

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

BROWN COUNTY
NEW ULM, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Year Ended December 31, 2006



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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

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NEW ULM, MINNESOTA**

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**BROWN COUNTY
NEW ULM, MINNESOTA**

ORGANIZATION
2006

Office	Name	Term Expires
Commissioners		
1st District	Richard Seeboth	January 2009
2nd District	James Berg	January 2007
3rd District	Charles Guggisberg*	January 2009
4th District	Andrew Lochner	January 2007
5th District	Donald Wellner	January 2007
Officers		
Elected		
Attorney	James R. Olson	January 2007
Auditor/Treasurer	Marlin C. Helget	January 2007
County Recorder	Betti Kamolz	January 2007
Sheriff	Tim Brennan	January 2007
Appointed		
Administrator	Charles Enter	Indefinite
Assessor	Judy Friesen	December 31, 2008
Family Services Director	Tom Henderson	Indefinite
Coroner	Terry Knowles, M.D.	December 31, 2006
Probation Director	Les Schultz	Indefinite
Highway Engineer	Wayne Stevens	May 31, 2010
Personnel Director	Leah Crabtree	Indefinite
Planning and Zoning Administrator	Laine Sletta	Indefinite
Public Health Director	Anita Hoffman	Indefinite
Veterans Service Officer	Greg Peterson	April 12, 2009
Lay Board Member	Elizabeth Mohr	December 31, 2007
Lay Board Member	Judy Kuster	December 31, 2007

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Brown County

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County, Minnesota, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Brown County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Brown County Economic Development Partners, Inc., the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us and, our opinion on the financial statements, insofar as it relates to the amounts included for the component unit, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of December 31, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and the Road and Bridge, Family Services, and Landfill Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2007, on our consideration of Brown County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

August 23, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**BROWN COUNTY
NEW ULM, MINNESOTA**

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

As management of Brown County, we offer readers of the Brown County financial statements this narrative overview and analysis of the financial activities of Brown County for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Brown County exceeded its liabilities at the close of 2006 by \$73,477,596. Of this amount, \$9,907,208 (unrestricted net assets) may be used to meet Brown County's ongoing obligations to citizens and creditors.
- Brown County's total net assets increased by \$5,027,112 in 2006, or 7.3 percent. A significant part of the increase is attributable to increases in capital assets and capital grants for highway purposes and decreases in advances from other governments and in long-term debt.
- At the close of 2006, Brown County's governmental funds reported combined ending fund balances of \$14,453,923. The amount of \$8,452,013 is available for spending at the County's discretion and is noted as unreserved, undesignated fund balance.
- At the close of 2006, unreserved fund balance for the General Fund was \$4,257,304, or 41.5 percent, of total General Fund expenditures.
- Brown County's total debt decreased by \$305,000, or 12.2 percent, during 2006. The key factor to this decrease was the scheduled payment on existing general obligation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

County-Wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

Fiduciary funds--Fiduciary funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, or other funds. Brown County's fiduciary funds consist of ten agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In addition, the agency funds are not reflected in the County-wide financial statements because those resources are not available to support the County's programs.

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

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

Other Information

In addition to the basic financial statements and notes, Brown County also provides supplementary information on Brown County's deposits and investments and intergovernmental revenues (Schedules 1 and 2).

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

COUNTY-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Brown County's assets exceeded liabilities by \$73,477,596 at the close of 2006. The largest portion of Brown County's net assets (78.7 percent) reflects its investment in capital assets (such as land, buildings, and equipment), less any related debt used to acquire those assets that are still outstanding. However, it should be noted that these assets are not available for future spending. Comparative data with 2005 is presented.

Table 1
Governmental Net Assets

	2006	2005
Current and other assets	\$ 21,414,412	\$ 17,715,429
Capital assets	60,030,253	55,990,255
Total Assets	\$ 81,444,665	\$ 73,705,684
Long-term liabilities outstanding	\$ 5,873,905	\$ 5,826,670
Other liabilities	2,093,164	1,264,745
Total Liabilities	\$ 7,967,069	\$ 7,091,415
Net Assets		
Invested in capital assets, net of related debt	\$ 57,830,253	\$ 53,485,255
Restricted	5,740,135	3,433,019
Unrestricted	9,907,208	9,695,995
Total Net Assets	\$ 73,477,596	\$ 66,614,269

The unrestricted net asset amount of \$9,907,208 as of December 31, 2006, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

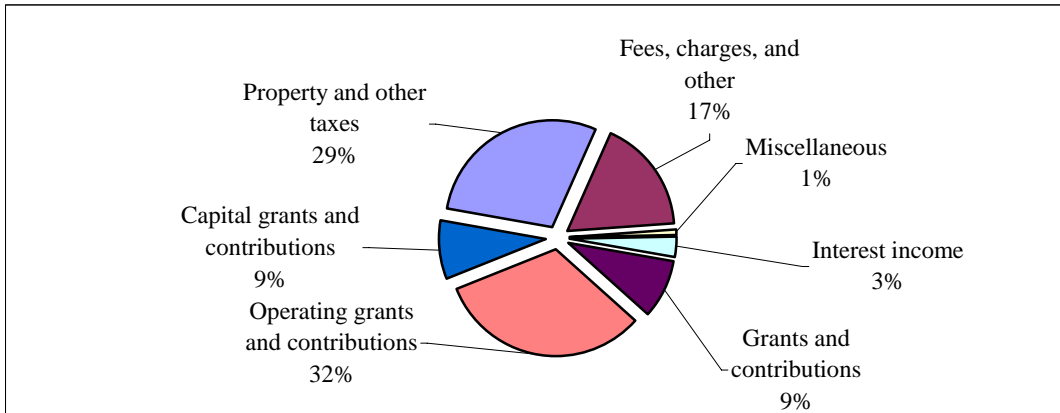
The County's activities from operations increased net assets by \$5,027,112 (7.3 percent of restated net assets), and a retroactive change to the South Country Health Alliance (SCHA) joint powers agreement resulted in an additional increase in net assets of \$1,836,215 (2.8 percent of beginning net assets). In total, the County's activities increased net assets by 10.3 percent (\$66,614,269 in 2005 to \$73,477,596 in 2006). Table 2 summarizes the changes in net assets for 2006.

Table 2
Changes in Governmental Net Assets

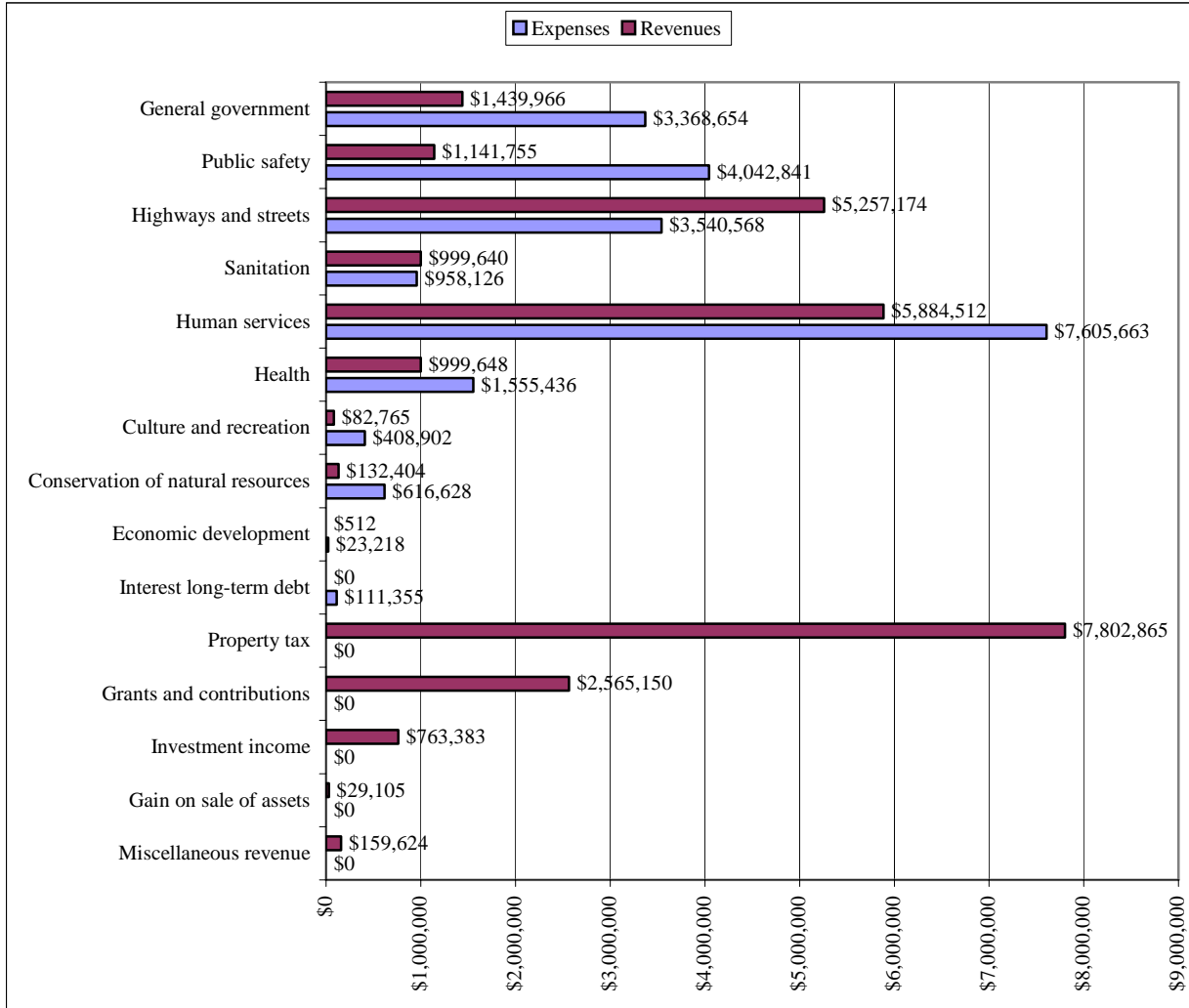
	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues		
Charges for services	\$ 4,747,386	\$ 4,386,939
Operating grants and contributions	8,813,647	8,368,549
Capital grants and contributions	2,377,343	2,204,867
General revenues		
Property taxes	7,802,865	7,197,760
Other	3,517,262	3,074,776
	<u>\$ 27,258,503</u>	<u>\$ 25,232,891</u>
Expenses		
General government	\$ 3,368,654	\$ 3,211,963
Public safety	4,042,841	3,992,865
Highways and streets	3,540,568	3,741,834
Sanitation	958,126	839,644
Human services	7,605,663	7,520,330
Health	1,555,436	1,398,164
Culture and recreation	408,902	360,886
Conservation of natural resources	616,628	664,789
Economic development	23,218	22,918
Interest	111,355	122,156
	<u>\$ 22,231,391</u>	<u>\$ 21,875,549</u>
Increase in Net Assets	<u>\$ 5,027,112</u>	<u>\$ 3,357,342</u>
Net Assets - January 1	\$ 66,614,269	\$ 63,256,927
Adjustment for retroactive change	<u>1,836,215</u>	<u>-</u>
Net Assets - January 1, as restated	<u>\$ 68,450,484</u>	<u>\$ 63,256,927</u>
Net Assets - December 31	<u>\$ 73,477,596</u>	<u>\$ 66,614,269</u>

