

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

NOBLES COUNTY
WORTHINGTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

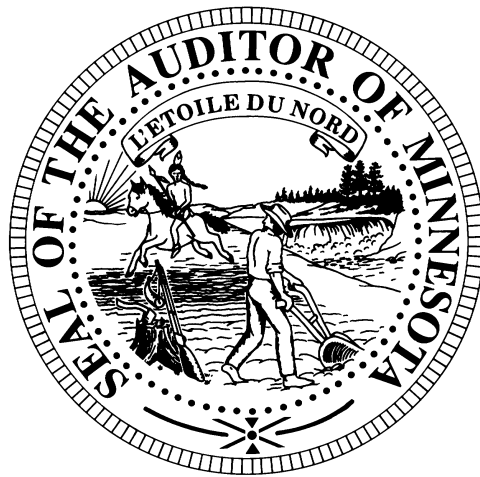
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

For the Year Ended December 31, 2005



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

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

**ELECTED AND APPOINTED OFFICIALS
2005**

<u>Office</u>	<u>Name</u>	<u>Term Expires</u>
Commissioners		
1st District	Marvin Zylstra ¹	January 2007
2nd District	Diane Thier	January 2009
3rd District	David Benson ²	January 2007
4th District	Norm Gallagher	January 2007
5th District	Claire Gerber	January 2009
Officials		
Elected		
Attorney	Gordon Moore	January 2007
Auditor/Treasurer	Sharon A. Balster	January 2007
County Judge	Jeffrey Flynn	January 2007
Recorder	Lynn Wilson	January 2007
Sheriff	Kent Wilkening	January 2007
Appointed		
County Administrator	Melvin Ruppert	Indefinite
Assessor	Byron A. Swart	Indefinite
Court Administrator	Nancy Vander Kooi	Indefinite
Coroner	Dr. John N. Mork	January 2007
Highway Engineer	Stephen Schnieder	Indefinite

¹Chair 2006

²Chair 2005

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Nobles County

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Nobles County as of December 31, 2005, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2006, on our consideration of Nobles County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

(Unaudited)

As management of Nobles County, Minnesota, we offer the readers of the Nobles County financial statements this Management's Discussion and Analysis (MD&A) of its financial activities for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Nobles County exceeded its liabilities on December 31, 2005, by \$62,660,094 (net assets). Of this amount, \$5,795,765 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- Nobles County's total net assets increased by \$5,569,165 in 2005. This is attributable primarily to an increase in intergovernmental revenues.
- As of the close of 2005, Nobles County's governmental funds reported combined ending fund balances of \$19,775,334, an increase of \$389,759 in comparison with 2004. Of this amount, \$4,719,800 was unreserved and undesignated by Nobles County, and thus available for spending at the County's discretion.
- At the end of 2005, unreserved and undesignated fund balance for the General Fund was \$2,266,494, or 20.6 percent, of the total General Fund expenditures for that year.
- During 2005, Nobles County's long-term liabilities of bonded debt and capital leases decreased by \$3,530,421, or 13.3 percent. The key factor in this decrease was the termination agreement with the Minnesota Soybean Processors and the Rural Development Financing Authority, whereby the Minnesota Soybean Processors agreed to pay \$3,201,318 to refund previously issued tax increment bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government wide and fund financial statements. The notes to the financial statements can be found on pages 26 through 59 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Nobles County's assets exceeded liabilities by \$62,660,094 at the close of 2005. The largest portion of Nobles County's net assets (77 percent) reflects the County's investment in capital assets (for example, land, buildings, equipment, and infrastructure, such as roads and bridges), less any related debt (still outstanding) used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 23,358,696	\$ 24,847,591
Capital assets	65,406,390	62,023,544
Total Assets	\$ 88,765,086	\$ 86,871,135
Liabilities		
Long-term liabilities	\$ 24,069,035	\$ 27,569,970
Other liabilities	2,035,957	1,974,166
Total Liabilities	\$ 26,104,992	\$ 29,544,136
Net Assets		
Invested in capital assets, net of related debt	\$ 48,242,872	\$ 38,143,544
Restricted	8,621,457	10,030,205
Unrestricted	5,795,765	9,153,250
Total Net Assets	\$ 62,660,094	\$ 57,326,999

The unrestricted net assets amount of \$5,795,765 as of December 31, 2005, may be used to meet the County's ongoing obligations to citizens and creditors.

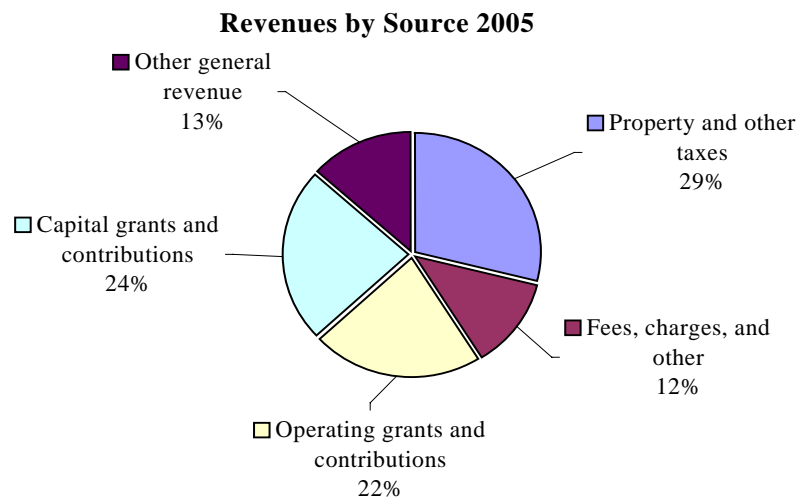
Governmental Activities

Nobles County's activities increased Nobles County's net assets during 2005 by \$5,569,165 (9.30 percent). Key elements in this increase in net assets are as follows:

Changes in Net Assets

	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 2,964,011	\$ 2,629,969
Operating grants and contributions	5,185,952	5,096,636
Capital grants and contributions	5,619,773	4,138,136
General revenues		
Property taxes	6,862,895	6,074,791
Other	3,207,027	2,804,056
Total Revenues	\$ 23,839,658	\$ 20,743,588

	2005	2004
Expenses		
General government	\$ 3,444,234	\$ 3,252,595
Public safety	3,530,717	3,250,716
Highways and streets	3,489,828	2,992,063
Sanitation	328,073	320,959
Human services	4,642,070	4,240,925
Health	119,799	84,636
Culture and recreation	649,234	628,940
Conservation of natural resources	265,910	333,058
Economic development	479,318	38,026
Interest	1,321,310	999,418
Total Expenses	<u>\$ 18,270,493</u>	<u>\$ 16,141,336</u>
Increase in Net Assets	\$ 5,569,165	\$ 4,602,252
Net Assets - January 1, restated	<u>57,090,929</u>	<u>52,724,747</u>
Net Assets - December 31	<u>\$ 62,660,094</u>	<u>\$ 57,326,999</u>



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, Nobles County's governmental funds reported combined ending fund balances of \$19,775,334, an increase of \$389,759 in comparison with the prior year. Unreserved fund balance of \$11,835,428 is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund for Nobles County. At the end of the current fiscal year, it had an unreserved fund balance of \$5,281,468. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 48 percent of total General Fund expenditures. In 2005, the ending fund balance in the General Fund increased by \$17,596.

The Public Works Special Revenue Fund unreserved fund balance of \$2,413,191 at year-end represents 28.39 percent of the fund's annual expenditures. Unreserved fund balance decreased \$1,017 in 2005 primarily due to the net change in fund balance.

The Family Services Special Revenue Fund unreserved fund balance of \$2,592,165 at year-end represents 56.01 percent of the fund's annual expenditures. Unreserved fund balance decreased \$102,566 during 2005, primarily due to the net change in fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

- There were no differences between the original expenditure budget and the final budget.
- Actual revenues exceeded budgeted revenues by \$3,688,339, primarily due to intergovernmental and miscellaneous revenue being more than expected.
- Actual expenditures exceeded budgeted expenditures by \$3,745,827 and were primarily a result of expenditures from the public safety.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Nobles County's capital assets for its governmental activities at December 31, 2005, totaled \$65,406,390 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The County's investment in capital assets increased \$3,382,846, or 5.46 percent, from the previous year. The majority of the change in capital assets was the increase in infrastructure.

