

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

NICOLLET COUNTY
ST. PETER, 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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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Year Ended December 31, 2006



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

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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ST. PETER, MINNESOTA**

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2006**

Office	Name	Term Expires
Commissioners		
1st District	Judy Hanson	January 2011
2nd District	James Stenson	January 2009
3rd District	Jack Kolars*	January 2011
4th District	David Haack	January 2009
5th District	Paul Engel	January 2007
Officers Elected		
Attorney	Michael K. Riley	January 2011
Auditor/Treasurer	Robert Bruns**	January 2011
County Judge	Allison Krehbiel	January 2011
County Judge	Todd Westphal	January 2009
County Recorder	Kathryn Conlon	January 2011
Registrar of Titles	Kathryn Conlon	January 2011
Sheriff	David Lange	January 2011
Officers Appointed		
Assessor	Doreen Pehrson	December 2008
Court Administrator	Shirley Eken	Indefinite
Highway Engineer	Michael Wagner	May 2008
Probation Officer (Court Services Director)	Stephen Kley	Indefinite
Surveyor	Peter Blethen	Indefinite
Veterans Service Officer	Henry Sadler	May 2008
Coroner	Dr. William Shores	Indefinite
Administrator	Robert Podhradsky	Indefinite
Human Services Director	Joan Tesdahl	Indefinite
Public Health Nursing Director	Nita Aasen	Indefinite
Environmental Services Director	Tina Rosenstein	Indefinite
Extension Director	Kelly Kunkel	Indefinite

*Chair

**Passed away January 2007; Bridgette Kennedy appointed to complete term.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Nicollet County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nicollet 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 Nicollet County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Nicollet County as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Road and Bridge Special Revenue Fund, and Human Services Special Revenue Fund 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 Nicollet 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 Nicollet 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 October 25, 2007, on our consideration of Nicollet 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

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 25, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

As management of Nicollet County, we offer readers of the Nicollet County financial statements this narrative overview and analysis of the financial activities of Nicollet 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 Nicollet County exceeded its liabilities by \$73,485,344 at the close of 2006. Of this amount, \$14,309,057 (unrestricted net assets) may be used to meet Nicollet County's ongoing obligations to citizens and creditors.
- Nicollet County's total net assets increased by \$3,542,971 in 2006. This is attributable primarily to increases in cash, infrastructure, and equipment.
- At the close of 2006, Nicollet County's governmental funds reported combined ending fund balances of \$16,268,324, an increase of \$2,998,799 in comparison with the prior year. Of the total fund balance, \$5,282,052 is available for spending at the County's discretion and is noted as unreserved, undesignated fund balance.
- At the close of 2006, unreserved, undesignated fund balance for the General Fund was \$1,920,451, or 17 percent, of total General Fund expenditures.
- Nicollet County's total debt increased by \$3,310,000, or 44 percent, during 2006. The key factor in the increase was due to the issuance of general obligation bonds, primarily for the reconstruction of CSAH 5.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The statement of net assets presents information on all of Nicollet 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 Nicollet 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 (uncollected taxes and earned but unused vacation leave).

The County's government-wide financial statements report functions of the County principally supported by taxes and intergovernmental revenues. The governmental activities of Nicollet County include general government, public safety, highways and streets, sanitation, human services, health, culture and recreation, conservation of natural resources, and economic development.

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

Fund Level 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. Nicollet 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 Nicollet County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's 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 government-wide financial statements. However, unlike the government-wide financial statements, County fund level financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Nicollet County reports six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, the Revolving Loan Special Revenue Fund, and the Ditch Special Revenue Fund, all of which are considered to be major funds. The Debt Service Fund is considered to be a nonmajor fund. Governmental fund financial statements are on Exhibits 3 through 7.

- Proprietary funds--Nicollet County maintains one proprietary fund. The Self-Insurance Internal Service Fund is used to account for the accumulation of resources for, and the payment of, insurance costs of the self-insurance program. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Because the Self-Insurance Internal Service Fund benefits the governmental function, it has been included within the governmental activities column on the government-wide financial statements. Proprietary fund financial statements are on Exhibits 8 through 10.
- 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. Nicollet County's fiduciary funds consist of five 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 government-wide financial statements because those resources are not available to support the County's programs. Fiduciary funds are on Exhibit 11.

