ 2,745,000
Capital leases	13,457	18,637
Loans payable	98,446	109,686
Compensated absences	<u>717,926</u>	<u>600,104</u>
Totals	<u>\$ 13,769,829</u>	<u>\$ 3,473,427</u>

The County's general obligation bond rating continues to carry an A3 rating by Moody's Investor Service as rated in 2007. The state limits the amount of net debt that the County can issue to two percent of the market value of all taxable property in the County. The County's outstanding net debt is significantly below this state-imposed limit. In August 2007, the County issued \$10,000,000 in 20-year General Obligation Jail Bonds and \$750,000 in Solid Waste Special Assessment Bonds. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County's elected and appointed officials considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged.

- The County's General Fund expenditures for 2008 are budgeted to increase 13 percent over 2007.
- The County bonded for \$10,000,000 in 2007 for the project with the remaining amount to be financed with fund balances and levy increases. The project was started in the fall of 2007 with completion set for the spring of 2009. The project will cost an estimated \$12,000,000.
- The County also sponsored a sewer system in the unincorporated area of Huntley. The County will issue \$360,000 in bonds to the U.S. Department of Agriculture in 2008 which will be paid back from revenues from the system. Construction began in the summer of 2007 with substantial completion in late 2007. The system began operation in January 2008. The majority of the financing for the system was from federal and state grants. The County did finance the private hookups for the system. Special assessments have been placed on property owners using the system over the next ten years. Activity for the project can be found in the business-type activities in the financial statements.
- Property tax levies have increased 7.9 percent for 2008.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact County Auditor, John Thompson, Faribault County Courthouse, 100 Main Street, P. O. Box 130, Blue Earth, Minnesota 56013.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
Assets					
Cash and pooled investments	\$ 13,767,458	\$ 37,700	\$ 13,805,158	\$ 100	\$ 290,798
Petty cash and change funds	2,602	-	2,602	-	-
Cash with fiscal agent	-	-	-	21,350	-
Investments	-	-	-	-	-
Taxes receivable					
Prior - net	93,260	-	93,260	-	-
Special assessments receivable					
Prior	8,041	-	8,041	-	-
Noncurrent	2,517,403	110,200	2,627,603	-	-
Accounts receivable - net	21,530	-	21,530	-	-
Accrued interest receivable	42,742	-	42,742	-	-
Loan receivable	-	-	-	-	144,274
Contracts receivable	-	-	-	-	-
Due from other governments	3,068,436	146,391	3,214,827	-	-
Advance to other governments	47,500	-	47,500	-	-
Advance to other agencies	-	-	-	-	100,000
Lease receivable	-	-	-	-	-
Internal balances	538,893	(538,893)	-	-	-
Inventories	1,369,232	-	1,369,232	-	-
Prepaid items	19,034	-	19,034	-	-
Restricted assets					
Cash and pooled investments	-	-	-	-	-
Deferred charges	74,182	-	74,182	-	-
Other assets	-	-	-	-	-
Investment in joint venture	-	-	-	-	-
Capital assets					
Non-depreciable	4,493,983	1,519,170	6,013,153	-	-
Depreciable - net of accumulated depreciation	38,994,059	-	38,994,059	-	-
Total Assets	\$ 65,058,355	\$ 1,274,568	\$ 66,332,923	\$ 21,450	\$ 535,072

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

*EXHIBIT 1
(Continued)*

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

	Primary Government			Discretely Presented Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
<u>Liabilities</u>					
Accounts payable	\$ 137,631	\$ 7,213	\$ 144,844	\$ 100	\$ 9,152
Salaries payable	173,865	-	173,865	-	2,977
Accrued payroll taxes	-	-	-	-	-
Other accrued liabilities	-	-	-	-	-
Contracts payable	154,218	29,682	183,900	-	-
Due to other governments	196,296	-	196,296	-	-
Accrued interest payable	176,446	-	176,446	-	-
Unearned revenue	13,593	-	13,593	-	-
Long-term liabilities					
Advance from other governments	-	-	-	-	50,000
Due within one year	566,400	-	566,400	-	-
Due in more than one year	13,171,132	-	13,171,132	-	-
Total Liabilities	\$ 14,589,581	\$ 36,895	\$ 14,626,476	\$ 100	\$ 62,129
<u>Net Assets</u>					
Invested in capital assets - net of related debt	\$ 42,071,415	\$ 1,519,170	\$ 43,590,585	\$ -	\$ -
Restricted for					
General government	275,591	-	275,591	-	-
Public safety	227,952	-	227,952	-	-
Highways and streets	2,026,837	-	2,026,837	-	-
Conservation of natural resources	-	-	-	-	-
Debt service	484,709	-	484,709	-	-
Capital projects	-	-	-	-	-
Housing assistance payments	-	-	-	21,350	-
Unrestricted	5,382,270	(281,497)	5,100,773	-	472,943
Total Net Assets	\$ 50,468,774	\$ 1,237,673	\$ 51,706,447	\$ 21,350	\$ 472,943

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities				
General government	\$ 2,967,409	\$ 680,945	\$ 250,982	\$ -
Public safety	2,108,658	228,154	250,278	-
Highways and streets	5,972,611	293,951	2,571,463	2,477,052
Sanitation	85,017	46,648	52,039	-
Human services	1,516,936	-	-	-
Health	-	-	1,542	-
Culture and recreation	356,500	38,057	-	1,123
Conservation of natural resources	1,025,541	2,073,115	48,463	-
Economic development	188,509	-	47,661	-
Interest	265,694	-	-	-
Total governmental activities	\$ 14,486,875	\$ 3,360,870	\$ 3,222,428	\$ 2,478,175
Business-type activities				
Huntley Sewer System	-	147,900	-	1,089,773
Total Primary Government	\$ 14,486,875	\$ 3,508,770	\$ 3,222,428	\$ 3,567,948
Component units				
Housing and Redevelopment Authority	\$ 294,445	\$ -	\$ 288,605	\$ -
Economic Development Authority	137,553	9,994	-	-
Total Component Units	\$ 431,998	\$ 9,994	\$ 288,605	\$ -

General Revenues

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

Total general revenues

Change in net assets

Net Assets - January 1

Net Assets - December 31

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Assets				
Governmental Activities	Primary Government		Discretely Presented Component Units	
	Business-Type Activities	Total	Housing and Redevelopment Authority	Economic Development Authority
\$ (2,035,482)	\$ -	\$ (2,035,482)		
(1,630,226)	-	(1,630,226)		
(630,145)	-	(630,145)		
13,670	-	13,670		
(1,516,936)	-	(1,516,936)		
1,542	-	1,542		
(317,320)	-	(317,320)		
1,096,037	-	1,096,037		
(140,848)	-	(140,848)		
(265,694)	-	(265,694)		
\$ (5,425,402)	\$ -	\$ (5,425,402)		
-	1,237,673	1,237,673		
\$ (5,425,402)	\$ 1,237,673	\$ (4,187,729)		
			\$ (5,840)	\$ -
			-	(127,559)
			\$ (5,840)	\$ (127,559)
\$ 5,916,393	\$ -	\$ 5,916,393	\$ -	\$ -
7,187	-	7,187	-	-
13,242	-	13,242	-	-
1,607,369	-	1,607,369	-	102,996
513,057	-	513,057	156	473
241,251	-	241,251	-	-
\$ 8,298,499	\$ -	\$ 8,298,499	\$ 156	\$ 103,469
\$ 2,873,097	\$ 1,237,673	\$ 4,110,770	\$ (5,684)	\$ (24,090)
47,595,677	-	47,595,677	27,034	497,033
\$ 50,468,774	\$ 1,237,673	\$ 51,706,447	\$ 21,350	\$ 472,943