**Governmental Capital Assets
(Net of Depreciation)**

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 998,467	\$ 130,621	\$ -	\$ 1,129,088
Capital assets depreciated				
Land improvements	\$ 1,809,186	\$ -	\$ -	\$ 1,809,186
Buildings	23,409,117	57,591	398,815	23,067,893
Machinery and equipment	4,519,060	759,307	399,716	4,878,651
Infrastructure	49,071,844	4,894,031	-	53,965,875
Total capital assets depreciated	\$ 78,809,207	\$ 5,710,929	\$ 798,531	\$ 83,721,605
Less: accumulated depreciation for				
Land improvements	\$ 246,024	\$ 89,819	\$ -	\$ 335,843
Buildings	3,940,401	667,365	227,066	4,380,700
Machinery and equipment	2,325,926	389,725	330,020	2,385,631
Infrastructure	11,271,779	1,070,350	-	12,342,129
Total accumulated depreciation	\$ 17,784,130	\$ 2,217,259	\$ 557,086	\$ 19,444,303
Total capital assets depreciated, net	\$ 61,025,077	\$ 3,493,670	\$ 241,445	\$ 64,277,302
Total Capital Assets, Net	\$ 62,023,544	\$ 3,624,291	\$ 241,445	\$ 65,406,390

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

Long-Term Debt

At the end of the current fiscal year, the County had total outstanding liabilities of \$24,069,035, which is a decrease of \$3,500,935 from the prior year's total.

Outstanding Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General Obligation Bonds					
1999 G.O. Jail Facility Bonds		\$315,000 -	4.50 -		
	2020	\$645,000	5.45	\$ 8,320,000	\$ 6,875,000
2004 G.O. Jail Refunding Bonds		\$425,000 -	2.50 -		
	2020	\$620,000	3.90	6,125,000	6,125,000
2005 G.O. Capital Improvement Bonds		\$225,000 -	3.63 -		
	2021	\$380,000	3.69	4,705,000	4,705,000
Total general obligation bonds				\$ 19,150,000	\$ 17,705,000
Less: unamortized discount					(66,926)
Total General Obligation Bonds, Net					\$ 17,638,074

The County's debt related to general obligation bonds increased by \$1,600,000 (9.94 percent) during the fiscal year due to issuance of general obligation capital improvement bonds. In addition to the long-term debt listed above, long-term liabilities include capital leases, financial assurance, and compensated absences.

On October 27, 2005, Nobles County issued General Obligation Capital Improvement Bonds, Series 2005A, for \$4,705,000, with interest rates of 3.63 percent to 3.90 percent. An Escrow Account will be established with the proceeds of the Series 2005A Bonds, from which principal and interest payments due February 1, 2006, through February 1, 2010, will be made on the Series 2000 Bonds. The callable portion of the \$5,130,000 Public Project Revenue Bonds, Series 2000, (bonds maturing in the years 2011 through 2022) will be redeemed and paid by the Escrow Account on February 1, 2010. The County is responsible for the payment of debt service on the Series 2005A Bonds commencing February 1, 2006. As a result, the bonds are considered to be defeased, and the liability for the Capital Lease has been removed from the financial statements. This refunding decreased total debt service payments over the next 17 years by \$1,079,324, resulting in an economic gain of \$492,519.

Minnesota statutes limit the amount of debt a county may levy to two percent of its total market value. At the end of 2005, Nobles County's debt was 1.236 percent of its total market value.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Nobles County at the end of 2005 was 3.5 percent. This compares favorably with the state unemployment rate of 4.0 percent and shows a slight decrease from the 3.9 percent rate of one year ago.

By the end of 2005, Nobles County approved its balanced 2006 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

EXHIBIT 1

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

	Primary Government	Component Units	
		Nobles-Rock Public Health Services	Rock-Nobles Community Corrections
<u>Assets</u>			
Cash and investments	\$ 19,838,231	\$ 425,824	\$ 116,497
Receivables - net	2,941,638	102,579	32,303
Inventories	140,383	-	-
Prepaid items	82,472	-	4,378
Deferred charges	355,972	-	-
Capital assets			
Non-depreciable capital assets	1,129,088	-	-
Depreciable capital assets - net of accumulated depreciation	64,277,302	34,112	19,494
Total Assets	\$ 88,765,086	\$ 562,515	\$ 172,672
<u>Liabilities</u>			
Accounts payable and other current liabilities	\$ 1,004,495	\$ 127,724	\$ 19,710
Accrued interest payable	479,454	-	-
Unearned revenue	552,008	30,205	-
Long-term liabilities			
Due within one year	813,077	7,280	3,423
Due in more than one year	23,255,958	83,950	45,483
Total Liabilities	\$ 26,104,992	\$ 249,159	\$ 68,616
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 48,242,872	\$ 34,112	\$ 19,494
Restricted for			
Highways and streets	1,476,333	-	-
Public safety	63,970	-	-
Debt service	7,029,893	-	-
Other purposes	51,261	-	-
Unrestricted	5,795,765	279,244	84,562
Total Net Assets	\$ 62,660,094	\$ 313,356	\$ 104,056

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
Functions/Programs		
Primary government		
Governmental activities		
General government	\$ 3,444,234	\$ 1,072,520
Public safety	3,530,717	840,778
Highways and streets	3,489,828	228,735
Sanitation	328,073	443,304
Human services	4,642,070	237,954
Health	119,799	-
Culture and recreation	649,234	60,306
Conservation of natural resources	265,910	70,561
Economic development	479,318	9,853
Interest	1,321,310	-
	\$ 18,270,493	\$ 2,964,011
Total primary government		
Component units		
Nobles-Rock Public Health Services	\$ 1,716,172	\$ 847,091
Rock-Nobles Community Corrections	577,027	51,472
	\$ 2,293,199	\$ 898,563
	\$ 2,293,199	

General Revenues

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

Total general revenues

Change in net assets

**Net Assets - Beginning, as restated
(Note 1.F. and 8.A.)**

Net Assets - Ending

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Primary Government Governmental Activities	Discretely Presented Component Units	
Operating Grants and Contributions	Capital Grants and Contributions		Nobles-Rock Public Health Services	Rock-Nobles Community Corrections
\$ 101,866	\$ -	\$ (2,269,848)		
173,312	127,345	(2,389,282)		
1,963,433	2,644,021	1,346,361		
49,079	-	164,310		
2,813,694	-	(1,590,422)		
-	-	(119,799)		
15,926	-	(573,002)		
68,642	-	(126,707)		
-	2,848,407	2,378,942		
-	-	(1,321,310)		
\$ 5,185,952	\$ 5,619,773	\$ (4,500,757)		
\$ 616,128	\$ -		\$ (252,953)	\$ -
421,983	-		-	(103,572)
\$ 1,038,111	\$ -		\$ (252,953)	\$ (103,572)
		\$ 6,862,895	\$ -	\$ -
		11,583	-	-
		30,413	-	-
		1,943,961	175,869	143,058
		519,447	-	-
		701,623	-	-
		\$ 10,069,922	\$ 175,869	\$ 143,058
		\$ 5,569,165	\$ (77,084)	\$ 39,486
		57,090,929	390,440	64,570
		\$ 62,660,094	\$ 313,356	\$ 104,056

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	General	Public Works
<u>Assets</u>		
Cash and pooled investments	\$ 5,321,452	\$ 3,227,819
Undistributed cash in agency funds	49,068	10,739
Petty cash and change funds	2,175	120
Cash with fiscal agent	-	-
Taxes receivable		
Prior	44,437	10,796
Special assessments receivable		
Prior	-	2,166
Noncurrent	-	-
Accounts receivable	21,994	18,270
Accrued interest receivable	132,311	-
Due from other funds	20,848	10,318
Due from other governments	177,492	1,655,553
Advance to other funds	14,000	-
Inventories	-	140,383
Prepaid items	82,472	-
	\$ 5,866,249	\$ 5,076,164
Total Assets	\$ 5,866,249	\$ 5,076,164

EXHIBIT 3

Family Services	Justice Center Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 2,598,816	\$ 1,030,756	\$ 1,575,558	\$ 13,754,401
16,778	7,655	5,768	90,008
-	-	45	2,340
-	5,991,482	-	5,991,482
18,031	8,261	3,120	84,645
-	-	134	2,300
-	-	65,294	65,294
28,887	-	-	69,151
-	-	-	132,311
-	-	-	31,166
754,892	-	-	2,587,937
-	-	-	14,000
-	-	-	140,383
-	-	-	82,472
\$ 3,417,404	\$ 7,038,154	\$ 1,649,919	\$ 23,047,890