Net assets at January 1 were adjusted for the effect of the retroactive change made to the joint powers agreement for the SCHAs. Additional information can be found in the notes to the financial statements.

Revenues by Source - 2006



Expenses and Revenues - 2006



(Unaudited)

Total revenues for the County were \$27,258,503, while total expenses were \$22,231,391. This reflects a \$5,027,112 increase in net assets for the year ended December 31, 2006.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental Funds

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

At the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$14,453,923, an increase of \$223,681 in comparison with the prior year. The majority of this amount (\$10,694,628) constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate this it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund of Brown County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$4,257,304, while total fund balance was \$5,161,634. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 41.5 percent of total General Fund expenditures, while total fund balance represents 50.3 percent of that same amount.

General Fund Budgetary Highlights

There were no changes between the original budget and the final amended budget. The actual revenues exceeded budgeted revenues by \$946,888. Intergovernmental revenues exceeded budgeted revenues by \$420,765, due primarily to grant revenue of \$276,000 received for the HAVA Election Equipment Grant as non-budgeted revenue and in other non-budgeted grant revenue. Investment earnings were \$294,376 greater than budgeted. Overall, the actual expenditures were more than budgeted by \$216,021, due primarily to grant funded expenditures for general government election equipment and the human services community services building.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2006, amount to \$60,030,253 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The total increase in the County's investment in capital assets for the current fiscal year was 7.2 percent. The increase in capital assets in 2006 was due to improvements and betterments through construction. The most significant capital asset improvements were to bridges, County state-aid highway roads, and construction done on the community services building.

Table 3
Governmental Capital Assets
(Net of Depreciation)

	<u>2006</u>	<u>2005</u>
Land	\$ 1,106,170	\$ 711,397
Construction in progress	4,020,630	2,416,183
Land improvements	139,752	193,610
Buildings and improvements	10,454,703	10,401,339
Machinery, furniture, and equipment	2,513,849	1,870,049
Infrastructure	<u>41,795,149</u>	<u>40,397,677</u>
Totals	<u>\$ 60,030,253</u>	<u>\$ 55,990,255</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had total bonded debt outstanding of \$2,200,000, which is backed by the full faith and credit of the government.

Table 4
Governmental Outstanding Debt

	<u>2006</u>	<u>2005</u>
General obligation bonds	<u>\$ 2,200,000</u>	<u>\$ 2,505,000</u>

The County's debt related to general obligation bonds decreased by \$305,000 (12.2 percent) during the fiscal year. The main reason for the decrease was debt repayment in 2006.

Brown County's bond rating is "A1" from Moody's.

Minnesota statutes limit the amount of debt that a county may levy to two percent of its total market value. As of the end of 2006, Brown County is well below the two percent debt limit imposed by state statutes.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Brown County's average unemployment rate for 2006 was 4.5 percent as of the end of 2006. This was slightly above the statewide rate of 4.2 percent.
- Mortgage interest rates have risen slightly during 2006, resulting in a reduced volume of mortgage refinancing.
- At the end of 2006, Brown County set its 2007 revenue and expenditure budgets.
- The Brown County Board of Commissioners approved a fund transfer of \$1,460,000 from the General Fund to the Road and Bridge Special Revenue Fund in June 2007.

REQUESTS FOR INFORMATION

This annual financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Brown County Auditor/Treasurer, Brown County Courthouse, 14 South State Street, P. O. Box 115, New Ulm, Minnesota 56073.

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BASIC FINANCIAL STATEMENTS

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COUNTY-WIDE FINANCIAL STATEMENTS

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Discretely Presented Component Unit
<u>Assets</u>		
Cash and pooled investments	\$ 15,067,395	\$ 97,297
Taxes receivable		
Prior	118,621	-
Special assessments receivable		
Prior	19,860	-
Noncurrent	847,080	-
Accounts receivable	565,329	-
Accrued interest receivable	227,181	-
Loans receivable - net	25,500	202,009
Due from other governments	3,112,297	-
Inventories	108,682	-
Investment in joint venture	1,322,467	-
Capital assets		
Non-depreciable	5,126,800	-
Depreciable - net of accumulated depreciation	54,903,453	-
Total Assets	\$ 81,444,665	\$ 299,306
<u>Liabilities</u>		
Accounts payable	\$ 489,596	\$ 147
Salaries payable	455,289	-
Contracts payable	423,604	-
Due to other governments	116,515	-
Accrued interest payable	6,262	500
Unearned revenue	50,694	-
Advance from other governments	551,204	-
Long-term liabilities		
Due within one year	443,166	-
Due in more than one year	5,430,739	5,000
Total Liabilities	\$ 7,967,069	\$ 5,647
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 57,830,253	\$ -
Restricted for		
General government	171,860	-
Public safety	211,288	-
Highways and streets	730,752	-
Sanitation	65,491	-
Human services	1,781,393	-
Conservation of natural resources	598,100	-
Debt service	129,966	-
Landfill closure/postclosure	2,051,285	-
Other purposes	-	4,200
Unrestricted	9,907,208	289,459
Total Net Assets	\$ 73,477,596	\$ 293,659

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 3,368,654	\$ 1,048,939
Public safety	4,042,841	471,114
Highways and streets	3,540,568	1,987
Sanitation	958,126	940,107
Human services	7,605,663	1,614,272
Health	1,555,436	528,347
Culture and recreation	408,902	11,066
Conservation of natural resources	616,628	131,042
Economic development	23,218	512
Interest	111,355	-
Total primary government	\$ 22,231,391	\$ 4,747,386
Component unit		
Economic development partners	\$ 5,291	\$ -

General Revenues

Property taxes
Grants and contributions not restricted to specific programs
Payments in lieu of taxes
Investment income
Miscellaneous
Gain from sale of assets

Total general revenues

Change in net assets

Net Assets - January 1, as previously reported
Restatement (Note 1.E.)