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and pooled investments	\$ 2,528,030	\$ 354,840	\$ 1,783,913	\$ 195,530	\$ 8,905,145	\$ 13,767,458
Petty cash and change funds	2,305	297	-	-	-	2,602
Taxes receivable						
Prior	53,930	15,562	21,489	-	2,279	93,260
Special assessments						
Noncurrent	1,040,793	-	-	1,476,610	-	2,517,403
Prior	4,740	-	-	3,301	-	8,041
Accounts receivable	20,587	823	-	120	-	21,530
Accrued interest receivable	42,742	-	-	-	-	42,742
Due from other funds	10,019,863	4,994	-	44,772	128,265	10,197,894
Due from other governments	28,242	2,259,084	-	81,110	700,000	3,068,436
Prepaid expense	7,034	12,000	-	-	-	19,034
Advance to other funds	806,576	-	-	-	-	806,576
Advance to other governments	47,500	-	-	-	-	47,500
Inventories	-	1,369,232	-	-	-	1,369,232
Total Assets	<u>\$ 14,602,342</u>	<u>\$ 4,016,832</u>	<u>\$ 1,805,402</u>	<u>\$ 1,801,443</u>	<u>\$ 9,735,689</u>	<u>\$ 31,961,708</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General</u>	<u>Public Works</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 82,239	\$ 43,377	\$ -	\$ 12,015	\$ -	\$ 137,631
Salaries payable	126,512	47,353	-	-	-	173,865
Contracts payable	71,547	82,671	-	-	-	154,218
Due to other funds	1,076,020	44,772	-	621	8,537,588	9,659,001
Due to other governments	41,830	-	132,346	10,955	11,165	196,296
Deferred revenue - unavailable	1,073,110	2,251,950	14,900	1,538,482	701,812	5,580,254
Deferred revenue - unearned	11,641	641	896	-	415	13,593
Advance from other funds	-	-	-	806,576	-	806,576
Total Liabilities	<u>\$ 2,482,899</u>	<u>\$ 2,470,764</u>	<u>\$ 148,142</u>	<u>\$ 2,368,649</u>	<u>\$ 9,250,980</u>	<u>\$ 16,721,434</u>
Fund Balances						
Reserved for						
Encumbrances	\$ 9,306,738	\$ -	\$ -	\$ 438,317	\$ -	\$ 9,745,055
Inventories	-	1,369,232	-	-	-	1,369,232
Advance to other funds	806,576	-	-	-	-	806,576
Advance to other governments	47,500	-	-	-	-	47,500
Law library	34,816	-	-	-	-	34,816
Recorder's equipment purchases	79,757	-	-	-	-	79,757
Recorder's compliance fund	98,695	-	-	-	-	98,695
Enhanced 911	209,112	-	-	-	-	209,112
DARE	18,840	-	-	-	-	18,840
Highway projects	-	93,347	-	-	-	93,347
HAVA election plan	62,323	-	-	-	-	62,323
Unreserved						
Designated for						
Debt service	-	-	-	-	484,709	484,709
Future expenditures	850,000	-	-	-	-	850,000
Compensated absences	456,839	83,489	-	-	-	540,328
Environmental trust fund	30,000	-	-	-	-	30,000
Courthouse improvements	100,000	-	-	-	-	100,000
Undesignated	18,247	-	1,657,260	(1,005,523)	-	669,984
Total Fund Balances	<u>\$ 12,119,443</u>	<u>\$ 1,546,068</u>	<u>\$ 1,657,260</u>	<u>\$ (567,206)</u>	<u>\$ 484,709</u>	<u>\$ 15,240,274</u>
Total Liabilities and Fund Balances	<u>\$ 14,602,342</u>	<u>\$ 4,016,832</u>	<u>\$ 1,805,402</u>	<u>\$ 1,801,443</u>	<u>\$ 9,735,689</u>	<u>\$ 31,961,708</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS
TO NET ASSETS - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Fund balances - total governmental funds (Exhibit 3)		\$ 15,240,274
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.		43,488,042
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		5,580,254
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (12,175,000)	
Special assessment bonds	(765,000)	
Loans payable	(98,446)	
Bond discount	32,297	
Deferred debt issuance charges	74,182	
Accrued interest payable	(176,446)	
Compensated absences	(717,926)	
Capital leases payable	(13,457)	
	(13,839,796)	(13,839,796)
Net Assets of Governmental Activities (Exhibit 1)		\$ 50,468,774

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Public Works	Human Services	Ditch	Debt Service	Total Governmental Funds
Revenues						
Taxes	\$ 3,557,320	\$ 938,983	\$ 1,342,228	\$ -	\$ 84,120	\$ 5,922,651
Special assessments	194,587	-	-	574,017	269,289	1,037,893
Licenses and permits	1,885	-	-	-	-	1,885
Intergovernmental	1,891,502	4,529,117	186,951	-	11,098	6,618,668
Charges for services	781,025	145,790	-	-	-	926,815
Fines and forfeits	27,230	-	-	-	-	27,230
Gifts and contributions	3,948	-	-	-	-	3,948
Investment earnings	356,395	-	-	-	156,662	513,057
Miscellaneous	295,393	163,578	-	-	154,695	613,666
Total Revenues	\$ 7,109,285	\$ 5,777,468	\$ 1,529,179	\$ 574,017	\$ 675,864	\$ 15,665,813
Expenditures						
Current						
General government	\$ 4,755,075	\$ -	\$ -	\$ -	\$ -	\$ 4,755,075
Public safety	2,222,622	-	-	-	-	2,222,622
Highways and streets	185,044	6,515,576	-	-	-	6,700,620
Human services	-	-	1,516,936	-	-	1,516,936
Sanitation	85,017	-	-	-	-	85,017
Culture and recreation	198,521	154,977	-	-	-	353,498
Conservation of natural resources	614,968	-	-	409,691	-	1,024,659
Economic development	188,509	-	-	-	-	188,509
Debt service						
Principal	16,420	-	-	50,000	505,000	571,420
Interest	3,498	-	-	30,208	66,610	100,316
Bond issuance costs	-	-	-	-	56,164	56,164
Administrative (fiscal) charges	-	-	-	631	2,806	3,437
Total Expenditures	\$ 8,269,674	\$ 6,670,553	\$ 1,516,936	\$ 490,530	\$ 630,580	\$ 17,578,273
Excess of Revenues Over (Under)						
Expenditures	\$ (1,160,389)	\$ (893,085)	\$ 12,243	\$ 83,487	\$ 45,284	\$ (1,912,460)
Other Financing Sources (Uses)						
Transfers in	\$ 10,468,147	\$ -	\$ -	\$ -	\$ 66,596	\$ 10,534,743
Transfers out	(66,596)	-	-	-	(10,468,147)	(10,534,743)
Bonds issued	-	-	-	-	10,750,000	10,750,000
Discount on bonds issued	-	-	-	-	(23,894)	(23,894)
Total Other Financing Sources (Uses)	\$ 10,401,551	\$ -	\$ -	\$ -	\$ 324,555	\$ 10,726,106
Change in Fund Balances	\$ 9,241,162	\$ (893,085)	\$ 12,243	\$ 83,487	\$ 369,839	\$ 8,813,646
Fund Balances - January 1	2,878,281	2,426,550	1,645,017	(650,693)	114,870	6,414,025
Increase (decrease) in reserved for inventories	-	12,603	-	-	-	12,603
Fund Balances - December 31	\$ 12,119,443	\$ 1,546,068	\$ 1,657,260	\$ (567,206)	\$ 484,709	\$ 15,240,274

The notes to the financial statements are an integral part of this statement.