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	General	Public Works
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 113,530	\$ 54,660
Salaries payable	111,595	56,097
Contracts payable	-	329,068
Due to other funds	4,037	10,769
Due to other governments	74,420	7,518
Deferred revenue - unavailable	44,437	1,257,513
Deferred revenue - unearned	-	-
Advance from other funds	-	-
Financial assurance	-	274,097
	\$ 348,019	\$ 1,989,722
Fund Balances		
Reserved for		
Debt service	\$ -	\$ -
Inventories	-	140,383
Advance to other funds	14,000	-
Prepaid items	82,472	-
Missing heirs	2,189	-
Law library	14,225	-
Recorder's technology fund	26,929	-
Recorder's compliance fund	22,143	-
E-911	40,892	-
Investments with fiscal agent	-	-
Sheriff's contingency	23,078	-
Unclaimed property	1,034	-
Canteen fund	9,800	-
Highway allotments	-	532,868
Unreserved		
Designated for capital equipment	767,709	1,238,191
Designated for insurance contingencies	1,038,903	-
Designated for out-of-home placements	-	-
Designated for vehicle replacement	109,397	-
Designated for geographic information systems	30,134	-
Designated for resource conservation and development	-	1,175,000
Designated for extension	24,244	-
Designated for future revolving loans	1,044,587	-
Undesignated	2,266,494	-
Unreserved, reported in nonmajor special revenue funds	-	-
	\$ 5,518,230	\$ 3,086,442
	\$ 5,866,249	\$ 5,076,164

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Justice Center Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 144,143	\$ -	\$ 1,352	\$ 313,685
62,337	-	10,723	240,752
-	-	-	329,068
10,073	-	6,287	31,166
38,647	-	405	120,990
18,031	8,261	68,548	1,396,790
552,008	-	-	552,008
-	-	14,000	14,000
-	-	-	274,097
<u>\$ 825,239</u>	<u>\$ 8,261</u>	<u>\$ 101,315</u>	<u>\$ 3,272,556</u>
\$ -	\$ 1,038,411	\$ -	\$ 1,038,411
-	-	-	140,383
-	-	-	14,000
-	-	-	82,472
-	-	-	2,189
-	-	-	14,225
-	-	-	26,929
-	-	-	22,143
-	-	-	40,892
-	5,991,482	-	5,991,482
-	-	-	23,078
-	-	-	1,034
-	-	-	9,800
-	-	-	532,868
69,698	-	-	2,075,598
-	-	-	1,038,903
1,600,000	-	-	1,600,000
-	-	-	109,397
-	-	-	30,134
-	-	-	1,175,000
-	-	-	24,244
-	-	-	1,044,587
922,467	-	-	3,188,961
-	-	1,548,604	1,548,604
<u>\$ 2,592,165</u>	<u>\$ 7,029,893</u>	<u>\$ 1,548,604</u>	<u>\$ 19,775,334</u>
<u>\$ 3,417,404</u>	<u>\$ 7,038,154</u>	<u>\$ 1,649,919</u>	<u>\$ 23,047,890</u>

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)		\$	19,775,334
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.			65,406,390
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			1,396,790
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.			
General obligation bonds	\$	(11,580,000)	
Refunding bonds		(6,125,000)	
Capital leases		(5,450,000)	
Compensated absences		(705,961)	
Accrued interest payable		(479,454)	
Remaining financial assurance liability to be funded		(903)	
Unamortized discount on G.O. bonds		66,926	
Deferred debt issuance charges		84,075	
Deferred amount on refunding bonds		271,897	
		(23,918,420)	
Net assets of governmental activities (Exhibit 1)			\$ 62,660,094

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	General	Public Works
Revenues		
Taxes	\$ 3,766,820	\$ 794,961
Special assessments	-	52,613
Licenses and permits	6,113	106,421
Intergovernmental	2,026,545	6,932,904
Charges for services	1,169,962	245,001
Fines and forfeits	2,223	-
Gifts and contributions	2,848,407	-
Investment earnings	388,910	-
Miscellaneous	898,766	502,623
	\$ 11,107,746	\$ 8,634,523
Expenditures		
Current		
General government	\$ 2,956,724	\$ 117,878
Public safety	2,869,114	-
Highways and streets	-	7,480,725
Sanitation	-	344,600
Human services	-	-
Health	2,500	-
Culture and recreation	103,912	125,896
Conservation of natural resources	90,397	137,664
Economic development	479,318	-
Intergovernmental	212,671	292,711
Debt service		
Principal	3,195,000	-
Interest	601,998	-
Bond issuance costs	44,005	-
Administrative (fiscal) fees	4,405	-
Advance refunding escrow	440,811	-
	\$ 11,000,855	\$ 8,499,474
Excess of Revenues Over (Under) Expenditures	\$ 106,891	\$ 135,049

EXHIBIT 5

<u>Family Services</u>	<u>Justice Center Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,319,028	\$ 619,851	\$ 344,520	\$ 6,845,180
-	-	60,216	112,829
-	-	-	112,534
2,968,492	72,495	40,428	12,040,864
52,174	-	6,370	1,473,507
-	-	-	2,223
-	-	629	2,849,036
-	130,537	-	519,447
185,780	-	345,457	1,932,626
\$ 4,525,474	\$ 822,883	\$ 797,620	\$ 25,888,246
\$ -	\$ -	\$ 42,335	\$ 3,116,937
-	-	-	2,869,114
-	-	-	7,480,725
-	-	-	344,600
4,628,040	-	-	4,628,040
-	-	-	2,500
-	-	402,722	632,530
-	-	36,738	264,799
-	-	-	479,318
-	-	-	505,382
-	300,000	-	3,495,000
-	504,052	-	1,106,050
-	-	-	44,005
-	652	-	5,057
-	-	-	440,811
\$ 4,628,040	\$ 804,704	\$ 481,795	\$ 25,414,868
\$ (102,566)	\$ 18,179	\$ 315,825	\$ 473,378

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

	General	Public Works
Other Financing Sources (Uses)		
Proceeds from sale of bonds	\$ 4,705,000	\$ -
Payment to refunded bond escrow agent	(4,639,060)	-
Discount on bonds issued	(21,935)	-
Proceeds from sale of assets	102,770	-
	\$ 146,775	\$ -
Net Change in Fund Balances	\$ 253,666	\$ 135,049
Fund Balances - January 1	\$ 5,500,634	\$ 2,945,717
Prior period adjustment (Note 1.F.)	(236,070)	-
	\$ 5,264,564	\$ 2,945,717
Fund Balances - January 1, as restated		
Increase (decrease) in reserved for inventories	\$ -	\$ 5,676
Fund Balances - December 31	\$ 5,518,230	\$ 3,086,442

EXHIBIT 5
(Continued)

<u>Family Services</u>	<u>Justice Center Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 4,705,000
-	-	-	(4,639,060)
-	-	-	(21,935)
-	-	-	102,770
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,775</u>
<u>\$ (102,566)</u>	<u>\$ 18,179</u>	<u>\$ 315,825</u>	<u>\$ 620,153</u>
\$ 2,694,731	\$ 7,011,714	\$ 1,232,779	\$ 19,385,575
-	-	-	(236,070)
<u>\$ 2,694,731</u>	<u>\$ 7,011,714</u>	<u>\$ 1,232,779</u>	<u>\$ 19,149,505</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,676</u>
<u><u>\$ 2,592,165</u></u>	<u><u>\$ 7,029,893</u></u>	<u><u>\$ 1,548,604</u></u>	<u><u>\$ 19,775,334</u></u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 620,153

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

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

Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 5,841,550	
Current year depreciation	<u>(2,458,704)</u>	3,382,846

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(2,151,358)
--	--	-------------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The net proceeds for debt issuance are:		(4,299,189)
---	--	-------------

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

Principal repayments		
General obligation bonds	\$ 3,105,000	
Capital leases	<u>5,130,000</u>	8,235,000

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

Change in accrued interest payable	\$ (70,827)	
Amortization of discounts, deferred issuance charges, and deferred amounts on refunding bonds	(139,376)	
Change in compensated absences	(29,486)	
Change in inventories	5,676	
Amount of financial assurance liability funded during the year	<u>15,726</u>	<u>(218,287)</u>

Change in net assets of governmental activities (Exhibit 2) \$ 5,569,165

FIDUCIARY FUNDS

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NOBLES COUNTY
WORTHINGTON, MINNESOTA

EXHIBIT 7

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2005

Assets

Cash and pooled investments	<u>\$ 721,533</u>
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Liabilities

Due to other governments	<u>\$ 721,533</u>
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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Nobles County was established May 23, 1857, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Nobles County (primary government) and its component units for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Blended Component Unit

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

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

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

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

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

Joint Ventures

The County participates in several joint ventures described in Note 6.B. The County also participates in the 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.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The government-wide statement of net assets is presented on a consolidated basis by column and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations.

The County's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

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

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first 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, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2005 were \$403,753.

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

2. 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."