Notes to the Financial Statements

The 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, Nicollet County also provides supplementary information on Nicollet County's deposits and investments, taxes, and intergovernmental revenues.

Nicollet County adopts an annual appropriated budget for the General Fund, the Road and Bridge Special Revenue Fund, the Human Services Special Revenue Fund, and the nonmajor Debt Service Fund. Budgetary comparison statements have been provided for the County's major funds to demonstrate compliance with these budgets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Nicollet County's assets exceeded liabilities by \$73,485,344 at the close of 2006. The largest portion of Nicollet County's net assets (78 percent) reflects its investment in capital assets (land, buildings, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. However, it should be noted that these assets are not available for future spending.

Governmental Net Assets

	2006	2005 (Restated)
Current and other assets	\$ 20,972,858	\$ 18,514,801
Capital assets	<u>67,568,574</u>	<u>63,339,344</u>
Total Assets	<u>\$ 88,541,432</u>	<u>\$ 81,854,145</u>
Long-term liabilities outstanding	\$ 12,028,432	\$ 8,996,948
Other liabilities	<u>3,027,656</u>	<u>2,914,824</u>
Total Liabilities	<u>\$ 15,056,088</u>	<u>\$ 11,911,772</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 57,439,614	\$ 55,064,109
Restricted	1,736,673	2,022,145
Unrestricted	<u>14,309,057</u>	<u>12,856,119</u>
Total Net Assets	<u>\$ 73,485,344</u>	<u>\$ 69,942,373</u>