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 6

**RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Net change in fund balances - total governmental funds (Exhibit 5) \$ 8,813,646

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

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

Deferred revenue - December 31	\$ 5,580,254	
Deferred revenue - January 1	(3,886,095)	1,694,159

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

Expenditures for general capital assets and infrastructure	\$ 5,829,479	
Net book value of assets sold	(160,808)	
Current year depreciation	(2,937,697)	2,730,974

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

Proceeds of new debt		
General obligation bonds issued	\$ (10,000,000)	
Special assessment bonds issued	(750,000)	
Discount on bonds issued	23,894	
Bond issuance costs	56,164	(10,669,942)

Principal repayments		
General obligation bonds	\$ 505,000	
Special assessment bonds	50,000	
Capital lease	5,180	
Loans payable	11,240	571,420

Amortization of discount on bonds and issuance costs		(7,903)
--	--	---------

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	\$ (154,038)	
Change in compensated absences	(117,822)	
Change in inventories	12,603	(259,257)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 2,873,097

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PROPRIETARY FUND

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FUND NET ASSETS
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND
DECEMBER 31, 2007**

	Business-Type Activities
<u>Assets</u>	
Current assets	
Cash and pooled investments	\$ 37,700
Special assessments	
Noncurrent	110,200
Due from other funds	943,382
Due from other governments	146,391
Total current assets	\$ 1,237,673
Noncurrent assets	
Capital assets	
Nondepreciable	1,519,170
Total Assets	\$ 2,756,843
<u>Liabilities</u>	
Current liabilities	
Accounts payable	\$ 7,213
Contracts payable	29,682
Due to other funds	1,482,275
Total Liabilities	\$ 1,519,170
<u>Net Assets</u>	
Invested in capital assets	\$ 1,519,170
Unrestricted	(281,497)
Total Net Assets	\$ 1,237,673

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Business-Type Activities
Nonoperating Revenues	
Special assessments	\$ 147,900
Income before contributions	\$ 147,900
Capital contributions	
Capital contributions - federal	544,887
Capital contributions - state	544,886
Increase (decrease) in net assets	\$ 1,237,673
Net Assets - January 1	-
Net Assets - December 31	\$ 1,237,673

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
HUNTLEY SEWER DISTRICT ENTERPRISE (PROPRIETARY) FUND
FOR THE YEAR ENDED DECEMBER 31, 2007
Increase (Decrease) in Cash and Cash Equivalents**

	Business-Type Activities
Cash Flows from Capital and Related Financing Activities	
Special assessments	\$ 37,700
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 37,700
Cash and Cash Equivalents at January 1	-
Cash and Cash Equivalents at December 31	\$ 37,700
 Noncash Transactions	
Capital grant contributions receivable from the General Fund	
State	\$ 526,438
Federal	416,944
Capital grant contributions receivable from other governments	
State	18,448
Federal	127,943
Amounts due to the General Fund for construction costs	(1,482,275)
Capital expenses payable	(36,895)
 Total Noncash Transactions	 \$ (429,397)

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FIDUCIARY FUNDS

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 10

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2007**

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and pooled investments	\$ <u><u>123,883</u></u>
<u>Liabilities</u>	
Due to other governments	\$ <u><u>123,883</u></u>

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise fund, the County has chosen not to do so. The more significant accounting policies established in GAAP and used by the County are discussed below.

A. Financial Reporting Entity

Faribault County was established February 20, 1855, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Faribault County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discretely Presented Component Units

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

Component Unit	Included in Reporting Entity Because	Separate Financial Statements
Faribault County Economic Development Authority (EDA) provides services pursuant to Minn. Stat. §§ 469.090-469.1081.	County appoints all members and is able to impose its will on the EDA.	Separate financial statements are not prepared.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

<u>Component Unit</u>	<u>Included in Reporting Entity Because</u>	<u>Separate Financial Statements</u>
Faribault County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. §§ 469.001-469.047.	County appoints the Board member and must approve debt.	Faribault County HRA Minnesota Valley Action Council 410 Jackson Street P. O. Box 3327 Mankato, Minnesota 56002-3327

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

**FARIBAULT COUNTY
BLUE EARTH, 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 relating to public works for the establishment, location, vacation, construction, reconstruction, improvement, and maintenance of roads, bridges, and other projects affecting County roadways and parks.

The Human Services Special Revenue Fund is used to account for the transfer of Faribault County's share of the Faribault-Martin County Human Services Board.

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

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

The County considers all governmental funds to be major.

The County reports the following major enterprise fund:

The Huntley Sewer District Fund is used to account for the operation, maintenance, and development of the Huntley Sewer District. The County established the service district in 2006 to account for the activity of the sewer system built for the unincorporated area in Verona Township known as Huntley.

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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Faribault County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, 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 in the General Fund for 2007 were \$356,395.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

Faribault County invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The MAGIC Fund is not registered with the Securities and Exchange Commission, but does operate in a manner consistent with Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 C.F.R. § 270.2a-7). Therefore, the fair value of the County's position in the pool is the same as the value of the pool shares.

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the County:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Cash and Cash Equivalents

Each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

3. Receivables and Payables

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

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balance outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

4. Inventories

All inventories are valued at cost using the weighted average method. Inventories in governmental funds are recorded as expenditures when purchased. Inventories at the government-wide level are reported as expenses when consumed.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets have initial useful lives extending beyond two years and a dollar amount for capitalization per asset category as follows: all land and construction in progress are capitalized regardless of cost; machinery and equipment when the cost of individual items exceed \$5,000; other improvements, buildings and improvements when the cost exceeds \$25,000; and infrastructure when the cost of projects exceed \$50,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the County are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	7 - 40
Other improvements	15 - 25
Machinery and equipment	3 - 20
Infrastructure	25 - 30

6. Compensated Absences

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

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

9. Fund Equity

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance as of December 31, 2007, as follows:

Fund Balance - modified accrual basis	\$ (567,206)
Bonds payable	(765,000)
Deferred revenue - unavailable	<u>1,538,482</u>
Net Assets - full accrual basis	<u>\$ 206,276</u>

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

126 ditches with positive net asset balances	\$ 927,478
55 ditches with deficit net asset balances	<u>(721,202)</u>
Net Assets - full accrual basis	<u>\$ 206,276</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Governmental activities	
Cash and pooled investments	\$ 13,767,458
Petty cash and change funds	2,602
Business-type fund activities	
Cash and pooled investments	37,700
Component unit - EDA	
Cash and pooled investments	290,798
Fiduciary funds	
Cash and pooled investments	<u>123,883</u>
 Total Cash and Investments	 <u>\$ 14,222,441</u>

The HRA component unit cash is held by its fiscal agent (See Note 8).

a. Deposits

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2007, the County's deposits were not exposed to custodial credit risk.

b. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by limiting long-term investments. County policy states that approximately one-third of the County's total portfolio balance as of May 31 of the year reporting may be invested in items that mature in more than one year.

	Maturity Dates	
	0 - 1 Year	Over 1 Year
Deposits	\$ 4,798,330	\$ -
Petty cash	2,602	-
MAGIC Fund	562	-
CDARS	6,392,180	-
Federal Home Loan Bank (1)	-	1,927,126
Federal Home Loan Bank Bonds	-	502,644
Federal National Mortgage Association (1)	-	200,562
Freddie MAC (1)	-	200,435
Negotiable certificates of deposit	-	198,000
	<u>\$ 11,193,674</u>	<u>\$ 3,028,767</u>
Total Cash and Investments	<u>\$ 11,193,674</u>	<u>\$ 3,028,767</u>

(1) These notes have step-provisions, which could result in the notes being called prior to maturity.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County's investment policy is to minimize investment custodial credit risk by permitting brokers that obtained investments for the County to hold them only to the extent there is Securities Investor Protection Corporation (SIPC) and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. As of December 31, 2007, \$2,511,374 of the U.S. government agency securities investments were held by the investments counterparties, not in the name of Faribault County and, therefore, subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to minimize concentration of credit risk by diversifying the investment so that the impact

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

of potential losses from any one type of security will be minimized. The only investments in any one issuer that represent five percent or more of the County's investments are as follows:

Issuer		
CDARS	\$	6,392,180
FHLB STEP		1,927,126
FHLB Bonds		502,644

2. Receivables

Receivables as of December 31, 2007, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - prior	\$ 93,260	\$ -
Special assessments - prior	8,041	-
Special assessments - noncurrent	2,517,403	2,135,156
Accounts	21,530	-
Accrued interest	42,742	-
Due from other governments	3,068,436	455,000
Total Governmental Activities	\$ 5,751,412	\$ 2,590,156
Business-Type Activities		
Special assessments - noncurrent	\$ 110,200	\$ 102,224
Due from other governments	146,391	-
Total Business-Type Activities	\$ 256,591	\$ 102,224