Net Assets - January 1, restated

Net Assets - December 31

EXHIBIT 2

<u>Program Revenues</u> <u>Operating Grants</u> <u>and Contributions</u>	<u>Capital Grants</u> <u>and Contributions</u>	<u>Net (Expense)</u> <u>Revenue and</u> <u>Change in Net Assets</u> <u>Governmental</u> <u>Activities</u>	<u>Discretely Presented</u> <u>Component Unit</u>
\$ 115,027	\$ 276,000	\$ (1,928,688)	
646,806	23,835	(2,901,086)	
3,220,879	2,034,308	1,716,606	
59,533	-	41,514	
4,227,040	43,200	(1,721,151)	
471,301	-	(555,788)	
71,699	-	(326,137)	
1,362	-	(484,224)	
-	-	(22,706)	
-	-	(111,355)	
<u>\$ 8,813,647</u>	<u>\$ 2,377,343</u>	<u>\$ (6,293,015)</u>	
<u>\$ -</u>	<u>\$ -</u>		<u>\$ (5,291)</u>
		\$ 7,802,865	\$ -
		2,565,150	8,000
		22,054	-
		763,383	12,050
		137,570	-
		29,105	-
		<u>\$ 11,320,127</u>	<u>\$ 20,050</u>
		<u>\$ 5,027,112</u>	<u>\$ 14,759</u>
		\$ 66,614,269	\$ 278,900
		1,836,215	-
		<u>\$ 68,450,484</u>	<u>\$ 278,900</u>
		<u>\$ 73,477,596</u>	<u>\$ 293,659</u>

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FUND FINANCIAL STATEMENTS

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 5,185,815	\$ 1,259,560
Taxes receivable		
Prior	70,214	13,112
Special assessments receivable		
Prior	2,846	-
Noncurrent	695,643	-
Accounts receivable	127,044	3,414
Accrued interest receivable	227,181	-
Due from other funds	3,883	5,679
Due from other governments	600,278	790,383
Inventories	-	108,682
Loans receivable	-	-
	\$ 6,912,904	\$ 2,180,830
Total Assets	\$ 6,912,904	\$ 2,180,830

EXHIBIT 3

<u>Family Services</u>	<u>Landfill</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 2,730,864	\$ 4,733,914	\$ 128,769	\$ 1,028,473	\$ 15,067,395
29,410	-	4,237	1,648	118,621
-	16,449	-	565	19,860
-	-	-	151,437	847,080
412,220	22,651	-	-	565,329
-	-	-	-	227,181
-	-	-	-	9,562
994,592	-	539,283	187,761	3,112,297
-	-	-	-	108,682
-	-	-	25,500	25,500
<u>\$ 4,167,086</u>	<u>\$ 4,773,014</u>	<u>\$ 672,289</u>	<u>\$ 1,395,384</u>	<u>\$ 20,101,507</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 69,040	\$ 87,258
Salaries payable	257,800	51,476
Contracts payable	171,800	212,648
Due to other funds	2,053	-
Due to other governments	22,912	-
Deferred revenue - unavailable	1,180,473	795,880
Deferred revenue - unearned	47,192	910
Advance from other governments	-	551,204
	\$ 1,751,270	\$ 1,699,376
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 108,682
Donations	-	-
Boat and water	840	-
Sheriff's contingency	4,335	-
Law library	69,079	-
Enhanced 911	206,113	-
Loans receivable	-	-
Conservation of natural resources	-	-
Recorder's equipment	102,781	-
Highway projects	-	68,570
Landfill closure/postclosure	-	-
Septic/sewer loan	521,182	-
Unreserved		
Designated for debt service	-	-
Designated for cash flows	750,000	304,202
Designated for boat and water	17,252	-
Designated for recycling	-	-
Designated for compensated absences	30,000	-
Designated for County septic loan program	184,742	-
Undesignated	3,275,310	-
Unreserved, reported in nonmajor		
Special revenue funds	-	-
	\$ 5,161,634	\$ 481,454
Total Fund Balances	\$ 5,161,634	\$ 481,454
Total Liabilities and Fund Balances	\$ 6,912,904	\$ 2,180,830

EXHIBIT 3
(Continued)

<u>Family Services</u>	<u>Landfill</u>	<u>Debt Service</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 255,662	\$ 53,012	\$ -	\$ 24,624	\$ 489,596
140,764	3,057	-	2,192	455,289
-	-	-	39,156	423,604
7,509	-	-	-	9,562
80,667	-	-	12,936	116,515
731,214	11,655	542,067	289,831	3,551,120
2,121	66	256	149	50,694
-	-	-	-	551,204
\$ 1,217,937	\$ 67,790	\$ 542,323	\$ 368,888	\$ 5,647,584
\$ -	\$ -	\$ -	\$ -	\$ 108,682
2,828	-	-	-	2,828
-	-	-	-	840
-	-	-	-	4,335
-	-	-	-	69,079
-	-	-	-	206,113
-	-	-	25,500	25,500
-	-	-	598,100	598,100
-	-	-	-	102,781
-	-	-	-	68,570
-	2,051,285	-	-	2,051,285
-	-	-	-	521,182
-	-	129,966	-	129,966
750,000	-	-	-	1,804,202
-	-	-	-	17,252
-	76,453	-	-	76,453
-	-	-	-	30,000
-	-	-	-	184,742
2,196,321	2,577,486	-	-	8,049,117
-	-	-	402,896	402,896
\$ 2,949,149	\$ 4,705,224	\$ 129,966	\$ 1,026,496	\$ 14,453,923
\$ 4,167,086	\$ 4,773,014	\$ 672,289	\$ 1,395,384	\$ 20,101,507

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**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 3A

**RECONCILIATION OF THE FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	14,453,923
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.		60,030,253
Investments in joint ventures are reported in governmental activities and are not financial resources. Therefore, they are not reported in the governmental funds.		1,322,467
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,551,120
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$	(2,200,000)
Loans payable		(1,007,843)
Compensated absences		(1,126,710)
Accrued interest payable		(6,262)
Estimated liability for landfill closure/postclosure		(1,539,352)
		(5,880,167)
Net assets of governmental activities (Exhibit 1)	\$	<u>73,477,596</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

	General	Road and Bridge
Revenues		
Taxes	\$ 4,708,082	\$ 834,505
Special assessments	194,479	-
Licenses and permits	43,176	-
Intergovernmental	3,132,634	5,037,237
Charges for services	1,708,196	-
Fines and forfeits	23,518	-
Gifts and contributions	305	-
Interest on investments	763,383	-
Miscellaneous	409,781	124,685
	\$ 10,983,554	\$ 5,996,427
Expenditures		
Current		
General government	\$ 3,571,909	\$ -
Public safety	4,140,902	-
Highways and streets	-	6,877,683
Sanitation	-	-
Human services	171,800	-
Health	1,550,669	-
Culture and recreation	250,388	-
Conservation of natural resources	425,800	-
Economic development	23,218	-
Intergovernmental		
Human services	15,000	-
Debt service		
Principal	99,047	-
Interest	3,954	-
Administrative charges	-	-
	\$ 10,252,687	\$ 6,877,683
Excess of Revenues Over (Under) Expenditures	\$ 730,867	\$ (881,256)
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 62,639
Transfers out	(389,894)	-
Proceeds from loans	91,951	-
	\$ (297,943)	\$ 62,639
Net Change in Fund Balances	\$ 432,924	\$ (818,617)
Fund Balances - January 1	4,728,710	1,287,125
Increase (decrease) in reserved for inventories	-	12,946
	\$ 5,161,634	\$ 481,454
Fund Balances - December 31	\$ 5,161,634	\$ 481,454

EXHIBIT 4

Family Services	Landfill	Debt Service	Nonmajor Funds	Total
\$ 1,913,635	\$ -	\$ 251,564	\$ 86,078	\$ 7,793,864
-	335,482	-	240,773	770,734
-	240	-	-	43,416
4,970,148	59,533	166,670	37,992	13,404,214
556,833	307,976	-	11,065	2,584,070
-	-	-	-	23,518
15,145	-	-	50	15,500
-	-	-	-	763,383
425,256	3,053	-	181,223	1,143,998
\$ 7,881,017	\$ 706,284	\$ 418,234	\$ 557,181	\$ 26,542,697
\$ -	\$ -	\$ -	\$ 33,545	\$ 3,605,454
-	-	-	-	4,140,902
-	-	-	-	6,877,683
-	554,508	-	-	554,508
7,652,887	-	-	300,000	8,124,687
-	-	-	-	1,550,669
-	-	-	152,679	403,067
-	-	-	186,254	612,054
-	-	-	-	23,218
-	-	-	-	15,000
-	-	305,000	-	404,047
-	-	107,808	-	111,762
-	-	862	-	862
\$ 7,652,887	\$ 554,508	\$ 413,670	\$ 672,478	\$ 26,423,913
\$ 228,130	\$ 151,776	\$ 4,564	\$ (115,297)	\$ 118,784
\$ 79,075	\$ 196,850	\$ -	\$ 51,330	\$ 389,894
-	-	-	-	(389,894)
-	-	-	-	91,951
\$ 79,075	\$ 196,850	\$ -	\$ 51,330	\$ 91,951
\$ 307,205	\$ 348,626	\$ 4,564	\$ (63,967)	\$ 210,735
2,641,944	4,356,598	125,402	1,090,463	14,230,242
-	-	-	-	12,946
\$ 2,949,149	\$ 4,705,224	\$ 129,966	\$ 1,026,496	\$ 14,453,923

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 4A

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

Net change in fund balances - total governmental funds (Exhibit 4) **\$ 210,735**

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

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

Capital outlay expenditures	\$ 5,753,490	
Depreciation expense	(1,691,411)	4,062,079

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

Net book value of capital assets disposed of		(22,081)
--	--	----------

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

Decrease in deferred revenue for taxes and special assessments	\$ (6,459)	
Increase in deferred revenue for grants and allotments	1,329,606	1,323,147

The issuance of long-term debt (such as bonds or loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Proceeds of debt issued	\$ (91,951)	
Principal payments on debt	404,047	312,096

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.