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of January 1 on property values assessed as of the same date. The tax levy notice is mailed in March with the first half payment due on May 15 and the second half payment due October 15.

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (such as roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (the component units use a cost of more than \$1,500) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

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

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

5. Compensated Absences

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

6. Deferred Revenue

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. Fund Equity

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

9. Use of Estimates

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Revenues

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

Imposed Nonexchange Transactions

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

Intergovernmental

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

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Revenues

Intergovernmental (Continued)

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

Exchange Transactions

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

F. Prior Period Adjustment

During 2005, the County determined that it had incorrectly recorded a receivable in the General Fund at December 31, 2004. The effect on beginning net assets for governmental activities and beginning fund balance for the General Fund is:

	Governmental Activities	General Fund
Beginning Net Assets/Fund Balance	\$ 57,326,999	\$ 5,500,634
Correction of an error	(236,070)	(236,070)
Net Assets/Fund Balance, Restated	\$ 57,090,929	\$ 5,264,564

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following funds had expenditures in excess of budget for the year ended December 31, 2005:

Fund	Expenditures	Budget	Excess
General	\$ 11,000,855	\$ 7,255,028	\$ 3,745,827
Public Works	8,499,474	8,392,032	107,442
Library Special Revenue	402,722	397,626	5,096
Justice Center Debt Service	804,704	660,948	143,756

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Reconciliation of the County's total cash and investments to the basic financial statements follows:

Government-Wide Statement of Net Assets	
Cash and investments	
Primary government	\$ 19,838,231
Nobles-Rock Public Health Services	425,824
Less: petty cash	(100)
Rock-Nobles Community Corrections	116,497
Less: petty cash	(200)
Agency funds	
Cash and pooled investments	
State Revenue Fund	25,598
Taxes and Penalties Fund	153,914
	20,559,764
Total Cash and Investments	\$ 20,559,764
Fund Financial Statements	
Governmental funds	
Cash and pooled investments	
Undistributed cash in agency funds	\$ 13,754,401
Petty cash and change funds	90,008
Cash with fiscal agent	2,340
Cash with fiscal agent	5,991,482
Agency funds	
Cash and pooled investments	
	721,533
Total Cash and Investments	\$ 20,559,764
Deposits	
Checking	\$ 1,090,581
Money market savings	4,949,468
Certificates of deposit	7,450,000
Invested in MAGIC Fund	1,075,893
Cash with fiscal agent	5,991,482
Petty cash	2,340
	20,559,764
Total Cash and Investments	\$ 20,559,764

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, the County’s deposits in banks were entirely covered by federal depository insurance or by collateral in accordance with Minnesota statutes.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both shorter and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Interest Rate Risk (Continued)

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

	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>One to Two Years</u>	<u>Two to Three Years</u>
Cash with fiscal agent				
U.S. Treasury SLGS	\$ 5,991,482	\$ 41,837	\$ 42,817	\$ 5,906,828

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. At December 31, 2005, Nobles County had no investments required to be rated.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2005, \$5,991,482 of cash with escrow agent held at US Bank was 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. It is the County's policy that U.S. Treasury securities, U.S. Agency securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

	<u>Total Receivables</u>	<u>Amounts Not Scheduled for Collection During the Subsequent Year</u>
Governmental Activities		
Taxes	\$ 84,645	\$ -
Special assessments	67,594	65,294
Accounts	69,151	-
Interest	132,311	-
Due from other governments	2,587,937	-
	<u>2,941,638</u>	<u>65,294</u>
Total Governmental Activities	<u>\$ 2,941,638</u>	<u>\$ 65,294</u>

3. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 998,467	\$ 130,621	\$ -	\$ 1,129,088
Capital assets depreciated				
Land improvements	\$ 1,809,186	\$ -	\$ -	\$ 1,809,186
Buildings	23,409,117	57,591	398,815	23,067,893
Machinery and equipment	4,519,060	759,307	399,716	4,878,651
Infrastructure	49,071,844	4,894,031	-	53,965,875
Total capital assets depreciated	<u>\$ 78,809,207</u>	<u>\$ 5,710,929</u>	<u>\$ 798,531</u>	<u>\$ 83,721,605</u>
Less: accumulated depreciation for				
Land improvements	\$ 246,024	\$ 89,819	\$ -	\$ 335,843
Buildings	3,940,401	667,365	227,066	4,380,700
Machinery and equipment	2,325,926	389,725	330,020	2,385,631
Infrastructure	11,271,779	1,070,350	-	12,342,129
Total accumulated depreciation	<u>\$ 17,784,130</u>	<u>\$ 2,217,259</u>	<u>\$ 557,086</u>	<u>\$ 19,444,303</u>
Total capital assets depreciated, net	<u>\$ 61,025,077</u>	<u>\$ 3,493,670</u>	<u>\$ 241,445</u>	<u>\$ 64,277,302</u>
Total Capital Assets, Net	<u>\$ 62,023,544</u>	<u>\$ 3,624,291</u>	<u>\$ 241,445</u>	<u>\$ 65,406,390</u>

**NOBLES COUNTY
WORTHINGTON, 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:

General government	\$ 164,745
Public safety	740,865
Highways and streets, including depreciation of infrastructure assets	1,289,081
Environmental	790
Human services	2,691
Culture and recreation	<u>19,087</u>
Total Depreciation Expense	<u><u>\$ 2,217,259</u></u>

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds

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

Receivable Fund	Payable Fund	Amount
General	Public Works Family Services Other governmental	\$ 10,769 10,073 <u>6</u>
Total Due to General Fund		<u>\$ 20,848</u>
Public Works	General Other governmental	\$ 4,037 <u>6,281</u>
Total Due to Public Works Fund		<u>\$ 10,318</u>
Total Due To/From Other Funds		<u><u>\$ 31,166</u></u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

B. Interfund Receivables, Payables, and Transfers

1. Due To/From Other Funds (Continued)

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be liquidated in the subsequent year.

2. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch Special Revenue	\$ 14,000

The advance is to provide working capital to a ditch system with low reserves and current operating costs in excess of its revenues. This balance will be paid from future ditch special assessments.

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

Accounts	\$ 313,685
Salaries	240,752
Contracts	329,068
Due to other governments	120,990
Total Payables	\$ 1,004,495

2. Capital Leases

The County has entered into lease agreements with the Nobles County Housing and Redevelopment Authority as lessee for financing of the construction of a joint jail and law enforcement center. These lease agreements qualify as capital leases

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Capital Leases (Continued)

for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. They consist of the following at December 31, 2005:

<u>Capital Leases</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2005</u>
2001 joint jail and law enforcement center	2022	\$205,000 - \$455,000	4.00 - 4.88	\$ 5,870,000	\$ 5,450,000

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2006	\$ 459,471
2007	460,471
2008	461,071
2009	461,271
2010	461,006
2011 - 2015	2,307,453
2016 - 2020	2,328,757
2021 - 2022	933,875
	<hr/>
Total minimum lease payments	\$ 7,873,375
Less: amount representing interest	<hr/> (2,423,375)
Present Value of Minimum Lease Payments	<hr/> <u>\$ 5,450,000</u>

**NOBLES COUNTY
WORTHINGTON, 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, 2005
General Obligation Bonds					
1999 G.O. Jail Facility Bonds	2020	\$315,000 - \$645,000	4.50 - 5.45	\$ 8,320,000	\$ 6,875,000
2004 G.O. Jail Refunding Bonds	2020	\$425,000 - \$620,000	2.50 - 3.90	6,125,000	6,125,000
2005 G.O. Capital Improvement Bonds	2021	\$380,000	3.625 - 3.90	4,705,000	4,705,000
Total general obligation bonds				\$ 19,150,000	\$ 17,705,000
Less: unamortized discount					(66,926)
Total General Obligation Bonds, Net					\$ 17,638,074

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2006	\$ 540,000	\$ 682,795
2007	560,000	700,824
2008	6,470,000	522,934
2009	675,000	347,206
2010	690,000	326,759
2011 - 2015	3,825,000	1,263,774
2016 - 2020	4,565,000	515,795
2021	380,000	7,410
Total	\$ 17,705,000	\$ 4,367,497

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 16,105,000	\$ 4,705,000	\$ 3,105,000	\$ 17,705,000	\$ 540,000
Less: deferred amounts for issuance discounts	(66,505)	(21,935)	(21,514)	(66,926)	-
Total bonds payable	\$ 16,038,495	\$ 4,683,065	\$ 3,083,486	\$ 17,638,074	\$ 540,000
Capital leases	10,580,000	-	5,130,000	5,450,000	220,000
Financial assurance	275,000	-	-	275,000	-
Compensated absences	676,475	29,486	-	705,961	53,077
Governmental Activities Long-Term Liabilities	<u>\$ 27,569,970</u>	<u>\$ 4,712,551</u>	<u>\$ 8,213,486</u>	<u>\$ 24,069,035</u>	<u>\$ 813,077</u>

6. Financial Assurance

On December 19, 1994, the County entered into an agreement with the Minnesota Pollution Control Agency and Schaap Sanitation to partially satisfy and supplement financial assurance for actual closure, postclosure care, and contingency action costs at the privately-owned and operated landfill. On December 6, 2001, the County amended this agreement to fund an additional \$75,000, for a total of \$275,000. The County is to pay \$1,250 per month for five years or until the additional \$75,000 balance is reached. At December 31, 2005, the County has funded \$274,097 of the agreement.