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 789,945	\$ 232,937	\$ -	\$ 1,022,882
Construction in progress	68,452	3,439,326	36,677	3,471,101
Total capital assets not depreciated	<u>\$ 858,397</u>	<u>\$ 3,672,263</u>	<u>\$ 36,677</u>	<u>\$ 4,493,983</u>
Capital assets depreciated				
Buildings and improvements	\$ 3,610,344	\$ -	\$ 246,240	\$ 3,364,104
Other improvements	234,086	-	72,489	161,597
Machinery and equipment	5,492,553	307,861	381,227	5,419,187
Infrastructure	62,621,519	1,886,032	-	64,507,551
Total capital assets depreciated	<u>\$ 71,958,502</u>	<u>\$ 2,193,893</u>	<u>\$ 699,956</u>	<u>\$ 73,452,439</u>
Less: accumulated depreciation for				
Buildings	\$ 2,091,754	\$ 73,913	\$ 156,716	\$ 2,008,951
Other improvements	68,297	8,956	31,760	45,493
Machinery and equipment	3,135,399	524,302	268,254	3,391,447
Infrastructure	26,764,381	2,330,526	82,418	29,012,489
Total accumulated depreciation	<u>\$ 32,059,831</u>	<u>\$ 2,937,697</u>	<u>\$ 539,148</u>	<u>\$ 34,458,380</u>
Total capital assets depreciated, net	<u>\$ 39,898,671</u>	<u>\$ (743,804)</u>	<u>\$ 160,808</u>	<u>\$ 38,994,059</u>
Capital Assets, Net	<u>\$ 40,757,068</u>	<u>\$ 2,928,459</u>	<u>\$ 197,485</u>	<u>\$ 43,488,042</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

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

Governmental Activities		
General government	\$	122,003
Public safety		123,533
Highways and streets, including depreciation of infrastructure assets		2,692,161
Total Depreciation Expense - Governmental Activities	\$	2,937,697

Business-Type Activities

All capital assets related to business-type activities are construction in progress of \$1,519,170.

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2007, is as follows:

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount	Purpose
General	Debt Service	\$ 8,537,588	Bond proceeds
	Huntley Sewer District	1,482,275	Project costs
Public Works	General	4,373	Fuel usage
	Ditch	621	Fuel usage
Ditch	Public Works	44,772	Ditch levies
Debt Service	General	128,265	Debt service payments
Huntley Sewer District	General	943,382	Grants for sewer project
		\$ 11,141,276	

These interfund receivables and payables are expected to be paid within one year of December 31, 2007.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 806,576</u>

The advance from the General Fund to the Ditch Special Revenue Fund was to cover individual negative ditch balances. This advance is not expected to be eliminated within one year of December 31, 2007.

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of a transfer from the General Fund to the Debt Service Fund of \$66,596 for debt service payments and from the Debt Service Fund to the General Fund of \$10,468,147 to transfer bond proceeds to reimburse the General Fund for construction costs on the law enforcement center.

C. Liabilities

1. Other Postemployment Benefits

Retirees

The County provides post-retirement health care benefits for certain retirees and their dependents. The County pays the premium for eligible retired employees and one-half of the premiums for the retiree's spouse based on the County's \$1,000 CMM plan.

As of year-end, the County has 33 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2007, the County expended \$142,250 for these benefits.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Leases

Capital Leases

The County has entered into two capital lease agreements as lessee for financing the acquisition of copiers. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital leases consist of the following at December 31, 2007:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Governmental Activities					
2004 general copier	2009	Monthly	\$ 279	\$ 14,795	\$ 6,364
2005 extension copier	2010	Monthly	266	12,000	<u>7,093</u>
Total Leases					<u>\$ 13,457</u>

Lease payments are made from the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2007, were as follows:

<u>Year Ended December 31</u>	<u>Amount</u>
2008	\$ 6,539
2009	6,539
2010	<u>1,860</u>
Total lease payments	\$ 14,938
Less: amount representing interest	<u>(1,481)</u>
Present Value of Minimum Lease Payments	<u>\$ 13,457</u>

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2007
General obligation bonds					
1997 G.O. Landfill Closing Refunding Bonds	2008	\$ 60,000	4.60	\$ 475,000	\$ 60,000
2001 G.O. Bonds Taxable Refunding Waste Disposal Bonds	2016	20,000 - 30,000	6.20 - 6.70	300,000	210,000
2001 G.O. Solid Waste Revenue Refunding Bonds	2012	25,000 - 35,000	5.75 - 6.40	285,000	155,000
2001 G.O. Refunding Bonds	2009	140,000 - 160,000	6.20	1,435,000	300,000
2005 G.O. Solid Waste Revenue Refunding Bonds	2010	205,000 - 250,000	2.10 - 2.70	1,165,000	700,000
2007 G.O. Jail Bonds	2028	320,000 - 745,000	3.75 - 4.25	10,000,000	10,000,000
2007 G.O. Waste Disposal Bonds	2018	60,000 - 95,000	5.25 - 6.00	<u>750,000</u>	<u>750,000</u>
Total general obligation bonds				<u>\$ 14,410,000</u>	\$ 12,175,000
Less: unamortized discount					<u>(25,506)</u>
Total General Obligation Bonds, Net					<u>\$ 12,149,494</u>
General obligation special assessment bonds					
1999 G.O. Ditch Bonds	2014	\$ 15,000 - 20,000	4.40 - 4.95	\$ 280,000	\$ 120,000
2003 G.O. Ditch Bonds	2024	30,000 - 50,000	1.85 - 4.10	<u>725,000</u>	<u>645,000</u>
Total general obligation special assessment bonds				<u>\$ 1,005,000</u>	\$ 765,000
Less: unamortized discount					<u>(6,791)</u>
Total General Obligation Special Assessment Bonds, Net					<u>\$ 758,209</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Loans Payable

The County entered into a loan agreement with the Minnesota Pollution Control Agency for funding Clean Water Partnership projects in the Blue Earth River Watershed. The loans are secured by special assessments placed on the individual parcels. Loan payments will be reported in the General Fund.

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installments Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2007</u>
2005 Minnesota Pollution Control Agency loan	2015	\$ 13,378	2.00	\$ 120,704	<u>\$ 98,446</u>

4. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 490,000	\$ 461,818	\$ 50,000	\$ 28,645
2009	840,000	472,778	50,000	26,935
2010	650,000	445,134	50,000	25,205
2011	470,000	423,051	45,000	23,395
2012	495,000	402,564	45,000	21,745
2013 - 2017	2,575,000	1,681,627	210,000	82,791
2018 - 2022	2,675,000	1,115,609	215,000	43,663
2023 - 2027	3,235,000	512,187	100,000	4,250
2028	745,000	15,831	-	-
Total	<u>\$ 12,175,000</u>	<u>\$ 5,530,599</u>	<u>\$ 765,000</u>	<u>\$ 256,629</u>

<u>Year Ending December 31</u>	<u>Loan Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 11,466	\$ 1,912
2009	11,696	1,682
2010	11,932	1,446
2011	12,171	1,206
2012	12,416	962
2013 - 2016	38,765	1,368
Total	<u>\$ 98,446</u>	<u>\$ 8,576</u>

**FARIBAULT COUNTY
BLUE EARTH, 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, 2007, was as follows:

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 1,930,000	\$ 10,750,000	\$ 505,000	\$ 12,175,000	\$ 490,000
G.O. special assessment bonds	815,000	-	50,000	765,000	50,000
Less: deferred amounts for issuance discounts	(10,334)	(23,894)	(1,931)	(32,297)	-
Total bonds payable	\$ 2,734,666	\$ 10,726,106	\$ 553,069	\$ 12,907,703	\$ 540,000
Capital leases	18,637	-	5,180	13,457	5,602
Loans payable	109,686	-	11,240	98,446	11,466
Compensated absences	600,104	117,822	-	717,926	9,333
Long-Term Liabilities	<u>\$ 3,463,093</u>	<u>\$ 10,843,928</u>	<u>\$ 569,489</u>	<u>\$ 13,737,532</u>	<u>\$ 566,401</u>

4. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Faribault County are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund (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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. Members who are employed in a county correctional institution as a correctional guard or officer, a joint jailer/dispatcher, or as a supervisor of correctional guards or officers or of joint jailers/dispatchers and are directly responsible for the direct security, custody, and control of the county correctional institution and its inmates, are covered by the Public Employees Correctional Fund.