Increase in inventories	\$ 12,946	
Decrease in accrued interest payable	1,269	
Increase in compensated absences payable	(48,054)	
Increase in landfill postclosure care costs	(311,277)	(345,116)

Transactions to record investment in joint venture

Equity distribution	\$ (1,025,812)	
Increase in investment in joint venture	512,064	(513,748)

Change in net assets of governmental activities (Exhibit 2) **\$ 5,027,112**

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 5

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,066,237	\$ 4,571,017	\$ 4,708,082	\$ 137,065
Special assessments	167,328	167,328	194,479	27,151
Licenses and permits	32,050	32,050	43,176	11,126
Intergovernmental	1,216,649	2,711,869	3,132,634	420,765
Charges for services	1,715,945	1,715,945	1,708,196	(7,749)
Fines and forfeits	7,400	7,400	23,518	16,118
Gifts and contributions	200	200	305	105
Investment earnings	469,007	469,007	763,383	294,376
Miscellaneous	361,850	361,850	409,781	47,931
Total Revenues	\$ 10,036,666	\$ 10,036,666	\$ 10,983,554	\$ 946,888
Expenditures				
Current				
General government				
Commissioners	\$ 219,618	\$ 219,618	\$ 211,106	\$ 8,512
Courts	32,892	32,892	41,076	(8,184)
Law library	20,000	20,000	21,070	(1,070)
County auditor/treasurer	425,120	425,120	440,975	(15,855)
License bureau	127,899	127,899	131,642	(3,743)
County assessor	358,006	358,006	362,163	(4,157)
Elections	21,800	21,800	321,185	(299,385)
Accounting and auditing	45,000	45,000	59,274	(14,274)
Data processing	251,502	251,502	245,047	6,455
Central services	139,245	139,245	140,854	(1,609)
Personnel administration	125,339	125,339	122,955	2,384
Attorney	331,637	331,637	330,129	1,508
Recorder	456,393	456,393	339,071	117,322
Planning and zoning	86,902	86,902	77,672	9,230
Buildings and plant	477,749	477,749	473,825	3,924
Veterans service officer	116,798	116,798	118,677	(1,879)
Other	368,887	368,887	135,188	233,699
Total general government	\$ 3,604,787	\$ 3,604,787	\$ 3,571,909	\$ 32,878
Public safety				
Sheriff	\$ 1,522,520	\$ 1,522,520	\$ 1,504,521	\$ 17,999
Boat and water safety	6,103	6,103	5,054	1,049
Emergency services	22,403	22,403	20,681	1,722
Coroner	12,400	12,400	5,974	6,426
E-911 system	54,500	54,500	119,633	(65,133)
Law enforcement center	1,371,131	1,371,131	1,297,120	74,011
Juvenile detention center	109,788	109,788	108,839	949
Probation and parole	1,092,362	1,092,362	1,078,220	14,142
Snowmobile safety	4,000	4,000	860	3,140
Total public safety	\$ 4,195,207	\$ 4,195,207	\$ 4,140,902	\$ 54,305

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Human services				
Community service building	\$ -	\$ -	\$ 171,800	\$ (171,800)
Health				
Nursing service	\$ 1,480,357	\$ 1,480,357	\$ 1,550,669	\$ (70,312)
Culture and recreation				
Historical society	\$ 101,916	\$ 101,916	\$ 101,916	\$ -
Regional library	72,158	72,158	72,158	-
Snowmobile trails	-	-	49,950	(49,950)
Other	26,584	26,584	26,364	220
Total culture and recreation	\$ 200,658	\$ 200,658	\$ 250,388	\$ (49,730)
Conservation of natural resources				
Cooperative extension	\$ 101,237	\$ 101,237	\$ 99,676	\$ 1,561
Soil and water conservation	89,790	89,790	89,790	-
Agricultural society/County fair	34,500	34,500	34,500	-
Water planning	23,062	23,062	23,512	(450)
Wetlands	20,000	20,000	20,448	(448)
Septic loan program	263,142	263,142	157,874	105,268
Total conservation of natural resources	\$ 531,731	\$ 531,731	\$ 425,800	\$ 105,931
Economic development				
Community development	\$ 13,795	\$ 13,795	\$ 13,795	\$ -
Housing and development authority	10,131	10,131	9,423	708
Total economic development	\$ 23,926	\$ 23,926	\$ 23,218	\$ 708
Intergovernmental				
Human services				
MVAC home improvement	\$ -	\$ -	\$ 15,000	\$ (15,000)
Debt service				
Principal	\$ -	\$ -	\$ 99,047	\$ (99,047)
Interest	\$ -	\$ -	\$ 3,954	\$ (3,954)
Total Expenditures	\$ 10,036,666	\$ 10,036,666	\$ 10,252,687	\$ (216,021)
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ 730,867	\$ 730,867

**BROWN COUNTY
NEW ULM, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ -	\$ (389,894)	\$ (389,894)
Proceeds from loans	-	-	91,951	91,951
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ (297,943)	\$ (297,943)
Net Change in Fund Balance	\$ -	\$ -	\$ 432,924	\$ 432,924
Fund Balance - January 1	4,728,710	4,728,710	4,728,710	-
Fund Balance - December 31	\$ 4,728,710	\$ 4,728,710	\$ 5,161,634	\$ 432,924

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 6

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,100,105	\$ 828,328	\$ 834,505	\$ 6,177
Intergovernmental	4,487,775	4,759,552	5,037,237	277,685
Miscellaneous	73,000	73,000	124,685	51,685
Total Revenues	\$ 5,660,880	\$ 5,660,880	\$ 5,996,427	\$ 335,547
Expenditures				
Current				
Highways and streets				
Administration	\$ 230,849	\$ 230,849	\$ 335,280	\$ (104,431)
Maintenance	1,348,657	1,348,657	1,346,617	2,040
Construction	3,280,733	3,280,733	4,196,467	(915,734)
Equipment maintenance and shop	714,141	714,141	780,128	(65,987)
Materials and services for resale	146,500	146,500	219,191	(72,691)
Total Expenditures	\$ 5,720,880	\$ 5,720,880	\$ 6,877,683	\$ (1,156,803)
Excess of Revenues Over (Under) Expenditures	\$ (60,000)	\$ (60,000)	\$ (881,256)	\$ (821,256)
Other Financing Sources (Uses)				
Transfers in	60,000	60,000	62,639	2,639
Net Change in Fund Balance	\$ -	\$ -	\$ (818,617)	\$ (818,617)
Fund Balance - January 1	1,287,125	1,287,125	1,287,125	-
Increase (decrease) in reserved for inventories	-	-	12,946	12,946
Fund Balance - December 31	\$ 1,287,125	\$ 1,287,125	\$ 481,454	\$ (805,671)

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 7

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,523,123	\$ 1,899,796	\$ 1,913,635	\$ 13,839
Intergovernmental	4,231,632	4,854,959	4,970,148	115,189
Charges for services	287,690	287,690	556,833	269,143
Gifts and contributions	7,000	7,000	15,145	8,145
Miscellaneous	404,805	404,805	425,256	20,451
Total Revenues	\$ 7,454,250	\$ 7,454,250	\$ 7,881,017	\$ 426,767
Expenditures				
Current				
Human services				
Income maintenance	\$ 1,894,813	\$ 1,894,813	\$ 1,979,733	\$ (84,920)
Social services	5,102,899	5,102,899	5,133,097	(30,198)
Heartland express	534,205	534,205	540,057	(5,852)
Total Expenditures	\$ 7,531,917	\$ 7,531,917	\$ 7,652,887	\$ (120,970)
Excess of Revenues Over (Under) Expenditures	\$ (77,667)	\$ (77,667)	\$ 228,130	\$ 305,797
Other Financing Sources (Uses)				
Transfers in	77,667	77,667	79,075	1,408
Net Change in Fund Balance	\$ -	\$ -	\$ 307,205	\$ 307,205
Fund Balance - January 1	2,641,944	2,641,944	2,641,944	-
Fund Balance - December 31	\$ 2,641,944	\$ 2,641,944	\$ 2,949,149	\$ 307,205