7. Advance Refunding of Debt

2000 Joint Jail and Law Enforcement Center Capital Lease

On October 27, 2005, the County issued \$4,705,000 of General Obligation Capital Improvement Bonds, Series 2005A, with interest rates from 3.625 percent to 3.90 percent and transferred \$440,811 from a prior issue debt service reserve to finance the acquisition of a courts and administration building and to refund the

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

7. Advance Refunding of Debt

2000 Joint Jail and Law Enforcement Center Capital Lease (Continued)

remaining outstanding obligations on the Nobles County Housing and Redevelopment Authority's \$5,130,000 Public Project Revenue Bonds, Series 2000, which are the bases for the \$5,130,000 Capital Lease Arrangement to lease the courts and administration building. The net proceeds of \$5,079,871 were placed with an escrow agent in an irrevocable trust from which U.S. Treasury securities were purchased. The escrow agent will pay for the principal and interest on the original issue. As a result, the bonds are considered to be defeased, and the liability for the capital lease has been removed from the financial statements. This refunding decreased total debt service payments over the next 17 years by \$1,079,324, resulting in an economic gain of \$492,519.

General Obligation Tax Increment Bonds, Series 2003

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

On June 7, 2005, Nobles County entered into a termination agreement with the Minnesota Soybean Processors and the Rural Development Financing Authority whereas the Minnesota Soybean Processors agreed to pay \$3,201,318 to advance refund the General Obligation Tax Increment Bonds, Series 2003, and release all parties from all obligations and liabilities for this project. The net proceeds from this agreement were placed with an escrow agent in an irrevocable trust from which U.S. Treasury securities were purchased. The escrow agent will pay for the principal and interest on the original issue. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the financial statements. This refunding decreased total debt service payments over the next eight years by about \$3,300,000. This refunding does not result in economic gain or loss because the County did not have to issue new bonds.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

8. Crossover Refunding Debt

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

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

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

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

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

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The 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.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

B. Funding Policy

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2005	\$ 242,444	\$ 46,883	\$ 67,608
2004	227,644	43,551	64,329
2003	230,202	37,074	57,938

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

5. Risk Management

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

5. Risk Management (Continued)

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

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

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.

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

B. Joint Ventures

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Lincoln-Pipestone Rural Water System

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

Bonds were issued by Lincoln County to finance the construction of the rural water system. Costs assessed to municipalities and special assessments levied against benefited properties pay approximately 85 percent of the amount necessary to retire principal and interest on the bonds. The remainder of the funds necessary to retire the outstanding bonds and interest will be provided by appropriations from the Lincoln-Pipestone Rural Water System. Outstanding obligations at December 31, 2005, are \$19,479,940.

The Water System's 2005 financial report shows total net assets of \$38,281,293, including unrestricted net assets of \$17,280,678. The increase in net assets for the year ended December 31, 2005, was \$552,492. Complete financial statements of the Lincoln-Pipestone Rural Water System can be obtained at East Highway 14, P. O. Box 88, Lake Benton, Minnesota 56149-0188.

Southwest Regional Solid Waste Commission

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwest Regional Solid Waste Commission (Continued)

counties, grants, and loans from the Minnesota Office of Waste Management, or from the sale of bonds or other obligations secured by revenues of the Commission. Administration and planning costs of the Commission are assessed to the counties on equal shares up to \$1,000 per county per year. The current assessment is \$400 per county per year.

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

City of Worthington/Nobles County Public Transportation

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

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

Current financial statements are not available.

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Kandiyohi, Lac qui Parle, McLeod, Meeker, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Lincoln, Lyon, & Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium Board under the authority of Minn. Stat. § 471.59. The Board is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

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

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

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

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

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

C. Jointly-Governed Organizations

Nobles County, in conjunction with other governmental entities and various private organizations, has formed the jointly-governed organizations that follow:

Okabena-Ocheda Watershed District

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Kanaranzi-Little Rock Watershed District

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

Rural Development Financing Authority

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

Heron Lake Watershed District

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

7. Tax Increment Financing

Name of District:	Tax Increment Financing District No. 1-1
Type of District:	Economic Development
Authorizing Law:	§§ 469.142 to 469.151 and §§ 469.174 to 469.1799
Date Established:	July 3, 2003
Duration of District:	9 years
Original Tax Capacity:	\$1,809
Current Tax Capacity:	\$1,809
Captured Tax Capacity Retained by Authority:	\$0
Total G.O. Taxable Tax Increment Bonds Issued:	\$2,805,000
Amounts Redeemed:	\$2,805,000
Outstanding Bonds at December 31, 2005:	\$0

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

7. Tax Increment Financing (Continued)

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

8. Component Unit Disclosures

A. Summary of Significant Accounting Policies

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

Reporting Entities

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

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

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

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

Cash and Investments

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

8. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Prior Period Adjustment

Net assets at January 1, 2005, for the Rock-Nobles Community Corrections have been restated:

Net Assets - Beginning, as previously reported	\$	60,445
Correction to capital asset values		4,125
Net Assets, Restated	\$	64,570

B. Detailed Notes

1. Assets

Receivables

Receivables as of December 31, 2005, for each discretely presented component unit, including the applicable allowances for uncollectible accounts, are as follows:

	Nobles-Rock Public Health Services	Rock-Nobles Community Corrections	Total Receivables	Amounts Not Scheduled for Collection During the Year
Accounts	\$ 56,720	\$ -	\$ 56,720	\$ -
Due from other governments	45,859	32,303	78,162	-
Total Component Units	\$ 102,579	\$ 32,303	\$ 134,882	\$ -

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes

1. Assets (Continued)

Capital Assets

Component unit capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Furniture and equipment				
Public Health Services	\$ 71,070	\$ 5,248	\$ -	\$ 76,318
Community Corrections	<u>37,673</u>	<u>15,794</u>	<u>14,045</u>	<u>39,422</u>
Total furniture and equipment	<u>\$ 108,743</u>	<u>\$ 21,042</u>	<u>\$ 14,045</u>	<u>\$ 115,740</u>
Less: accumulated depreciation for				
Furniture and equipment				
Public Health Services	\$ 27,843	\$ 14,363	\$ -	\$ 42,206
Community Corrections	<u>24,280</u>	<u>9,693</u>	<u>14,045</u>	<u>19,928</u>
Total accumulated depreciation	<u>\$ 52,123</u>	<u>\$ 24,056</u>	<u>\$ 14,045</u>	<u>\$ 62,134</u>
Capital Assets, Net	<u>\$ 56,620</u>	<u>\$ (3,014)</u>	<u>\$ -</u>	<u>\$ 53,606</u>

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

Public Health Services	\$ 14,363
Community Corrections	<u>9,693</u>
Total Depreciation Expense	<u>\$ 24,056</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

8. Component Unit Disclosures

B. Detailed Notes (Continued)

2. Liabilities

Payables

Payables at December 31, 2005, were as follows:

	<u>Nobles-Rock Public Health Services</u>	<u>Rock-Nobles Community Corrections</u>	<u>Total Discretely Presented Component Units</u>
Accounts	\$ 10,607	\$ 1,271	\$ 11,878
Salaries	50,400	17,829	68,229
Due to other governments	66,717	136	66,853
Due to primary government	-	474	474
	<u>\$ 127,724</u>	<u>\$ 19,710</u>	<u>\$ 147,434</u>

Changes in Long-Term Liabilities

The following is a summary of the long-term liabilities of the component units for the year ended December 31, 2005.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences					
Public Health Services	\$ 108,446	\$ -	\$ 17,216	\$ 91,230	\$ 7,280
Community Corrections	47,885	1,021	-	48,906	3,423
	<u>\$ 156,331</u>	<u>\$ 1,021</u>	<u>\$ 17,216</u>	<u>\$ 140,136</u>	<u>\$ 10,703</u>