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 year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service. For Public Employees Correctional Fund members, the annuity accrual rate is 1.9 percent of average salary for each year of service.

For all Public Employees Retirement Fund members hired prior to July 1, 1989, 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.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent. Public Employees Police and Fire Fund members were required to contribute 7.80 percent of their annual covered salary in 2007. That rate increased to 8.60 percent in 2008. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

The County is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50
Public Employees Police and Fire Fund	11.70	12.90
Public Employees Correctional Fund	8.75	8.75

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2007, 2006, and 2005, 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
2007	\$ 146,179	\$ 57,248	\$ 36,915
2006	135,775	52,911	36,658
2005	125,911	50,105	23,373

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

B. Defined Contribution Plan

Seven employees of Faribault County are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00 percent of employer contributions and 0.25 percent of the assets in each member account annually.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

Total contributions by dollar amount and percentage of covered payroll made by the County during the year ending December 31, 2007, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 13,444	\$ 13,444
Percentage of covered payroll	5%	5%

Required contribution rates were 5.00 percent.

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County has entered into joint powers agreements with other Minnesota municipalities to form the South Central Service Cooperative (SCSC) to establish, procure, and administer group employee benefits. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$400,000 per claim in 2007 and \$410,000 per claim in 2008. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

5. Risk Management (Continued)

The SCSC contracts with Blue Cross/Blue Shield to administer the health insurance plan. All claims are pooled at year-end for the purpose of setting rates and reserves for the upcoming year. The SCSC provides financial risk management services that embody the concept of pooling risk for the purpose of stabilizing and/or reducing costs. Group employee benefits shall include, but not be limited to, health benefits coverage and other services as directed by the joint powers board. Members do not pay for deficiencies that arise in the current year.

6. Summary of Significant Contingencies and Other Items

A. 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.

B. Joint Ventures

Faribault-Martin Human Services Board

Faribault, Martin, and Watonwan Counties entered into a joint powers agreement (Minn. Stat. § 471.59) to provide welfare and health services to county residents (Minn. Stat. §§ 402.01-.10). The Faribault-Martin-Watonwan Human Services Board was established on June 30, 1975. As of January 1, 1991, Watonwan County withdrew from the Human Services Board. Faribault and Martin Counties are continuing with the Joint Powers Agreement. The Board has 12 members, six from each county. Each county collects its share of local tax revenues and transfers these funds to the Board to fulfill its ongoing financial responsibility.

Complete financial information can be obtained from:

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Prairieland Solid Waste Board (Prairieland)

Faribault and Martin Counties entered into a joint venture in 1990 to build and operate a solid waste composting plant – Prairieland. Prairieland is composed of ten members, the County Commissioners from both Faribault and Martin Counties. Faribault County’s proportionate interest in Prairieland is 43 percent. Prairieland reported a net loss of \$256,995 in 2007.

In 1996, the Solid Waste Resource Recovery Revenue Bonds issued by Prairieland were called with the funds received when both Faribault and Martin Counties issued county debt to repay these revenue bonds. On January 18, 2005, Faribault County issued \$1,165,000 of General Obligation Solid Waste Refunding Bonds to refund the County’s General Obligation Refunding Bonds of 1996, which were called on June 1, 2005.

Each county shows its share of the debt on its financial statements. Prairieland approved special assessments against all property owners and transfers this revenue to the individual county in sufficient amount to pay the principal, interest, and fees when due.

Separate financial information can be obtained from:

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

Rural Minnesota Energy Board

The Rural Minnesota Energy Board was established in 2005 under the authority of Minn. Stat. § 471.59. The Board includes the counties of Cottonwood, Faribault, Jackson, Lincoln, Lyon, Martin, Mower, Murray, Nobles, Pipestone, Redwood, Renville, Rock, and Watonwan. The purpose of the Board is to provide policy guidance on issues surrounding energy development in rural Minnesota and to foster the diversification of the economic climate in rural Minnesota. The focus of the Board includes, but is not limited to, renewable energy, wind energy, energy transmission lines, hydrogen energy technology, and bio-diesel and ethanol use.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Rural Minnesota Energy Board (Continued)

The governing board is composed of one voting member and one alternate member from each participating county's Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During 2007, Faribault County contributed \$2,000 to the Board made payable to the Southwest Regional Development Commission.

C. Jointly-Governed Organizations

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

The Greater Blue Earth River Basin Joint Powers (GBERBA) establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. During the year, the County made no contributions to the GBERBA.

The Three Rivers Resource Conservation & Development (RC&D) is a locally initiated, sponsored, and directed organization that works to enhance the quality of life by improving the economic, social, and environmental conditions within the area. During the year, the County paid \$650 to the RC&D.

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, the County paid \$125,565 to the Cooperative.

The Minnesota Counties Insurance Trust (MCIT) Joint Powers Board provides property/casualty and workers' compensation coverage to several Minnesota counties. During the year, the County paid \$216,231 to MCIT and received \$85,284 in dividends.

The Minnesota River Board was established to promote orderly water quality improvement and management of the Minnesota River watersheds. During the year, the County paid \$1,843 to the Board.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The South Central Drug Task Force was established to coordinate efforts among participating local governments to apprehend and prosecute drug offenders. During the year, the County paid \$1,500 to the Task Force.

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

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

The South Central Service Cooperative establishes, procures, and administers group employee benefits and other financial and risk management services that embody the concept of pooling risk and the purpose of stabilizing and/or reducing costs. During the year, the County paid \$150 to the Cooperative.

D. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the program. The County has met those responsibilities for 2007.

E. Construction Commitment

Faribault County has an active law enforcement center construction project as of December 31, 2007. During 2007, the Board approved \$1,114,534 in contracts for this project. On January 8 and 22, 2008, the County Board approved an additional \$9,314,516 in contracts for the project. As of December 31, 2007, the County has spent \$1,076,577, leaving a commitment of \$9,352,473. The commitment for the law enforcement center is being met by the 2007 issuance of bonds, the levying of funds, and use of General Fund cash balances.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

7. Faribault County Economic Development Authority (EDA)

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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

B. Detailed Notes

1. Assets

Receivables as of December 31, 2007, consist of \$144,274 loans made to individuals and businesses for development and a \$100,000 advance to the Minnesota Community Capital Fund.

2. Liabilities

Advances from other governments of \$50,000 consist of two economic development program advances received from two cities within the County.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

8. Housing and Redevelopment Authority (HRA)

Summary of Significant Accounting Policies

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

Reporting Entity

The HRA is governed by a five-member Board of Directors who are appointed by the County Board. All programs of the HRA are administered by the Minnesota Valley Action Council, Inc. (MVAC). The purpose of the HRA is to promote economic development and to administer the public housing programs authorized by the U.S. Housing Act of 1937, as amended. These programs are subsidized by the federal government through the U.S. Department of Housing and Urban Development.

Basis of Presentation

The HRA prepares separate financial statements. The HRA presents its one fund as an enterprise fund.

Basis of Accounting

The HRA Fund is accounted for on the accrual basis of accounting.

Cash and Pooled Investments

All cash of the HRA is on deposit with MVAC and included within its pooled cash and investments.