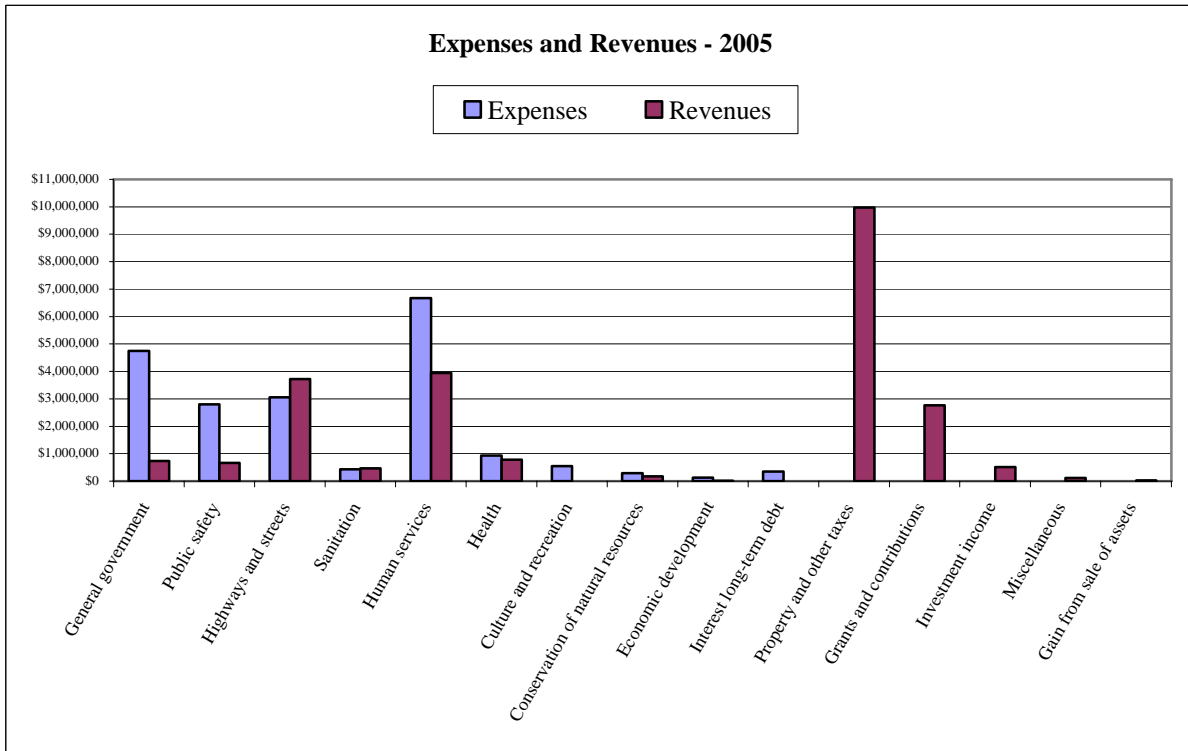
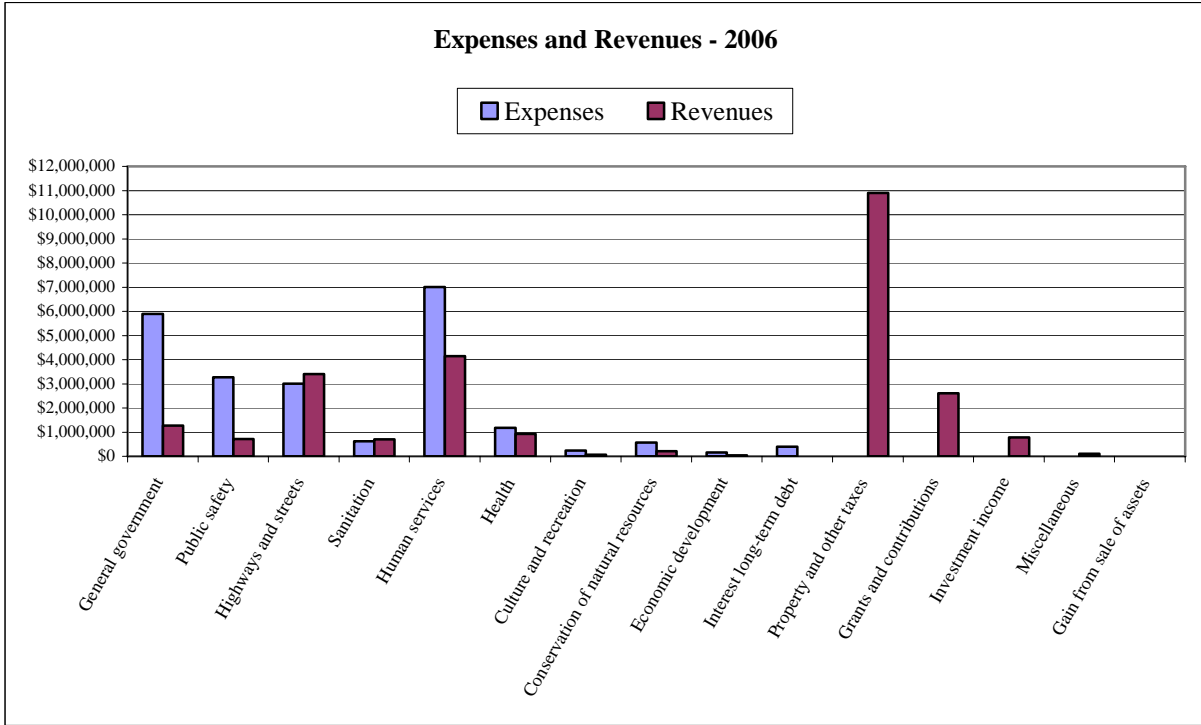
The unrestricted net asset amount of \$14,309,057 as of December 31, 2006, may be used to meet the County's ongoing obligations to citizens and creditors.

GOVERNMENTAL ACTIVITIES

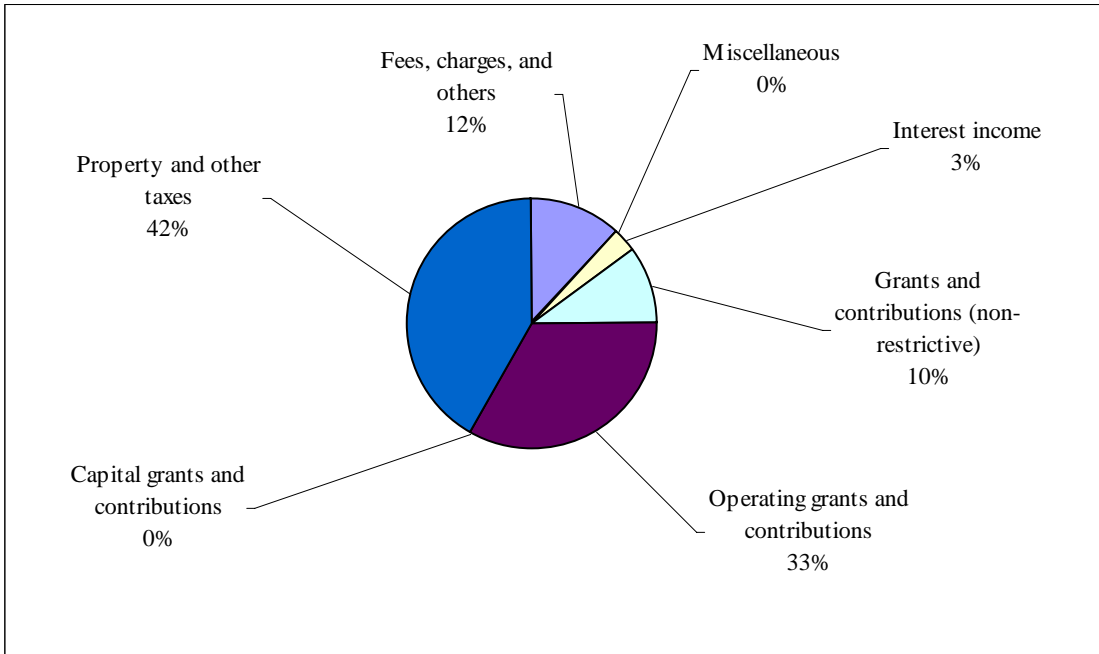
Nicollet County's activities increased net assets by \$3,542,971, or five percent, over the 2005 net assets. The key element of the increase was due to additional cash, infrastructure, and equipment.