REQUIRED SUPPLEMENTARY INFORMATION

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,917,674	\$ 3,917,674	\$ 3,766,820	\$ (150,854)
Licenses and permits	8,333	8,333	6,113	(2,220)
Intergovernmental	1,404,648	1,404,648	2,026,545	621,897
Charges for services	1,264,080	1,264,080	1,169,962	(94,118)
Fines and forfeits	1,500	1,500	2,223	723
Gifts and contributions	-	-	2,848,407	2,848,407
Investment earnings	132,500	132,500	388,910	256,410
Miscellaneous	690,672	690,672	898,766	208,094
Total Revenues	\$ 7,419,407	\$ 7,419,407	\$ 11,107,746	\$ 3,688,339
Expenditures				
Current				
General government				
Commissioners	\$ 172,610	\$ 172,610	\$ 163,505	\$ 9,105
Courts	20,750	20,750	42,659	(21,909)
Law library	25,000	25,000	24,827	173
County administration	313,742	313,742	309,131	4,611
Auditor/Treasurer	492,485	492,485	482,949	9,536
Assessor	228,311	228,311	230,258	(1,947)
Elections	9,500	9,500	1,674	7,826
Data processing	97,887	97,887	985	96,902
Central services	26,920	26,920	16,838	10,082
Attorney	500,121	500,121	465,496	34,625
Recorder	156,525	156,525	160,987	(4,462)
Buildings and plant	837,928	837,928	860,068	(22,140)
Veterans service officer	37,815	37,815	39,205	(1,390)
Other general government	295,539	295,539	158,142	137,397
Total general government	\$ 3,215,133	\$ 3,215,133	\$ 2,956,724	\$ 258,409
Public safety				
Sheriff	\$ 1,007,856	\$ 1,007,856	\$ 1,356,966	\$ (349,110)
Coroner	22,500	22,500	16,712	5,788
County jail	1,489,196	1,489,196	1,411,949	77,247
Civil defense	84,185	84,185	83,487	698
Total public safety	\$ 2,603,737	\$ 2,603,737	\$ 2,869,114	\$ (265,377)
Health				
Ambulance	\$ -	\$ -	\$ 2,500	\$ (2,500)

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Fairgrounds	25,000	25,000	25,000	-
Minnesota trails	-	-	15,297	(15,297)
Senior citizens	22,915	22,915	22,115	800
Other	10,500	10,500	11,500	(1,000)
Total culture and recreation	\$ 88,415	\$ 88,415	\$ 103,912	\$ (15,497)
Conservation of natural resources				
Extension	\$ 86,283	\$ 86,283	\$ 88,397	\$ (2,114)
Other	2,000	2,000	2,000	-
Total conservation of natural resources	\$ 88,283	\$ 88,283	\$ 90,397	\$ (2,114)
Economic development				
Community development	\$ 50,000	\$ 50,000	\$ 479,318	\$ (429,318)
Intergovernmental				
Public safety	\$ 95,372	\$ 95,372	\$ 95,372	\$ -
Health	\$ 117,299	\$ 117,299	\$ 117,299	\$ -
Debt service				
Principal	\$ 390,000	\$ 390,000	\$ 3,195,000	\$ (2,805,000)
Interest	606,789	606,789	601,998	4,791
Bond issuance costs	-	-	44,005	(44,005)
Administrative (fiscal) fees	-	-	4,405	(4,405)
Advance refunding escrow	-	-	440,811	(440,811)
Total debt service	\$ 996,789	\$ 996,789	\$ 4,286,219	\$ (3,289,430)
Total Expenditures	\$ 7,255,028	\$ 7,255,028	\$ 11,000,855	\$ (3,745,827)
Excess of Revenues Over (Under) Expenditures	\$ 164,379	\$ 164,379	\$ 106,891	\$ (57,488)

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other Financing Sources (Uses)				
Transfers in	\$ 26,500	\$ 26,500	\$ -	\$ (26,500)
Proceeds from sale of bonds	-	-	4,705,000	4,705,000
Payment to refunded bond escrow agent	-	-	(4,639,060)	(4,639,060)
Discount on bonds issued	-	-	(21,935)	(21,935)
Proceeds from sale of assets	-	-	102,770	102,770
Total Other Financing Sources (Uses)	\$ 26,500	\$ 26,500	\$ 146,775	\$ 120,275
Net Change in Fund Balance	\$ 190,879	\$ 190,879	\$ 253,666	\$ 62,787
Fund Balance - January 1	\$ 5,500,634	\$ 5,500,634	\$ 5,500,634	\$ -
Prior period adjustment (Note 1.F.)	-	-	(236,070)	(236,070)
Fund Balance - January 1, as restated	\$ 5,500,634	\$ 5,500,634	\$ 5,264,564	\$ (236,070)
Fund Balance - December 31	\$ 5,691,513	\$ 5,691,513	\$ 5,518,230	\$ (173,283)

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 903,578	\$ 903,578	\$ 794,961	\$ (108,617)
Special assessments	54,900	54,900	52,613	(2,287)
Licenses and permits	64,800	64,800	106,421	41,621
Intergovernmental	6,794,814	6,794,814	6,932,904	138,090
Charges for services	171,489	171,489	245,001	73,512
Miscellaneous	436,200	436,200	502,623	66,423
Total Revenues	\$ 8,425,781	\$ 8,425,781	\$ 8,634,523	\$ 208,742
Expenditures				
Current				
General government				
Planning and zoning	\$ 85,018	\$ 85,018	\$ 117,878	\$ (32,860)
Highways and streets				
Administration	\$ 191,558	\$ 191,558	\$ 200,882	\$ (9,324)
Maintenance	1,586,750	1,586,750	1,490,361	96,389
Construction	5,276,143	5,276,143	5,058,146	217,997
Equipment and maintenance shops	514,906	514,906	669,845	(154,939)
Other	50,020	50,020	61,491	(11,471)
Total highways and streets	\$ 7,619,377	\$ 7,619,377	\$ 7,480,725	\$ 138,652
Sanitation				
Solid waste	\$ 45,799	\$ 45,799	\$ 40,972	\$ 4,827
Recycling	289,758	289,758	296,484	(6,726)
Hazardous waste	7,035	7,035	7,144	(109)
Total sanitation	\$ 342,592	\$ 342,592	\$ 344,600	\$ (2,008)
Culture and recreation				
Parks	\$ 137,078	\$ 137,078	\$ 125,896	\$ 11,182
Conservation of natural resources				
Agricultural inspection	\$ 78,067	\$ 78,067	\$ 70,274	\$ 7,793
Water planning	129,900	129,900	67,390	62,510
Total conservation of natural resources	\$ 207,967	\$ 207,967	\$ 137,664	\$ 70,303
Intergovernmental				
Highways and streets	\$ -	\$ -	\$ 292,711	\$ (292,711)
Total Expenditures	\$ 8,392,032	\$ 8,392,032	\$ 8,499,474	\$ (107,442)

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 2
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Excess of Revenues Over (Under) Expenditures	\$ 33,749	\$ 33,749	\$ 135,049	\$ 101,300
Other Financing Sources (Uses)				
Transfers in	2,640	2,640	-	(2,640)
Net Change in Fund Balance	\$ 36,389	\$ 36,389	\$ 135,049	\$ 98,660
Fund Balance - January 1	2,945,717	2,945,717	2,945,717	-
Increase (decrease) in reserved for inventories	-	-	5,676	5,676
Fund Balance - December 31	<u>\$ 2,982,106</u>	<u>\$ 2,982,106</u>	<u>\$ 3,086,442</u>	<u>\$ 104,336</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,498,523	\$ 1,498,523	\$ 1,319,028	\$ (179,495)
Intergovernmental	2,999,973	2,999,973	2,968,492	(31,481)
Charges for services	51,789	51,789	52,174	385
Miscellaneous	135,151	135,151	185,780	50,629
Total Revenues	\$ 4,685,436	\$ 4,685,436	\$ 4,525,474	\$ (159,962)
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,386,927	\$ 1,386,927	\$ 1,465,016	\$ (78,089)
Social services	3,325,478	3,325,478	3,163,024	162,454
Total Expenditures	\$ 4,712,405	\$ 4,712,405	\$ 4,628,040	\$ 84,365
Excess of Revenues Over (Under) Expenditures	\$ (26,969)	\$ (26,969)	\$ (102,566)	\$ (75,597)
Other Financing Sources (Uses)				
Transfers in	4,899	4,899	-	(4,899)
Net Change in Fund Balance	\$ (22,070)	\$ (22,070)	\$ (102,566)	\$ (80,496)
Fund Balance - January 1	2,694,731	2,694,731	2,694,731	-
Fund Balance - December 31	\$ 2,672,661	\$ 2,672,661	\$ 2,592,165	\$ (80,496)

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Budgetary Data

General Budget Policies

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

The budgets may be amended or modified at any time by the County Board. In 2005, the County Board did not amend its budgets.