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REQUIRED SUPPLEMENTARY INFORMATION

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 3,549,003	\$ 3,549,003	\$ 3,557,320	\$ 8,317
Special assessments	126,400	126,400	194,587	68,187
Licenses and permits	970	970	1,885	915
Intergovernmental	1,801,990	1,801,990	1,891,502	89,512
Charges for services	644,150	644,150	781,025	136,875
Fines and forfeits	1,000	1,000	27,230	26,230
Gifts and contributions	-	-	3,948	3,948
Investment earnings	260,000	260,000	356,395	96,395
Miscellaneous	158,200	158,200	295,393	137,193
Total Revenues	\$ 6,541,713	\$ 6,541,713	\$ 7,109,285	\$ 567,572
Expenditures				
Current				
General government				
Commissioners	\$ 247,655	\$ 247,655	\$ 245,354	\$ 2,301
Courts	25,000	25,000	30,359	(5,359)
County auditor	252,450	252,450	248,906	3,544
Motor vehicle/license bureau	115,540	115,540	121,887	(6,347)
County treasurer	167,540	167,540	169,556	(2,016)
County assessor	264,945	264,945	251,049	13,896
Elections	5,000	5,000	4,190	810
Data processing	133,200	133,200	115,653	17,547
Central administration	124,870	124,870	129,142	(4,272)
Machine room	10,000	10,000	6,197	3,803
Attorney	185,210	185,210	208,865	(23,655)
Law library	15,000	15,000	16,483	(1,483)
Recorder	247,150	247,150	196,065	51,085
Vital statistics	15,700	15,700	3,957	11,743
Planning and zoning	86,970	86,970	114,005	(27,035)
Buildings and plant	1,068,370	11,068,370	2,437,631	8,630,739
Veterans service officer	135,970	135,970	137,721	(1,751)
Other general government	325,000	325,000	318,055	6,945
Total general government	\$ 3,425,570	\$ 13,425,570	\$ 4,755,075	\$ 8,670,495

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<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	\$ 1,527,534	\$ 1,527,534	\$ 1,607,412	\$ (79,878)
Public safety grants	7,000	7,000	6,135	865
Special investigations	4,500	4,500	1,500	3,000
Boat and water safety	1,000	1,000	17,377	(16,377)
County jail	136,500	136,500	202,832	(66,332)
Sentence to serve	36,000	36,000	34,362	1,638
Fraud investigator	58,650	58,650	73,685	(15,035)
Animal control	1,000	1,000	4,117	(3,117)
Probation and parole	216,060	216,060	232,070	(16,010)
Sheriff's contingency	1,000	1,000	-	1,000
Probation secretarial services	28,000	28,000	-	28,000
Emergency management	29,770	29,770	5,985	23,785
Enhanced 911	70,900	70,900	26,618	44,282
Medical examiner	5,000	5,000	8,831	(3,831)
DARE	-	-	1,698	(1,698)
Total public safety	\$ 2,122,914	\$ 2,122,914	\$ 2,222,622	\$ (99,708)
Highways and streets				
Transit	\$ 181,650	\$ 181,650	\$ 185,044	\$ (3,394)
Sanitation				
Solid waste	\$ 30,500	\$ 30,500	\$ 51,732	\$ (21,232)
Recycling	38,000	38,000	33,285	4,715
Total sanitation	\$ 68,500	\$ 68,500	\$ 85,017	\$ (16,517)
Culture and recreation				
Historical society	\$ 14,000	\$ 14,000	\$ 14,000	\$ -
County/regional library	181,649	181,649	183,696	(2,047)
Other cultural and recreation	900	900	825	75
Total culture and recreation	\$ 196,549	\$ 196,549	\$ 198,521	\$ (1,972)
Conservation of natural resources				
County extension	\$ 118,560	\$ 118,560	\$ 103,173	\$ 15,387
Soil and water conservation	53,100	53,100	58,000	(4,900)
Agricultural society/County fair	22,500	22,500	32,500	(10,000)
Predator control	-	-	361	(361)
Water planning	109,170	109,170	67,912	41,258
Septic loan program	120,850	120,850	352,197	(231,347)
Other conservation	-	-	825	(825)
Total conservation of natural resources	\$ 424,180	\$ 424,180	\$ 614,968	\$ (190,788)

The notes to the required supplementary information are an integral part of this schedule.

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**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

*Schedule 1
(Continued)*

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Economic development				
Community development	\$ 19,350	\$ 19,350	\$ 18,958	\$ 392
SCDL program	-	-	66,555	(66,555)
Appropriations	103,000	103,000	102,996	4
Total economic development	\$ 122,350	\$ 122,350	\$ 188,509	\$ (66,159)
Debt service				
Principal	-	-	16,420	(16,420)
Interest	-	-	3,498	(3,498)
Total debt service	\$ -	\$ -	\$ 19,918	\$ (19,918)
Total Expenditures	\$ 6,541,713	\$ 16,541,713	\$ 8,269,674	\$ 8,272,039
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (10,000,000)	\$ (1,160,389)	\$ 8,839,611
Other Financing Sources (Uses)				
Transfers in	-	10,000,000	10,468,147	468,147
Transfers out	-	-	(66,596)	(66,596)
Total Other Financing Sources (Uses)	\$ -	\$ 10,000,000	\$ 10,401,551	\$ 401,551
Change in Fund Balance	\$ -	\$ -	\$ 9,241,162	\$ 9,241,162
Fund Balance - January 1	2,878,281	2,878,281	2,878,281	-
Fund Balance - December 31	\$ 2,878,281	\$ 2,878,281	\$ 12,119,443	\$ 9,241,162

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
PUBLIC WORKS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 952,137	\$ 952,137	\$ 938,983	\$ (13,154)
Intergovernmental	4,918,894	4,918,894	4,529,117	(389,777)
Charges for services	480,000	480,000	145,790	(334,210)
Miscellaneous	48,000	48,000	163,578	115,578
Total Revenues	\$ 6,399,031	\$ 6,399,031	\$ 5,777,468	\$ (621,563)
Expenditures				
Current				
Highways and streets				
Administration	\$ 183,220	\$ 183,220	\$ 197,362	\$ (14,142)
Maintenance	1,102,216	1,102,216	2,004,203	(901,987)
Construction	4,163,000	4,163,000	2,983,971	1,179,029
Equipment maintenance and shop	885,900	885,900	790,586	95,314
Material and services for resale	-	-	99,875	(99,875)
Other - highways and streets	836,147	836,147	439,579	396,568
Total highways and streets	\$ 7,170,483	\$ 7,170,483	\$ 6,515,576	\$ 654,907
Culture and recreation				
Parks	154,041	154,041	154,977	(936)
Total Expenditures	\$ 7,324,524	\$ 7,324,524	\$ 6,670,553	\$ 653,971
Excess of Revenues Over (Under) Expenditures	\$ (925,493)	\$ (925,493)	\$ (893,085)	\$ 32,408
Fund Balance - January 1	2,426,550	2,426,550	2,426,550	-
Increase (decrease) in reserved for inventories	-	-	12,603	12,603
Fund Balance - December 31	\$ 1,501,057	\$ 1,501,057	\$ 1,546,068	\$ 45,011

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,358,960	\$ 1,358,960	\$ 1,342,228	\$ (16,732)
Intergovernmental	172,100	172,100	186,951	14,851
Total Revenues	\$ 1,531,060	\$ 1,531,060	\$ 1,529,179	\$ (1,881)
Expenditures				
Current				
Human services	1,588,156	1,588,156	1,516,936	71,220
Excess of Revenues Over (Under) Expenditures	\$ (57,096)	\$ (57,096)	\$ 12,243	\$ 69,339
Fund Balance - January 1	1,645,017	1,645,017	1,645,017	-
Fund Balance - December 31	\$ 1,587,921	\$ 1,587,921	\$ 1,657,260	\$ 69,339

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ 327,900	\$ 327,900	\$ 574,017	\$ 246,117
Expenditures				
Current				
Conservation of natural resources				
Ditch maintenance	\$ 250,000	\$ 250,000	\$ 409,691	\$ (159,691)
Debt service				
Principal	40,000	40,000	50,000	(10,000)
Interest	37,900	37,900	30,208	7,692
Fiscal charges	-	-	631	(631)
Total Expenditures	<u>\$ 327,900</u>	<u>\$ 327,900</u>	<u>\$ 490,530</u>	<u>\$ (162,630)</u>
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 83,487	\$ 83,487
Fund Balance - January 1	<u>(650,693)</u>	<u>(650,693)</u>	<u>(650,693)</u>	<u>-</u>
Fund Balance - December 31	<u>\$ (650,693)</u>	<u>\$ (650,693)</u>	<u>\$ (567,206)</u>	<u>\$ 83,487</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2007**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year-end.