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 8

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 335,000	\$ 335,000	\$ 335,482	\$ 482
Licenses and permits	320	320	240	(80)
Intergovernmental	48,200	48,200	59,533	11,333
Charges for services	208,800	208,800	307,976	99,176
Miscellaneous	16,050	16,050	3,053	(12,997)
Total Revenues	\$ 608,370	\$ 608,370	\$ 706,284	\$ 97,914
Expenditures				
Current				
Sanitation				
Solid waste	713,285	713,285	554,508	158,777
Excess of Revenues Over (Under) Expenditures	\$ (104,915)	\$ (104,915)	\$ 151,776	\$ 256,691
Other Financing Sources (Uses)				
Transfers in	73,000	73,000	196,850	123,850
Net Change in Fund Balance	\$ (31,915)	\$ (31,915)	\$ 348,626	\$ 380,541
Fund Balance - January 1	4,356,598	4,356,598	4,356,598	-
Fund Balance - December 31	\$ 4,324,683	\$ 4,324,683	\$ 4,705,224	\$ 380,541

**BROWN COUNTY
NEW ULM, MINNESOTA**

EXHIBIT 9

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

Assets

Cash and pooled investments	<u>\$ 534,313</u>
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Liabilities

Due to other governments	<u>\$ 534,313</u>
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**BROWN COUNTY
NEW ULM, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

Blended Component Unit

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Discretely Presented Component Unit

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

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

Joint Ventures

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

B. Basic Financial Statements

1. County-Wide Statements

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. County-Wide Statements (Continued)

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

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund types:

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

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

C. Measurement Focus and Basis of Accounting

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds are allocated interest as transfers from the General Fund based on the average cash balance of the fund. Pooled investment earnings for 2006 were \$763,383.

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

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

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

2. Receivables and Payables

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

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

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Capital Assets

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

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

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

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

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

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Compensated Absences (Continued)

County-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Deferred Revenue

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

7. Long-Term Obligations

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

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

8. Fund Equity

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Use of Estimates

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

E. Restatement of Net Assets

During 2006, the South Country Health Alliance joint powers agreement was amended to give the original participating counties an equity interest. The equity interest was calculated retroactive to 2001. As a result, the January 1, 2006, net assets were restated to include the investment in joint venture of \$1,836,215. The following table summarizes this change:

	<u>Governmental Activities</u>
Net Assets - January 1, as previously reported	\$ 66,614,269
Restatement: Investment in joint venture	<u>1,836,215</u>
Net Assets - January 1, as restated	<u>\$ 68,450,484</u>

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information (Continued)

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations within a department and between departments require approval of the County Board. The legal level of budgetary control--the level at which expenditures may not legally exceed appropriations--is the fund level. The Board made some supplemental budgetary appropriations throughout the year; however, none were material.

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

B. Excess of Expenditures Over Budget

The funds shown below had expenditures in excess of budget for the year ended December 31, 2006.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General	\$ 10,252,687	\$ 10,036,666	\$ 216,021
Road and Bridge	6,877,683	5,720,880	1,156,803
Family Services	7,652,887	7,531,917	120,970
Building and Capital Improvements	333,545	3,596	329,949
County Parks	152,679	130,233	22,446

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 15,067,395
Fiduciary funds	
Agency funds	
Cash and pooled investments	<u>534,313</u>
Total Cash and Investments	<u>\$ 15,601,708</u>

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution 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, 2006, the County's deposits were not exposed to custodial credit risk.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing operating funds primarily in short-term deposits and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity required for operations. No more than 20 percent of the investment portfolio may be invested beyond 12 months, and the average maturity of the portfolio shall never exceed one year.

At December 31, 2006, the County had the following investments and maturities:

<u>Investment Type</u>	<u>Maturity Dates</u>		<u>Weighted Average Maturity (years)</u>	<u>Carrying (Fair) Value</u>
	<u>0 - 1 year</u>	<u>Over 1 year</u>		
MAGIC Fund	\$ 7,211,912	\$ -	N/A	\$ 7,211,912
Certificates of deposit	6,891,000	665,000	0.42	7,556,000
Total Investments	<u>\$ 14,102,912</u>	<u>\$ 665,000</u>		<u>\$ 14,767,912</u>

N/A - Not Applicable

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in the safest types of securities; pre-qualify the financial institutions, brokers/dealers, and advisors

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments

Credit Risk (Continued)

with which an entity will do business; and diversify the investment portfolio so that potential losses on individual securities are minimized. The investment types held by the County at December 31, 2006, are considered low risk and are not rated by a rating organization.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2006, none of the County's investments were subject to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy limits investments with one institution to \$7,000,000. As of December 31, 2006, the County's investments were not exposed to concentration of credit risk.

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

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

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes - prior	\$ 118,621	\$ -
Special assessments - prior	19,860	-
Special assessments - noncurrent	847,080	544,517
Accounts	565,329	-
Accrued interest	227,181	-
Loans receivable	25,500	17,000
Due from other governments	3,112,297	454,507
Total Governmental Activities	\$ 4,915,868	\$ 1,016,024

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 711,397	\$ 394,773	\$ -	\$ 1,106,170
Construction in progress	2,416,183	1,698,083	93,636	4,020,630
Total capital assets not depreciated	\$ 3,127,580	\$ 2,092,856	\$ 93,636	\$ 5,126,800
Capital assets depreciated				
Buildings and improvements	\$ 12,335,574	\$ 185,000	\$ -	\$ 12,520,574
Land improvements	1,704,234	43,740	-	1,747,974
Machinery, furniture, and equipment	4,817,516	1,082,527	293,627	5,606,416
Infrastructure - highway	50,174,869	2,443,003	-	52,617,872
Infrastructure - dam	2,098,857	-	-	2,098,857
Total capital assets depreciated	\$ 71,131,050	\$ 3,754,270	\$ 293,627	\$ 74,591,693

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Buildings and improvements	\$ 1,934,235	\$ 131,636	\$ -	\$ 2,065,871
Land improvements	1,510,624	97,598	-	1,608,222
Machinery, furniture, and equipment	2,947,467	416,646	271,546	3,092,567
Infrastructure - highway	11,705,657	1,031,364	-	12,737,021
Infrastructure - dam	<u>170,392</u>	<u>14,167</u>	<u>-</u>	<u>184,559</u>
Total accumulated depreciation	<u>\$ 18,268,375</u>	<u>\$ 1,691,411</u>	<u>\$ 271,546</u>	<u>\$ 19,688,240</u>
Total capital assets depreciated, net	<u>\$ 52,862,675</u>	<u>\$ 2,062,859</u>	<u>\$ 22,081</u>	<u>\$ 54,903,453</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 55,990,255</u>	<u>\$ 4,155,715</u>	<u>\$ 115,717</u>	<u>\$ 60,030,253</u>

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

Governmental Activities	
General government	\$ 68,601
Public safety	157,302
Highways and streets, including depreciation of infrastructure assets	1,294,410
Sanitation	92,341
Human services	47,701
Health	3,501
Culture and recreation, including depreciation of infrastructure assets	21,257
Conservation of natural resources	<u>6,298</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,691,411</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Family Services	\$ 3,883
Road and Bridge	General	\$ 2,053
	Family Services	3,626
Total Due to Road and Bridge Fund		\$ 5,679
Total Due To/From Other Funds		\$ 9,562

2. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of transfers from the General Fund to allocate investment earnings:

Road and Bridge Fund	\$ 62,639
Family Services Fund	79,075
Landfill Fund	196,850
Other governmental funds	51,330
Totals	\$ 389,894

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Long-Term Debt

Bonds Payable

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
General Obligation Bonds 2002A G.O. Capital Improvement Refunding Bonds	2010	\$85,000 - \$90,000	3.45 - 4.35	<u>\$ 655,000</u>	\$ 350,000
Revenue Bonds 2002 Jail Lease Revenue Refunding Bonds	2013	\$235,000 - \$300,000	3.40 - 4.75	<u>\$ 2,900,000</u>	<u>1,850,000</u>
Total Bonds Payable					<u>\$ 2,200,000</u>

Bond payments are made by the Debt Service Fund.

Loans Payable

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

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
1997 Groundwater Protection CWP Project	2010	\$ 25,875	-	\$ 517,500	\$ 181,125
1998 Groundwater Protection CWP Project	2014	12,067	-	362,000	181,000
2001 Cottonwood River Restoration CWP Project	2013	4,447	2.00	80,244	53,956

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2001 Little Cottonwood River Restoration CWP Project	2014	5,569	2.00	100,495	77,214
2001 Watonwan Watershed CWP Project	2014	3,543	2.00	63,932	49,122
2001 Septic System Replacement Project	2020	2,665	-	53,300	53,300
2003 Cottonwood River Restoration CWP Project	2015	16,618	2.00	292,701	292,701
2004 Watonwan Watershed Continuation CWP Project	2017	1,689	2.00	25,145	25,145
2004 Little Cottonwood River Restoration Continuation CWP Project	2017	5,763	2.00	94,280	94,280
Total Loans Payable					<u>\$ 1,007,843</u>

2. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 85,000	\$ 12,967	\$ 235,000	\$ 82,865
2008	85,000	9,504	245,000	72,995
2009	90,000	5,828	250,000	62,460
2010	90,000	1,958	260,000	51,585
2011	-	-	275,000	40,015
2012 - 2013	-	-	585,000	41,752
Total	<u>\$ 350,000</u>	<u>\$ 30,257</u>	<u>\$ 1,850,000</u>	<u>\$ 351,672</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable	
	Principal	Interest
2007	\$ 99,512	\$ 3,488
2008	99,987	3,013
2009	100,472	2,529
2010	75,091	2,035
2011	55,050	1,530
2012 - 2016	144,285	1,598
2017 - 2020	21,320	-
Total	<u>\$ 595,717</u>	<u>\$ 14,193</u>

The debt service requirements for the loans from the Minnesota Pollution Control Agency in the amounts of \$292,701, \$25,145, and \$94,280 are not known as of December 31, 2006.

3. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 430,000	\$ -	\$ 80,000	\$ 350,000	\$ 85,000
Revenue bonds	2,075,000	-	225,000	1,850,000	235,000
Total bonds payable	\$ 2,505,000	\$ -	\$ 305,000	\$ 2,200,000	\$ 320,000
Landfill closure/postclosure liability	1,228,075	311,277	-	1,539,352	-
Loans payable	1,014,939	91,951	99,047	1,007,843	99,512
Compensated absences	1,078,656	48,054	-	1,126,710	23,654
Long-Term Liabilities	<u>\$ 5,826,670</u>	<u>\$ 451,282</u>	<u>\$ 404,047</u>	<u>\$ 5,873,905</u>	<u>\$ 443,166</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$1,539,352 landfill closure and postclosure care liability at December 31, 2006, represents the cumulative amount reported to date based on the use of 75 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$515,107 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. The County expects the landfill to continue operation beyond 2010 through approved permitting processes. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2006, investments of \$2,051,285 are held for these purposes. Accumulated annual contributions and any payments of landfill postclosure costs are reported in the Landfill Special Revenue Fund. Brown County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans

A. Plan Description

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

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

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

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans

A. Plan Description (Continued)

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

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

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. Public Employees Police and Fire Fund members were required to contribute 7.00 percent of their annual covered salary in 2006. That rate increased to 7.80 percent in 2007. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**BROWN COUNTY
NEW ULM, MINNESOTA**

4. Pension Plans

B. Funding Policy (Continued)

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 472,754	\$ 68,014	\$ 59,723
2005	422,938	55,237	53,303
2004	409,112	52,095	56,412

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

5. Conduit Debt

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

The County is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The outstanding balance at December 31, 2006, is \$7,025,000.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

A. Risk Management

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

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$390,000 per claim in 2006 and \$400,000 per claim in 2007. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

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

B. Contingent Liabilities

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

C. Joint Ventures

Brown-Nicollet Community Health Services Board

The Brown-Nicollet Community Health Services Board was established pursuant to Minn. Stat. ch. 145A and a joint powers agreement, effective July 1, 1975. The Community Health Services Board consists of ten members, five each from Brown and Nicollet Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services. The joint venture is financed primarily from state and federal grants.

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

Red Rock Rural Water System

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

The governing body is composed of nine members appointed to three-year terms by the District Court. Each county is responsible for levying and collecting the special assessments from the benefited properties within the county. The bond issue and notes payable are shown as long-term debt in the financial statements of the Red Rock Rural Water System. Outstanding bonds at December 31, 2005, (the most current information available) amounted to \$6,490,000; and notes payable were \$263,397. The Water System's net assets increased by \$133,377 in 2005.

Complete financial information can be obtained from the Red Rock Rural Water System, Jeffers, Minnesota 56145.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Families First Collaborative

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

Control of the Collaborative is vested in a Board of Directors consisting of 11 members. Brown County Family Services acts as fiscal agent for the Collaborative. The Collaborative is financed by Local Collaborative Time Study (LCTS) funds. During 2006, Brown County provided \$100 in funding to the Collaborative. Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence. Should the Collaborative cease to exist, all property, real and personal, at the time of the termination shall be distributed by the Families First Collaborative Board of Directors.

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

Three Counties for Kids Collaborative

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

Control of the Collaborative is vested in a Board of Directors consisting of seven members. Brown County Family Services acts as fiscal agent for the Collaborative. The Collaborative is financed by LCTS funds. During 2006, Brown County did not provide any funding to the Collaborative. Any withdrawing party remains liable for fiscal obligations incurred prior to the effective date of withdrawal and shall not be entitled to any compensation as long as the Collaborative continues in existence.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Three Counties for Kids Collaborative (Continued)

Should the Collaborative cease to exist, all property, real and personal, at the time of the termination shall be distributed by the Three Counties for Kids Collaborative Board of Directors.

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

South Country Health Alliance

The South Country Health Alliance (SCHA) was created by a joint powers agreement between Brown, Dodge, Freeborn, Goodhue, Kanabec, Mower, Sibley, Steele, Wabasha, and Waseca Counties on July 24, 1998, under Minn. Stat. § 471.59. Mower County has since withdrawn. The agreement was amended in 2006 to give the original counties an equity interest in the joint venture, retroactive to 2001. The agreement was in accordance with Minn. Stat. § 256B.692, which allows the formation of a board of directors to operate, control, and manage all matters concerning the nine participating member counties' health care functions, referred to as county-based purchasing.

The purpose of the SCHA is to improve the social and health outcomes of its clients and all citizens of its member counties by better coordinating social service, public health and medical services, and promoting the achievement of public health goals. The SCHA is authorized to provide comprehensive health maintenance services to persons enrolled under Medicaid and General Assistance Medical Care in each of the member counties.

Each member county has an explicit and measurable right to its share of the total capital surplus of the SCHA. Gains and losses are allocated annually to all members, based on the percentage of their utilization. Brown County's equity interest in the SCHA at December 31, 2006, was \$1,322,467. The equity interest is reported as an investment in joint venture on the government-wide statement of net assets. Changes in equity are included in the government-wide statement of activities as Human Services. The County reported distributions from the SCHA of \$1,025,812 in 2006 and does not anticipate any further distributions at this time.

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

South Country Health Alliance (Continued)

Complete financial statements can be obtained from South Country Health Alliance, 110 West Fremont Street, Owatonna, Minnesota 55060.

D. Jointly-Governed Organizations

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

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

The Minnesota River Valley Detention Center Joint Powers provides additional facilities for the detention of juveniles to several counties. During the year, the County paid \$62,716 to the Detention Center in grants received from the State of Minnesota.

The Brown-Lyon-Redwood Drug Task Force provides drug enforcement services for member organizations. During the year, the County paid \$8,000 to the Task Force.

The Brown-Nicollet-Cottonwood Water Quality Joint Powers Board helps implement, establish, and maintain a cooperative system of water quality implementation services. During the year, the County made no payments to the Joint Powers Board.

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

The Redwood-Cottonwood Rivers Control Area (RCRCA) promotes orderly water quality improvement and management within the boundaries of the watersheds of the Redwood and Cottonwood Rivers for participating counties. During the year, the County paid \$7,638 to the RCRCA.

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations (Continued)

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

The South Central Regional IMMTRACK (Immunization Registry) Joint Powers Board promotes an implementation and maintenance of a regional immunization information system to ensure age-appropriate immunizations through complete and accurate records. During the year, the County paid \$2,354 to the Joint Powers Board.

E. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loans in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2006.

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

A. Summary of Significant Accounting Policies

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

Basis of Accounting

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

**BROWN COUNTY
NEW ULM, MINNESOTA**

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

A. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

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

Revenue

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

Cash and Cash Equivalents

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

Use of Estimates

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

B. Loans Receivable

Loans receivable, totaling \$202,009 as of December 31, 2006, consist of 11 loans made for economic development.

C. Loans Payable

The EDP has an outstanding loan payable as of December 31, 2006, to the City of Sleepy Eye for \$5,000. Interest is at five percent. This loan can be paid at any time without penalty.

**BROWN COUNTY
NEW ULM, MINNESOTA**

8. Subsequent Event

On June 21, 2007, the County Board approved a transfer of \$1,460,000 from the General Fund to the Road and Bridge Special Revenue Fund for highway construction projects.