	Changes in Net Assets	
	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues		
Charges for services	\$ 3,041,449	\$ 2,637,376
Operating grants and contributions	7,784,943	7,082,412
Capital grants and contributions	658,960	784,146
General revenues		
Property taxes	10,862,227	9,930,923
Other	<u>3,537,709</u>	<u>3,468,765</u>
Total Revenues	<u>\$ 25,885,288</u>	<u>\$ 23,903,622</u>
Expenses		
General government	\$ 5,895,015	\$ 4,750,947
Public safety	3,266,310	2,795,968
Highways and streets	3,011,968	3,055,149
Sanitation	618,599	433,626
Human services	7,012,230	6,666,867
Health	1,182,022	929,474
Culture and recreation	235,235	544,951
Conservation of natural resources	567,479	292,105
Economic development	154,899	133,932
Interest	<u>398,560</u>	<u>354,809</u>
Total Expenses	<u>\$ 22,342,317</u>	<u>\$ 19,957,828</u>
Increase in Net Assets	\$ 3,542,971	\$ 3,945,794
Net Assets, January 1, as restated	<u>69,942,373</u>	<u>65,996,579</u>
Net Assets, December 31	<u>\$ 73,485,344</u>	<u>\$ 69,942,373</u>

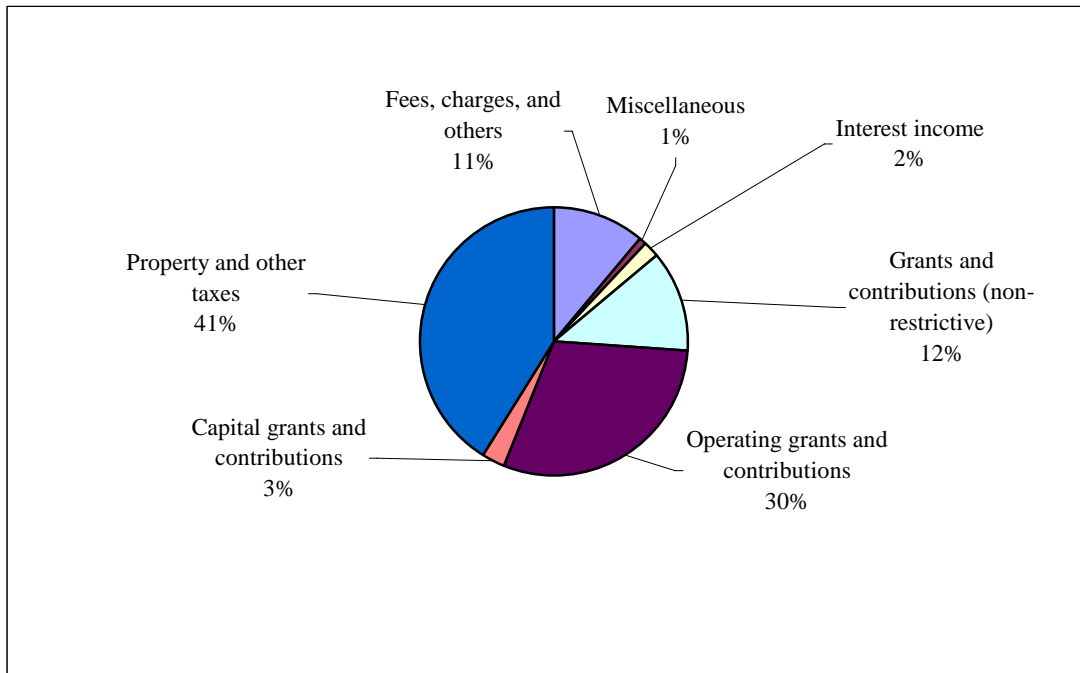
Net assets at January 1 were adjusted for the effect of changing the capitalization policy for infrastructure. Additional information can be found in the notes to the financial statements.