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

The appropriated budget is prepared by fund, function, and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board revised the General Fund budget to include \$10,000,000 of bond proceeds for the construction of the law enforcement center and the related building and plant expenditures.

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

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2007, the Ditch Special Revenue Fund's expenditures exceeded appropriations (the legal level of budgetary control) by \$162,630. The expenditures in excess of budget were funded by revenues in excess of budget.

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SUPPLEMENTARY INFORMATION

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 80,350	\$ 80,350	\$ 84,120	\$ 3,770
Special assessments	260,200	260,200	269,289	9,089
Intergovernmental	10,550	10,550	11,098	548
Investment income	-	-	156,662	156,662
Miscellaneous	154,700	154,700	154,695	(5)
Total Revenues	\$ 505,800	\$ 505,800	\$ 675,864	\$ 170,064
Expenditures				
Debt service				
Principal	\$ 505,000	\$ 505,000	\$ 505,000	\$ -
Interest	66,650	66,650	66,610	40
Administrative - bond issuance costs	-	-	56,164	(56,164)
Administrative - fiscal charges	-	-	2,806	(2,806)
Total Expenditures	\$ 571,650	\$ 571,650	\$ 630,580	\$ (58,930)
Excess of Revenues Over (Under) Expenditures	\$ (65,850)	\$ (65,850)	\$ 45,284	\$ 111,134
Other Financing Sources (Uses)				
Transfers in	\$ 65,850	\$ 65,850	\$ 66,596	\$ 746
Transfers out	(10,000,000)	(10,000,000)	(10,468,147)	(468,147)
Bonds issued	10,000,000	10,000,000	10,750,000	750,000
Discount on bonds issued	-	-	(23,894)	(23,894)
Total Other Financing Sources (Uses)	\$ 65,850	\$ 65,850	\$ 324,555	\$ 258,705
Change in Fund Balance	\$ -	\$ -	\$ 369,839	\$ 369,839
Fund Balance - January 1	114,870	114,870	114,870	-
Fund Balance - December 31	\$ 114,870	\$ 114,870	\$ 484,709	\$ 369,839

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**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

AGENCY FUNDS

Agency funds are used to account for assets held as an agent by the County for others.

The Mortgage Registration Fund accounts for the taxes paid for registering a mortgage within the County.

The Deed Tax Fund accounts for money received from the sale of deed stamps.

The Tax and Penalty Fund accounts for the collection and distribution of property taxes, assessments, and forfeited taxes.

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 6

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1	Additions	Deductions	Balance December 31
<u>MORTGAGE REGISTRATION</u>				
<u>Assets</u>				
Cash and pooled investments	\$ (14,592)	\$ 100,309	\$ 103,909	\$ (18,192)
<u>Liabilities</u>				
Due to other governments	\$ (14,592)	\$ 100,309	\$ 103,909	\$ (18,192)
 <u>DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 28,653	\$ 135,363	\$ 135,150	\$ 28,866
<u>Liabilities</u>				
Due to other governments	\$ 28,653	\$ 135,363	\$ 135,150	\$ 28,866
 <u>TAX AND PENALTY</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 111,995	\$ 13,905,767	\$ 13,904,553	\$ 113,209
<u>Liabilities</u>				
Due to other governments	\$ 111,995	\$ 13,905,767	\$ 13,904,553	\$ 113,209
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 126,056	\$ 14,141,439	\$ 14,143,612	\$ 123,883
<u>Liabilities</u>				
Due to other governments	\$ 126,056	\$ 14,141,439	\$ 14,143,612	\$ 123,883

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COMPONENT UNIT

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 7

**GOVERNMENTAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
DECEMBER 31, 2007**

	General Fund	Adjustments*	Statement of Net Assets
<u>Assets</u>			
Current assets			
Cash and pooled investments	\$ 290,798	\$ -	\$ 290,798
Loans receivable	144,274	-	144,274
Noncurrent assets			
Advance to other agencies	100,000	-	100,000
Total Assets	\$ 535,072	\$ -	\$ 535,072
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 9,152	\$ -	\$ 9,152
Salaries payable	2,977	-	2,977
Deferred revenue	144,274	(144,274)	-
Long-term liabilities			
Advance from other governments	50,000	-	50,000
Total Liabilities	\$ 206,403	\$ (144,274)	\$ 62,129
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Reserved for long-term receivable	\$ 50,000	\$ (50,000)	
Unreserved, designated for redevelopment loans	278,669	(278,669)	
Total Fund Balance	\$ 328,669	\$ (328,669)	
Net Assets			
Unrestricted		\$ 472,943	\$ 472,943
Total Liabilities and Fund Balance	\$ 535,072		

*Note: Long-term loans receivable not available to pay for current period expenses are deferred in governmental funds.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 8

**GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
COMPONENT UNIT - ECONOMIC DEVELOPMENT AUTHORITY
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General Fund</u>	<u>Adjustments*</u>	<u>Statement of Net Assets</u>
Revenues			
Intergovernmental	\$ 102,996	\$ -	\$ 102,996
Charges for services	73,234	(63,942)	9,292
Investment earnings	473	-	473
Miscellaneous	702	-	702
	<u>177,405</u>	<u>(63,942)</u>	<u>113,463</u>
Total Revenues	\$ 177,405	\$ (63,942)	\$ 113,463
Expenditures/Expenses			
Current			
Economic development	137,553	-	137,553
	<u>137,553</u>	<u>-</u>	<u>137,553</u>
Net Change in Fund Balance/Net Assets	\$ 39,852	\$ (63,942)	\$ (24,090)
Fund Balance/Net Assets - January 1	<u>288,817</u>	<u>208,216</u>	<u>497,033</u>
Fund Balance/Net Assets - December 31	<u><u>328,669</u></u>	<u><u>144,274</u></u>	<u><u>472,943</u></u>

*Note: Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund. This adjustment is the change in deferred revenues during the year.

OTHER SCHEDULE

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 9

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Funds	Enterprise Fund	Total Primary Government
Shared Revenue			
State			
Highway users tax	\$ 3,385,143	\$ -	\$ 3,385,143
PERA rate reimbursement	13,448	-	13,448
Disparity reduction aid	71,853	-	71,853
Police aid	52,911	-	52,911
County program aid	772,540	-	772,540
Market value credit	749,528	-	749,528
Enhanced 911	90,792	-	90,792
	\$ 5,136,215	\$ -	\$ 5,136,215
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 27,557	\$ -	\$ 27,557
	\$ 27,557	\$ -	\$ 27,557
Payments			
Local			
Payments in lieu of taxes	\$ 13,242	\$ -	\$ 13,242
	\$ 13,242	\$ -	\$ 13,242
Grants			
State			
Minnesota Department of			
Public Safety	\$ 7,967	\$ -	\$ 7,967
Natural Resources	53,485	-	53,485
Employment and Economic Development	-	544,886	544,886
Corrections	59,220	-	59,220
Transportation	136,596	-	136,596
Water and Soil Resources Board	88,699	-	88,699
Pollution Control Agency	52,039	-	52,039
Peace Officer Standards and Training Board	5,870	-	5,870
	\$ 403,876	\$ 544,886	\$ 948,762
Total State			
	\$ 403,876	\$ 544,886	\$ 948,762
Federal			
Department of			
Agriculture	\$ -	\$ 544,887	\$ 544,887
Housing and Urban Development	47,661	-	47,661
Transportation	961,621	-	961,621
Homeland Security	28,496	-	28,496
	\$ 1,037,778	\$ 544,887	\$ 1,582,665
Total Federal			
	\$ 1,037,778	\$ 544,887	\$ 1,582,665
Total State and Federal Grants			
	\$ 1,441,654	\$ 1,089,773	\$ 2,531,427
Total Intergovernmental Revenue			
	\$ 6,618,668	\$ 1,089,773	\$ 7,708,441

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 10

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2007

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Faribault County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Faribault County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Faribault County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Faribault County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Water and Waste Disposal Loans and Grants	CFDA #10.770
Highway Planning and Construction	CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Faribault County was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-5 Capital Asset Records

The County Board has a capital asset policy that discusses capitalization thresholds and use of straight-line depreciation. The policy does not discuss estimated useful lives or use of salvage values. As a result, estimated useful lives are not used consistently. General government buildings are depreciated over 30 years, while highway buildings are depreciated over 39 and 40 years.