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COMBINING FUND FINANCIAL STATEMENTS AND SCHEDULES

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 331,532	\$ 249,638	\$ 251,564	\$ 1,926
Intergovernmental	84,776	166,670	166,670	-
Total Revenues	\$ 416,308	\$ 416,308	\$ 418,234	\$ 1,926
Expenditures				
Debt service				
Principal	\$ 416,308	\$ 305,000	\$ 305,000	\$ -
Interest	-	107,808	107,808	-
Administrative charges	-	3,500	862	2,638
Total Expenditures	\$ 416,308	\$ 416,308	\$ 413,670	\$ 2,638
Net Change in Fund Balance	\$ -	\$ -	\$ 4,564	\$ 4,564
Fund Balance - January 1	125,402	125,402	125,402	-
Fund Balance - December 31	\$ 125,402	\$ 125,402	\$ 129,966	\$ 4,564

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**BROWN COUNTY
NEW ULM, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 2

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

	Building and Capital Improvements	County Parks	County Ditch	Total Nonmajor Governmental Funds
<u>Assets</u>				
Cash and pooled investments	\$ 284,434	\$ 176,902	\$ 567,137	\$ 1,028,473
Taxes receivable				
Prior	101	1,547	-	1,648
Special assessments receivable				
Prior	-	-	565	565
Noncurrent	-	-	151,437	151,437
Due from other governments	125,195	11,700	50,866	187,761
Loans receivable	25,500	-	-	25,500
Total Assets	\$ 435,230	\$ 190,149	\$ 770,005	\$ 1,395,384
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 17,915	\$ 6,709	\$ 24,624
Salaries payable	-	1,781	411	2,192
Contracts payable	39,156	-	-	39,156
Due to other governments	-	-	12,936	12,936
Deferred revenue - unavailable	125,291	12,745	151,795	289,831
Deferred revenue - unearned	-	95	54	149
Total Liabilities	\$ 164,447	\$ 32,536	\$ 171,905	\$ 368,888
Fund Balances				
Reserved for loans receivable	\$ 25,500	\$ -	\$ -	\$ 25,500
Reserved for conservation of natural resources	-	-	598,100	598,100
Unreserved				
Undesignated	245,283	157,613	-	402,896
Total Fund Balances	\$ 270,783	\$ 157,613	\$ 598,100	\$ 1,026,496
Total Liabilities and Fund Balances	\$ 435,230	\$ 190,149	\$ 770,005	\$ 1,395,384

**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 3

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

	Building and Capital Improvements	County Parks	County Ditch	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ 62	\$ 86,016	\$ -	\$ 86,078
Special assessments	-	-	240,773	240,773
Intergovernmental	-	37,992	-	37,992
Charges for services	-	11,065	-	11,065
Gifts and contributions	-	50	-	50
Miscellaneous	181,156	-	67	181,223
Total Revenues	\$ 181,218	\$ 135,123	\$ 240,840	\$ 557,181
Expenditures				
Current				
General government	\$ 33,545	\$ -	\$ -	\$ 33,545
Human services	300,000	-	-	300,000
Culture and recreation	-	152,679	-	152,679
Conservation of natural resources	-	-	186,254	186,254
Total Expenditures	\$ 333,545	\$ 152,679	\$ 186,254	\$ 672,478
Excess of Revenues Over (Under) Expenditures	\$ (152,327)	\$ (17,556)	\$ 54,586	\$ (115,297)
Other Financing Sources (Uses)				
Transfers in	18,686	7,196	25,448	51,330
Net Change in Fund Balances	\$ (133,641)	\$ (10,360)	\$ 80,034	\$ (63,967)
Fund Balances - January 1	404,424	167,973	518,066	1,090,463
Fund Balances - December 31	\$ 270,783	\$ 157,613	\$ 598,100	\$ 1,026,496

**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 4

**BUDGETARY COMPARISON SCHEDULE
BUILDING AND CAPITAL IMPROVEMENTS SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ -	\$ -	\$ 62	\$ 62
Miscellaneous	5,358	5,358	181,156	175,798
Total Revenues	\$ 5,358	\$ 5,358	\$ 181,218	\$ 175,860
Expenditures				
Current				
General government				
Data processing	\$ -	\$ -	\$ 29,860	\$ (29,860)
Veterans service officer	3,596	3,596	3,685	(89)
Human services				
Community service building	-	-	300,000	(300,000)
Total Expenditures	\$ 3,596	\$ 3,596	\$ 333,545	\$ (329,949)
Excess of Revenues Over (Under) Expenditures	\$ 1,762	\$ 1,762	\$ (152,327)	\$ (154,089)
Other Financing Sources (Uses)				
Transfers in	13,720	13,720	18,686	4,966
Net Change in Fund Balance	\$ 15,482	\$ 15,482	\$ (133,641)	\$ (149,123)
Fund Balance - January 1	404,424	404,424	404,424	-
Fund Balance - December 31	\$ 419,906	\$ 419,906	\$ 270,783	\$ (149,123)

**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 5

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 113,323	\$ 85,331	\$ 86,016	\$ 685
Intergovernmental	-	27,992	37,992	10,000
Charges for services	8,910	8,910	11,065	2,155
Gifts and contributions	-	-	50	50
Total Revenues	\$ 122,233	\$ 122,233	\$ 135,123	\$ 12,890
Expenditures				
Current				
Culture and recreation				
Parks	130,233	130,233	152,679	(22,446)
Excess of Revenues Over (Under) Expenditures	\$ (8,000)	\$ (8,000)	\$ (17,556)	\$ (9,556)
Other Financing Sources (Uses)				
Transfers in	8,000	8,000	7,196	(804)
Net Change in Fund Balance	\$ -	\$ -	\$ (10,360)	\$ (10,360)
Fund Balance - January 1	167,973	167,973	167,973	-
Fund Balance - December 31	\$ 167,973	\$ 167,973	\$ 157,613	\$ (10,360)

**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 6

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 301,901	\$ 301,901	\$ 240,773	\$ (61,128)
Miscellaneous	-	-	67	67
Total Revenues	\$ 301,901	\$ 301,901	\$ 240,840	\$ (61,061)
Expenditures				
Current				
Conservation of natural resources				
Other	309,191	309,191	186,254	122,937
Excess of Revenues Over (Under) Expenditures	\$ (7,290)	\$ (7,290)	\$ 54,586	\$ 61,876
Other Financing Sources (Uses)				
Transfers in	8,000	8,000	25,448	17,448
Net Change in Fund Balance	\$ 710	\$ 710	\$ 80,034	\$ 79,324
Fund Balance - January 1	518,066	518,066	518,066	-
Fund Balance - December 31	\$ 518,776	\$ 518,776	\$ 598,100	\$ 79,324

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**BROWN COUNTY
NEW ULM, MINNESOTA**

AGENCY FUNDS

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

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

Prepaid Tax - to account for taxes paid in advance.

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

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

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

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

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

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

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

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Statement 7

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>ASSURANCE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,693	\$ 287	\$ 331	\$ 1,649
<u>Liabilities</u>				
Due to other governments	\$ 1,693	\$ 287	\$ 331	\$ 1,649
 <u>MORTGAGE REGISTRY TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 33,961	\$ 324,790	\$ 341,286	\$ 17,465
<u>Liabilities</u>				
Due to other governments	\$ 33,961	\$ 324,790	\$ 341,286	\$ 17,465
 <u>PREPAID TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 38,735	\$ 54,844	\$ 86,484	\$ 7,095
<u>Liabilities</u>				
Due to other governments	\$ 38,735	\$ 54,844	\$ 86,484	\$ 7,095

**BROWN COUNTY
NEW ULM, MINNESOTA**

*Statement 7
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>REGION NINE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 554	\$ 35,257	\$ 35,344	\$ 467
<u>Liabilities</u>				
Due to other governments	\$ 554	\$ 35,257	\$ 35,344	\$ 467
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 55,161	\$ 4,012,689	\$ 4,013,439	\$ 54,411
<u>Liabilities</u>				
Due to other governments	\$ 55,161	\$ 4,012,689	\$ 4,013,439	\$ 54,411
 <u>STATE DEED TAX</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 20,975	\$ 265,057	\$ 267,759	\$ 18,273
<u>Liabilities</u>				
Due to other governments	\$ 20,975	\$ 265,057	\$ 267,759	\$ 18,273

**BROWN COUNTY
NEW ULM, MINNESOTA**

*Statement 7
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>THREE COUNTIES FOR KIDS COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 285,705	\$ 110,334	\$ 233,893	\$ 162,146
<u>Liabilities</u>				
Due to other governments	\$ 285,705	\$ 110,334	\$ 233,893	\$ 162,146
 <u>FAMILIES FIRST FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 268,131	\$ 136,394	\$ 220,242	\$ 184,283
<u>Liabilities</u>				
Due to other governments	\$ 268,131	\$ 136,394	\$ 220,242	\$ 184,283
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 110	\$ 22,730,652	\$ 22,730,762	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 110	\$ 22,730,652	\$ 22,730,762	\$ -

**BROWN COUNTY
NEW ULM, MINNESOTA**

*Statement 7
(Continued)*

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 94,753	\$ 10,137,129	\$ 10,143,358	\$ 88,524
<u>Liabilities</u>				
Due to other governments	\$ 94,753	\$ 10,137,129	\$ 10,143,358	\$ 88,524
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 799,778	\$ 37,807,433	\$ 38,072,898	\$ 534,313
<u>Liabilities</u>				
Due to other governments	\$ 799,778	\$ 37,807,433	\$ 38,072,898	\$ 534,313