Budget Basis of Accounting

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

2. Excess of Expenditures Over Appropriations

The General Fund and the Public Works Special Revenue Fund had expenditures in excess of budget for the year ended December 31, 2005:

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 11,000,855	\$ 7,255,028	\$ 3,745,827
Public Works	8,499,474	8,392,032	107,442

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SUPPLEMENTARY INFORMATION

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MAJOR FUND

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 701,975	\$ 701,975	\$ 619,851	\$ (82,124)
Intergovernmental	-	-	72,495	72,495
Investment earnings	1,000	1,000	130,537	129,537
Total Revenues	\$ 702,975	\$ 702,975	\$ 822,883	\$ 119,908
Expenditures				
Debt service				
Principal	\$ 300,000	\$ 300,000	\$ 300,000	\$ -
Interest	360,448	360,448	504,052	(143,604)
Administrative (fiscal) fees	500	500	652	(152)
Total Expenditures	\$ 660,948	\$ 660,948	\$ 804,704	\$ (143,756)
Net Change in Fund Balance	\$ 42,027	\$ 42,027	\$ 18,179	\$ (23,848)
Fund Balance - January 1	7,011,714	7,011,714	7,011,714	-
Fund Balance - December 31	\$ 7,053,741	\$ 7,053,741	\$ 7,029,893	\$ (23,848)

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Statement 1

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

	<u>Ditch</u>	<u>Special Revenue Building</u>	<u>Library</u>	<u>Total</u>
<u>Assets</u>				
Cash and pooled investments	\$ 123,991	\$ 1,329,865	\$ 121,702	\$ 1,575,558
Undistributed cash in agency funds	1,426	-	4,342	5,768
Petty cash and change funds	-	-	45	45
Taxes receivable				
Prior	-	-	3,120	3,120
Special assessments receivable				
Prior	134	-	-	134
Noncurrent	65,294	-	-	65,294
Total Assets	\$ 190,845	\$ 1,329,865	\$ 129,209	\$ 1,649,919
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 1,352	\$ 1,352
Salaries payable	-	-	10,723	10,723
Due to other funds	6,262	-	25	6,287
Due to other governments	113	-	292	405
Deferred revenue - unavailable	65,428	-	3,120	68,548
Advance from other funds	14,000	-	-	14,000
Total Liabilities	\$ 85,803	\$ -	\$ 15,512	\$ 101,315
Fund Balances				
Unreserved				
Designated for capital equipment	\$ -	\$ -	\$ 17,765	\$ 17,765
Undesignated	105,042	1,329,865	95,932	1,530,839
Total Fund Balances	\$ 105,042	\$ 1,329,865	\$ 113,697	\$ 1,548,604
Total Liabilities and Fund Balances	\$ 190,845	\$ 1,329,865	\$ 129,209	\$ 1,649,919

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Statement 2

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

	Special Revenue			Total
	Ditch	Building	Library	
Revenues				
Taxes	\$ -	\$ -	\$ 344,520	\$ 344,520
Special assessments	60,216	-	-	60,216
Intergovernmental	-	-	40,428	40,428
Charges for services	-	-	6,370	6,370
Gifts and contributions	-	-	629	629
Miscellaneous	-	341,989	3,468	345,457
Total Revenues	\$ 60,216	\$ 341,989	\$ 395,415	\$ 797,620
Expenditures				
Current				
General government	\$ -	\$ 42,335	\$ -	\$ 42,335
Culture and recreation	-	-	402,722	402,722
Conservation of natural resources	36,738	-	-	36,738
Total Expenditures	\$ 36,738	\$ 42,335	\$ 402,722	\$ 481,795
Net Change in Fund Balance	\$ 23,478	\$ 299,654	\$ (7,307)	\$ 315,825
Fund Balance - January 1	81,564	1,030,211	121,004	1,232,779
Fund Balance - December 31	\$ 105,042	\$ 1,329,865	\$ 113,697	\$ 1,548,604

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 5

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 59,560	\$ 59,560	\$ 60,216	\$ 656
Expenditures				
Current				
Conservation of natural resources				
Other	46,918	46,918	36,738	10,180
Excess of Revenues Over (Under)				
Expenditures	\$ 12,642	\$ 12,642	\$ 23,478	\$ 10,836
Fund Balance - January 1	<u>81,564</u>	<u>81,564</u>	<u>81,564</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 94,206</u>	<u>\$ 94,206</u>	<u>\$ 105,042</u>	<u>\$ 10,836</u>

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 6

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Miscellaneous	\$ 320,000	\$ 320,000	\$ 341,989	\$ 21,989
Expenditures				
Current				
General government				
Buildings and plant	51,000	51,000	42,335	8,665
Excess of Revenues Over (Under) Expenditures	\$ 269,000	\$ 269,000	\$ 299,654	\$ 30,654
Fund Balance - January 1	1,030,211	1,030,211	1,030,211	-
Fund Balance - December 31	\$ 1,299,211	\$ 1,299,211	\$ 1,329,865	\$ 30,654

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 7

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 391,481	\$ 391,481	\$ 344,520	\$ (46,961)
Intergovernmental	-	-	40,428	40,428
Charges for services	3,645	3,645	6,370	2,725
Gifts and contributions	-	-	629	629
Miscellaneous	2,500	2,500	3,468	968
Total Revenues	\$ 397,626	\$ 397,626	\$ 395,415	\$ (2,211)
Expenditures				
Current				
Culture and recreation				
County/regional library	397,626	397,626	402,722	(5,096)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (7,307)	\$ (7,307)
Fund Balance - January 1	121,004	121,004	121,004	-
Fund Balance - December 31	\$ 121,004	\$ 121,004	\$ 113,697	\$ (7,307)

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

AGENCY FUNDS

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

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

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

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

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>NOBLES-ROCK PUBLIC HEALTH SERVICES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 495,238	\$ 1,605,051	\$ 1,674,565	\$ 425,724
<u>Liabilities</u>				
Due to other governments	\$ 495,238	\$ 1,605,051	\$ 1,674,565	\$ 425,724
 <u>ROCK-NOBLES COMMUNITY CORRECTIONS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 83,069	\$ 628,282	\$ 595,054	\$ 116,297
<u>Liabilities</u>				
Due to other governments	\$ 83,069	\$ 628,282	\$ 595,054	\$ 116,297
 <u>STATE REVENUE TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 35,944	\$ 427,518	\$ 437,864	\$ 25,598
<u>Liabilities</u>				
Due to other governments	\$ 35,944	\$ 427,518	\$ 437,864	\$ 25,598

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

*Statement 3
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>105,931</u>	\$ <u>17,413,010</u>	\$ <u>17,365,027</u>	\$ <u>153,914</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>105,931</u>	\$ <u>17,413,010</u>	\$ <u>17,365,027</u>	\$ <u>153,914</u>
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ <u>720,182</u>	\$ <u>20,073,861</u>	\$ <u>20,072,510</u>	\$ <u>721,533</u>
<u>Liabilities</u>				
Due to other governments	\$ <u>720,182</u>	\$ <u>20,073,861</u>	\$ <u>20,072,510</u>	\$ <u>721,533</u>

OTHER SCHEDULE

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 8

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

	Total Primary Government	Component Units	
		Nobles-Rock Public Health Services	Rock-Nobles Community Corrections
Shared Revenue			
State			
Highway users tax	\$ 6,697,785	\$ -	\$ -
County program aid	1,082,426	-	-
PERA rate reimbursement	28,842	-	-
Disparity reduction aid	72,764	-	-
Police aid	43,551	-	-
Enhanced 911	73,173	-	-
Market value credit	759,929	-	-
Total Shared Revenue	\$ 8,758,470	\$ -	\$ -
Reimbursement for Services			
State			
Minnesota Department of Human Services	\$ 1,281,212	\$ -	\$ -
Payments			
Local			
Payments in lieu of taxes	\$ 30,413	\$ -	\$ -
Contributions from counties	-	175,869	143,058
Total Payments	\$ 30,413	\$ 175,869	\$ 143,058
Grants			
State			
Minnesota Department of			
Corrections	\$ 919	\$ -	\$ 421,983
Health	-	422,879	-
Human Services	981,946	-	-
Natural Resources	18,606	-	-
Water and Soil Resources Board	73,174	-	-
Office of Environmental Assistance	24,539	-	-
Pollution Control Agency	24,540	-	-
Peace Officer Standards and Training Board	4,230	-	-
Total State	\$ 1,127,954	\$ 422,879	\$ 421,983