To improve control over capital assets, we recommend that the County Board approve policies and procedures that establish consistent useful lives and set guidance on when to use salvage values in computing depreciation. If exceptions to the capitalization threshold policy are allowed, those exceptions should be spelled out in the policy.

Client's Response:

The County is in the process of developing an accounting policy which will include the items noted in this comment. It is the County's goal to have the policy adopted by December 31, 2008.

03-1 General Ledger Items

While reviewing the County's general ledger account activity report, we noted the following items of concern. Certain funds in the general ledger were not in balance at the end of the year. The General Fund was out of balance by \$300,757, the Public Works Special Revenue Fund by \$3,037, the Ditch Special Revenue Fund by \$4,417, the Debt Service Fund by \$299,172, and the Economic Development Authority Component Unit by \$1,980.

In order to improve the financial records of the County, we recommend that, on a monthly basis, the County review each fund and the total for the general ledger to ensure that the funds and general ledger are in balance. This can be done by looking at the last line for each fund and the cumulative total for the general ledger. In each case, the last

line in the report for the fund or the cumulative general total should have a zero amount. If the amount is other than zero, it means that either a debit or credit entry was not posted to the general ledger.

Client's Response:

The County will work with our vendor to have the general ledger corrected. It is the County's goal to have the issue corrected by December 31, 2008. Procedures for monthly review of the general ledger will be part of the County's accounting policy which is being developed with a goal of adoption by December 31, 2008.

06-1 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that is typically considered significant is identification by the auditor of a material misstatement in the financial statements not initially identified by the County's internal controls. During our audit, we proposed the following adjustments that resulted in significant changes to the County's financial statements.

- Corrections were made to reclassify various revenues in the General Fund (\$101,468) and Public Works Special Revenue Fund (\$163,578).
- Additional deferred revenue was recorded in the Public Works Special Revenue Fund (\$181,030).
- Corrections were made to reduce due from other governments (\$125,187) and designation for compensated absences (\$177,598) in the Public Works Special Revenue Fund.
- Corrections were made to interfund balances to reverse their elimination at the fund level in the Huntley Sewer District Fund (\$1,482,275).

The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County modify internal controls over financial reporting to detect misstatements in the financial statements. We also encourage a thorough review of draft financial statements and supporting information to identify potential misstatements.

Client's Response:

The County realizes that the process of developing financial statements had changed over the years. In order to prepare for the ever increasing and changing requirements of the governmental accounting industry, the County plans to hire an outside vendor to help plan and prepare financial statements for the year ending December 31, 2008.

06-2 Budgeting

The County does not have a formal written budget policy. In general, local governments should have an adopted budget policy that includes elements such as:

- procedures for adopting the budget,
- which funds require budgets,
- the legal level of control,
- when budgets can be modified by management and when budget modifications require Board approval,
- the budgetary basis on which the budget is adopted, and
- the procedures for monitoring the budget.

After the County Board has adopted a budget, it should be entered into the Integrated Financial System (IFS) to be used as a monitoring tool. Someone who is independent of the budgeting process should enter the budget; alternatively, the budget could be reviewed by someone independent of the budgeting process after it has been entered into the IFS. At Faribault County, the budget is entered into the IFS by the County Auditor, who is not independent of the budgeting process.

The ability to modify the budget during the year for new circumstances makes the budget more valuable because budgetary differences are not distorted by the new circumstances. Budget modifications should be made throughout the year to maintain the value of the budget as an internal control tool. In Faribault County, budget modifications are not always made for significant changes in expected activity.

We recommend that the County Board amend its budget policy to include the elements recommended above, that budget amounts should be entered into the IFS by a person independent of the budgeting process, and that the County budget be modified as necessary for significant changes in expected activity.

Client's Response:

The County is developing an accounting policy which will include a budget policy. It is the goal to have this policy adopted by December 31, 2008. The County Board will consider the items mentioned in this finding. It should be noted that the size of the staff in Faribault County departments may limit the segregation of duties as mentioned by the findings. The County Board is made aware of significant changes in the budget expectations throughout the year although formal changes in the budget were not made.

ITEM ARISING THIS YEAR

07-1 Deposit Daily Collections Timely

The daily collections for February 26, 2007, totaling \$33,695.30, were not deposited with the bank until March 15, 2007. Daily collections should be deposited in the bank in a timely manner to prevent misuse or loss of County funds.

We recommend that the County assign someone other than the person making the deposit the responsibility to check with the bank to see that all deposits over a certain amount have been recorded by the bank in a timely manner.

Client's Response:

The County Treasurer, the County Auditor, and the County Board will take under consideration the development of a policy directed at daily deposits. The policy will be written to assure timely deposits thereby preventing loss of interest.

PREVIOUSLY REPORTED ITEM RESOLVED

Capital Asset Records (96-5a)

The capital asset records included capitalized items below the capitalization threshold.

Resolution

In 2007, the County removed those assets below the capitalization threshold from the capital asset records.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-1 Individual Ditch System Deficits

At December 31, 2007, 20 of the 181 individual ditch systems had deficit cash balances totaling \$214,894. Minn. Stat. § 103E.655, subd. 2, authorizes loans from ditch systems with a surplus or from the General Fund to a ditch system with insufficient cash to pay expenditures. This statute requires that the fund from which the funds were borrowed be repaid with interest. Allowing a ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from the other ditch systems or other funds of the County and, as such, is in noncompliance with Minnesota law.

In addition, 55 individual ditch systems had negative fund balances on a full accrual basis totaling \$721,202. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefit of the ditch system or \$40,000, whichever is larger. This situation is caused by the nature of drainage maintenance. The County levies assessments to cover the cost of construction and repair of drainage systems.

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

Client's Response:

The County will continue to levy assessments for ditch systems.

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows counties to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits counties to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

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

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

GASB Statement 45 would be applicable to Faribault County for the year ended December 31, 2008.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners
Faribault County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 24, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Faribault County Housing and Redevelopment Authority, a discretely presented component unit of the County, as described in our report on Faribault County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-5, 03-1, 06-1, 06-2, and 07-1 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Faribault County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Faribault County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 96-1.

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to Faribault County, and it is reported for that purpose.

Faribault County's written responses to the significant deficiencies and legal compliance finding identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 24, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioners
Faribault County

Compliance

We have audited the compliance of Faribault County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Faribault County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Faribault County's financial statements include the operations of the Faribault County Housing and Redevelopment Authority component unit, which expended \$288,605 in federal awards during the year ended December 31, 2007, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of Faribault County Housing and Redevelopment Authority because the HRA was audited by other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Faribault County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Faribault County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Faribault County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Faribault County as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 24, 2008. We did not audit the financial statements of Faribault County Housing and Redevelopment Authority, a discretely presented component unit of the County. Our audit was performed for the purpose of forming opinions on Faribault 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 others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 24, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

Schedule 11

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Direct		
Water and Waste Disposal Loans and Grants	10.770	<u>\$ 544,887</u>
U.S. Department of Housing and Urban Development		
Passed Through Minnesota Department of Employment and Economic Development		
Community Development Block Grant	14.228	<u>\$ 47,661</u>
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 947,386
Public Transportation for Non-Urbanized Areas	20.509	60,062
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	<u>1,542</u>
Total U.S. Department of Transportation		<u>\$ 1,008,990</u>
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 15,846
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grant	97.042	10,122
Homeland Security Grant Program	97.067	<u>2,528</u>
Total U.S. Department of Homeland Security		<u>\$ 28,496</u>
Total Federal Awards		<u>\$ 1,630,034</u>

Notes to Schedule of Expenditures of Federal Awards

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