SCHEDULES

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 1

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2006**

	<u>Interest Rate</u>	<u>Amount</u>
Deposits and Investments		
Checking accounts	4.52%	\$ 832,821
Cash on hand	None	975
Certificates of deposit	4.15% to 5.80%	7,556,000
Mutual fund (MAGIC)	Varies	<u>7,211,912</u>
Total Deposits and Investments		<u>\$ 15,601,708</u>

**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 2

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

Shared Revenue

State

Highway users tax	\$	3,262,374
County program aid		1,376,434
PERA rate reimbursement		39,317
Disparity reduction aid		27,181
Police aid		55,237
Enhanced 911		105,600
Market value credit		1,081,660
Market value credit - manufactured homes		6,698
		6,698

Total Shared Revenue **\$ 5,954,501**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	1,915,764
Minnesota Department of Transportation		3,545
		3,545

Total Reimbursements for Services **\$ 1,919,309**

Payments

Local

City contributions	\$	84,776
Local contributions		293,020
Payments in lieu of taxes		22,054
		22,054

Total Payments **\$ 399,850**

Grants

State

Minnesota Department of		
Corrections	\$	386,329
Public Safety		1,448
Transportation		310,994
Health		121,260
Natural Resources		58,734
Human Services		1,264,048
Veterans Affairs		2,781
Water and Soil Resources Board		31,624
Board of Peace Officer Standards and Training		6,150
Pollution Control Agency		59,533
		59,533

Total State **\$ 2,242,901**

**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 2
(Continued)

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

Grants (Continued)

Federal

Department of Agriculture	\$ 104,385
Justice	31,641
Transportation	1,657,179
Education	1,518
Health and Human Services	805,448
Homeland Security	11,482
Election Assistance Commission	276,000

Total Federal \$ 2,887,653

Total State and Federal Grants \$ 5,130,554

Total Intergovernmental Revenue \$ 13,404,214

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 3

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Brown County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Brown 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 Brown County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for Brown County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Highway Planning and Construction
 - CFDA #20.205
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Brown County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

06-1 Use of Credit Cards

Brown County has credit cards for official County business. The County's credit card policy contains procedures for obtaining and using County credit cards. The County also has a policy for the reimbursement of expenses when an employee is on official business. The reimbursement policy implies that the employee will personally pay for the expense through personal credit cards or other means and be reimbursed. It is unclear from these two policies when an employee can use the County credit card or when they should be using a personal credit card.

We recommend that the County review and update these policies to clarify the intended use of the County credit cards.

Client's Response:

Brown County will adopt a comprehensive credit card policy which will provide safeguards as recommended by the State Auditor's Office.

06-2 Gifts to Volunteers and Interns

The County uses volunteers and unpaid interns; however, the County does not have a written policy governing volunteers and interns. We have been informed that generally County employees personally contribute to the purchase of an item and/or meal for unpaid interns. We are aware of one instance where an employee purchased, and was reimbursed for a gift that was given to an intern. It may be possible that the County could give items of nominal value to volunteers as part of an employee recognition program. However, it would have to be set up in such a recognition program in advance in a written policy.

We recommend the County discontinue giving gifts to volunteers or reimbursing employees that give gifts to volunteers. Any program of employee recognition needs to be consistent with state law and adopted in advance by the Board.

Client's Response:

Brown County will integrate a policy, as part of its personnel policy, to provide guidelines and procedures which will govern and address this item.

06-3 Travel Reimbursement Documentation

During our review of Brown County expense reimbursements, we noted no start and end locations on mileage reimbursements and no determination or notice as to whether odometer readings or some other means was used to support the mileage claimed. Ultimately, it was difficult to consistently and independently verify that the mileage incurred was the actual mileage claimed and paid to employees. In addition, the purpose of travel, the specific date of travel, as well as the miles per day, were not consistently noted.

We recommend that the County amend its expense reimbursement policy to clarify the County Board's position regarding travel expenses. The policy could include the following items:

- which expenses are reimbursable,
- which expenses are prohibited,
- who is authorized to approve travel expenses, and
- what type of documentation is required to support expenses.

A separate travel claim form would help the County Board implement its policy by specifying on the face of the claim form the date; time period of travel; type of expense; governmental (public) purpose; documentation requirements (such as destination, method of mileage determination, declaration of signature, employee signature); and appropriate approvals.

Client's Response:

Brown County will design a claim form which will suit the needs of the various departments. It will be more inclusive and will require more stringent documentation. In addition, Brown County will integrate, within its personnel policy, a policy that will comply with IRS regulations as per the recommendations of the State Auditor's Office.

06-4 Audit Adjustments

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

- Allocations were required in the General Fund to reclassify the unallocated department to other functions; in the Road and Bridge Special Revenue Fund, to allocate fringe benefits and to allocate the budget; and in the Family Services Special Revenue Fund, to offset nonrevenue and nonexpense accounts.
- Construction in progress for the addition to the community services building was added to the capital assets record.
- Corrections were made to reclassify federal revenues recorded as state revenues.

Accounting staff is new to government and is still learning governmental accounting, as well as how to properly classify revenues. The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the County modify internal controls over financial reporting to detect misstatements in the financial statements. We encourage review of draft financial statements by a qualified individual to identify potential misstatements.

Client's Response:

Brown County intends to modify internal controls in relationship to financial reporting as per the recommendations of the State Auditor's Office.

06-5 Preparation of Financial Statements

Brown County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the County's management. Financial statement preparation in accordance with GAAP requires internal controls over both (1) recording, processing,

and summarizing accounting data (maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. The County recently hired a certified public accountant in the Auditor/Treasurer's Office; part of his duties is to prepare the County's financial statements.

We recommend the County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP.

Client's Response:

Brown County fully intends to take advantage of training opportunities so that accounting staff will be familiar with the key components of strong internal controls and to understand the financial statements and the required disclosures. In addition, a consultant has been retained by the County to assist in consolidation of ledgers, which will aid in the preparation of financial statements.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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

Seven of the 90 ditches in the County Ditch Special Revenue Fund had deficit fund balances as of December 31, 2006, totaling \$23,261. Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

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

Client's Response:

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

B. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

Schedule 3
(Continued)

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

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

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

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

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OTHER REQUIRED REPORTS

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Board of County Commissioners
Brown County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of and for the year ended December 31, 2006, and have issued our report thereon dated August 23, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Brown County Economic Development Partners, Inc., a discretely presented component unit of the County, as described in our report on Brown County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Brown County Economic Development Partners, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

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

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

Brown County's written response to the significant deficiencies and management practices findings identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The Special Investigations Division of the Office of the State Auditor has issued a separate report on Brown County.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 23, 2007

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

Board of County Commissioners
Brown County

Compliance

We have audited the compliance of Brown County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. Brown County's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Brown County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Brown County as of and for the year ended December 31, 2006, and have issued our report thereon dated August 23, 2007. We did not audit the financial statements of Brown County Economic Development Partners, Inc., a discretely presented component unit of the County. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has

been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

August 23, 2007

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**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 4

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 99,045
Passed Through Minnesota Department of Human Services Administrative Matching Grant for Food Stamp Program	10.561	5,340
Total U.S. Department of Agriculture		\$ 104,385
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Juvenile Accountability Incentive Block Grant	16.523	\$ 7,806
Direct Public Safety Partnership and Community Policing Grant	16.710	23,835
Total U.S. Department of Justice		\$ 31,641
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 1,502,121
Federal Transit Metro Planning Grant	20.505	849
Public Transportation for Non-Urbanized Areas	20.509	138,245
Total U.S. Department of Transportation		\$ 1,641,215
U.S. Department of Education		
Passed Through Minnesota Department of Health Special Education Grant for Infants and Families with Disabilities	84.181	\$ 1,518
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act	90.401	\$ 276,000
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Commerce Low-Income Home Energy Assistance	93.568	\$ 111,331
Passed Through Minnesota Department of Health Center for Disease Control and Prevention	93.283	45,396
Temporary Assistance for Needy Families (TANF)	93.558	14,910
Maternal and Child Health Services Block Grant	93.994	32,056

**BROWN COUNTY
NEW ULM, MINNESOTA**

Schedule 4
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	121,479
Temporary Assistance for Needy Families (TANF)	93.558	155,542
Child Care Development Block Grant	93.575	18,163
Foster Care - Title IV-E	93.658	83,634
Social Services Block Grant - Title XX	93.667	167,225
Independent Living	93.674	4,180
State Children's Insurance Program	93.767	246
Community Mental Health Services	93.958	16,214
Total U.S. Department of Health and Human Services		\$ 770,376
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Emergency Management Performance Grant	97.042	\$ 11,202
Homeland Security Grant Program - Emergency Response	97.067	280
Total U.S. Department of Homeland Security		\$ 11,482
Total Federal Awards		\$ 2,836,617

Notes to Schedule of Expenditures of Federal Awards

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