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

**Schedule 8
(Continued)**

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

	Total Primary Government	Component Units	
		Nobles-Rock Public Health Services	Rock-Nobles Community Corrections
Grants (Continued)			
Federal			
Department of			
Agriculture	\$ 6,332	\$ 115,748	\$ -
Justice	8,040	-	-
Transportation	23,342	-	-
Health and Human Services	641,538	77,501	-
Homeland Security	163,563	-	-
Total Federal	\$ 842,815	\$ 193,249	\$ -
Total State and Federal Grants	\$ 1,970,769	\$ 616,128	\$ 421,983
Total Intergovernmental Revenue	\$ 12,040,864	\$ 791,997	\$ 565,041

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**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 9

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of Nobles County.
- B. Reportable conditions in internal control were disclosed by the audit of financial statements of Nobles 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 Nobles 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 Nobles County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
- | | |
|---|--------------|
| Highway Planning and Construction | CFDA #20.205 |
| Child Care Mandatory and Matching Funds | CFDA #93.596 |
| Child Care and Development Block Grant | CFDA #93.575 |
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Nobles County was 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

99-2 Internal Accounting Controls

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

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

Client's Response:

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

04-1 County Attorney's Checking Account

The County Attorney's Office has a separate checking account for forfeitures. These funds are to be used for prosecutorial purposes by the County Attorney's Office. At December 31, 2004, the checking account had a balance of \$13,245.43, and at December 31, 2005, the balance was \$21,278.11. It is not clear when this account was opened, and we are unaware of a Board resolution authorizing this account.

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

and board chair (Minn. Stat. § 384.13). Nobles County funds disbursed by a check signed by the County Attorney violate this statute. Furthermore, since the activity is not reported, it is not recorded in the County's financial statements. The position of the State Auditor's Office was published in the February 2006 issue of *Minnesota Counties*, published by the Association of Minnesota Counties. The Statement of Position, entitled "Forfeiture Proceeds and County Attorney Checking Accounts" is available at the website of the State Auditor's Office: www.auditor.state.mn.us.

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

Client's Response (County Administrator):

It is our understanding this issue has been before the Board of the Minnesota County Attorneys Association and the State Auditor's Office without a recommended state-wide resolution. Guidance has been provided from the Hennepin County Attorney's Office that is apparently acceptable to the OSA. The County Attorney proceeded to implement these suggestions in 2005 by the establishment of a separate account for the forfeiture funds in the Auditor/Treasurer's Office under the understanding that these monies will be maintained separately from the County Attorney's general or contingency funds. Funds will be disbursed only upon the County Attorney's request, and will be carried over year to year. The County Attorney will proceed to close this account based on this understanding in 2006 and will be remitting the balance and cash on hand to the County Treasury. After the account is closed, future collections will be deposited with the County Treasury, and all disbursements will be run through the County's disbursement system.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

04-2 Perfected Interest in Collateral Assignments

The County did not have current documentation demonstrating that it had a perfected interest in pledged collateral with the First State Bank Southwest and State Bank of Lismore. These resolutions were signed in 2001 and 2002, respectively. The resolutions on file for Wells Fargo and Adrian State Bank were signed in 2003.

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

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

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

Client’s Response (County Auditor/Treasurer):

The Nobles County Auditor/Treasurer has contacted First State Bank Southwest, the State Bank of Lismore, Wells Fargo, and Adrian State Bank to obtain current documentation demonstrating that Nobles County has perfected a security interest in pledged collateral. The Auditor/Treasurer has also contacted Wells Fargo to obtain acknowledgement of the securities pledged to Nobles County and to obtain an enforceable assignment of pledged collateral under federal law.

04-3 Depository Pledge Agreement

The depository pledge agreements between the County and Wells Fargo, First State Bank Southwest, and Bank of the West state that the County is required to give notice of a failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County can collect the collateral from the custodian so the bank has time to cure the default. Furthermore, the County does not have collateral agreements with State Bank of Lismore, First National Bank of Brewster, United Prairie Bank, and Adrian State Bank.

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

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

Client’s Response (County Auditor/Treasurer):

The Nobles County Auditor/Treasurer has contacted Wells Fargo, First State Bank Southwest, and Bank of the West to obtain a new depository pledge agreement that is consistent with the default language of Minnesota statutes that the financial institution shall release to Nobles County on demand any collateral pledged upon default. Also, the Auditor/Treasurer has contacted the State Bank of Lismore, First National Bank of Brewster, United Prairie Bank, and Adrian State Bank to obtain collateral agreements with these banks.

ITEM ARISING THIS YEAR

05-1 Collateral Substitution

The County allows some of its depositories to withdraw and make substitutions to collateral assignments without getting approval from the County.

Minn. Stat. § 118A.03, subd. 5, states, “A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation.” The current process does not meet this standard because it allows the financial institution to substitute collateral before the financial institution gives any notice to the County.

We recommend that the County Attorney review these procedures for compliance with Minn. Stat. § 118A.03, subd. 5.

Client’s Response (County Auditor/Treasurer):

The Nobles County Auditor/Treasurer will contact the County Attorney to review procedural changes for compliance with Minnesota statutes concerning depositories collateral substitution procedures.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-4

Preparation of the Annual Financial Statements

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

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

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

- The County has not translated the general ledger accounts to be COFARS compliant.
- The General Fund consists of transactions from other funds.
- County budget information on the IFS is incomplete and inaccurate.
- Transactions for escrow agent accounts are not properly recorded in the general ledger.
- Debt service payments are shown in the general ledger net of interest income from the refunding bond escrow account.
- Cash transactions from the County Attorney's forfeiture account are not recorded in the general ledger.
- The County booked modified accrual entries in the cash basis general ledger.
- There were entries to cash balance in the modified accrual general ledger which did not/would not correct the balances on the cash basis.

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

Client's Response (County Administrator):

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

PREVIOUSLY REPORTED ITEM RESOLVED

Budgeting Procedures (00-7)

Although the County adopts a formal budget, expenditure estimates and the annual budget appropriations to the various operational funds within the County are not always clear. In reconciling the budget, we noted that the summary budget on file did not agree with the Board-approved budget in the minutes or the Revenue and Expenditure Budget Report on the IFS, and the County Board did not adopt a budget for the County Library Fund.

Resolution

The County implemented procedures to improve its budgetary accounting by including in the County Board minutes the amounts approved for each fund's revenue and expenditure budget. Any changes to the original budget are approved by formal Board resolution and are properly documented.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

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

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

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

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OTHER REQUIRED REPORTS

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PATRICIA ANDERSON
STATE AUDITOR

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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
Nobles County

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Nobles County as of and for the year ended December 31, 2005, which collectively comprise Nobles County's basic financial statements, and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Nobles County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 04-2, 04-3, and 05-1.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 24, 2006



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PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Nobles County

Compliance

We have audited the compliance of Nobles County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. Nobles County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nobles County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Nobles County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Nobles County as of and for the year ended December 31, 2005, and have issued our report thereon dated August 24, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: August 24, 2006

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

Schedule 10

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 115,748
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	6,332
Total U.S. Department of Agriculture		\$ 122,080
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Law Enforcement Assistance - Narcotics and Dangerous Drugs Training	16.004	\$ 860
Direct Bulletproof Vest Partnership Program	16.607	7,180
Total U.S. Department of Justice		\$ 8,040
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 19,470
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	1,584
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	255
Hazardous Materials Emergency Preparedness Training and Planning Grants	20.703	2,033
Total U.S. Department of Transportation		\$ 23,342
U.S. Department of Health and Human Services		
Passed Through Region Nine Development Commission Special Programs for the Aging - Title III, Part B	93.044	\$ 24,000
Passed Through Minnesota Department of Health Immunization Grants	93.268	600
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	34,872

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

***Schedule 10
(Continued)***

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	684
Temporary Assistance for Needy Families (TANF)	93.558	194,257
Child Care and Development Block Grant	93.575	161,318
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	78,747
Child Welfare Services - State Grants	93.645	2,105
Foster Care Title IV-E	93.658	45,834
Social Services Block Grant Title XX	93.667	127,677
Chafee Foster Care Independence Program	93.674	3,144
Block Grants for Community Mental Health Services	93.958	6,180
Passed Through Minnesota Department of Health Maternal and Child Health Services Block Grant	93.994	39,621
Total U.S. Department of Health and Human Services		\$ 719,039
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 152,345
Homeland Security Grant Program	97.067	11,218
Total U.S. Department of Homeland Security		\$ 163,563
Total Federal Awards		\$ 1,036,064

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Nobles County. The County's reporting entity is defined in Note 1 to the basic financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2005, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.