Revenues by Source - 2006



Revenues by Source - 2005



FINANCIAL ANALYSIS OF THE GOVERNMENT'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.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$16,328,324, an increase of \$2,998,799 in comparison with the prior year. The majority of this amount (\$13,981,624) constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is the chief operating fund of Nicollet County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$8,734,360, while total fund balance was \$9,419,680. 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 76 percent of total General Fund expenditures, while total fund balance represents 82 percent of that same amount. In 2006, the fund balance amount in the General Fund increased by \$561,188. The primary reason for this increase was that revenues increased by 19 percent, while the expenditures increased by 16 percent over 2005.

The Road and Bridge Special Revenue Fund's fund balance increased \$1,418,106 in 2006. The main reason for this increase was due to the construction of infrastructure financed by the general obligation bonds issued in 2006.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget included only the addition of a \$100,000 transfer of bond proceeds from the Debt Service Fund for various capital projects. The actual revenues exceeded budgeted revenues by \$1,154,773. This was due in part to the Help America Vote Act (HAVA) election equipment grant funds and a higher than expected rate of return on investments. The actual expenditures were more than budgeted expenditures by \$193,585. The most significant variance was the purchase of HAVA required election equipment.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental activities as of December 31, 2006, is \$67,568,574 (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 seven percent. The major capital asset event in 2006 was additional infrastructure additions. In 2006, the County revised its capitalization policy for infrastructure, increasing it from \$5,000 to \$100,000.

	Capital Assets	
	2006	2005
Land	\$ 1,880,195	\$ 1,727,457
Construction in progress	195,018	100,327
Land improvements	245,767	234,119
Building	11,760,290	11,758,781
Machinery, vehicles, furniture, and equipment	1,088,411	823,985
Infrastructure	52,398,893	48,694,675
Totals	<u>\$ 67,568,574</u>	<u>\$ 63,339,344</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 \$10,840,000, which is backed by the full faith and credit of the government.

	Outstanding Debt	
	2006	2005
General obligation bonds	<u>\$ 10,840,000</u>	<u>\$ 7,530,000</u>

The County's debt related to general obligation bonds increased by \$3,310,000 (44 percent) during the fiscal year. The main reason for the increase was the issuance of general obligation bonds, primarily to fund CSAH 5 reconstruction.

Nicollet County's bond rating is "A2" 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, Nicollet 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

- Nicollet County's unemployment rate was 2.9 percent as of the end of 2006. This is significantly below the statewide rate of 4.6 percent.
- Nicollet County's population continues to grow, industries are thriving and property values continue to grow.

At the end of 2006, Nicollet County set its 2007 revenue and expenditure budgets.

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 Nicollet County Auditor/Treasurer, Nicollet County Courthouse, 501 South Minnesota Avenue, St. Peter, Minnesota 56082.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$	17,424,380
Petty cash and change funds		1,327
Taxes receivable		
Prior		212,412
Special assessments receivable		
Prior		11,153
Noncurrent		801,573
Accounts receivable		593,638
Loans receivable		55,000
Accrued interest receivable		148,275
Due from other governments		1,375,391
Inventories		272,785
Prepaid items		9,473
Deferred charges		67,451
Capital assets		
Non-depreciable		2,075,213
Depreciable - net of accumulated depreciation		65,493,361
		65,493,361
Total Assets	\$	88,541,432

Liabilities

Accounts payable	\$	515,160
Salaries payable		202,682
Contracts payable		206,885
Due to other governments		131,608
Accrued interest payable		184,054
Unearned revenue		24,981
Long-term liabilities		
Due within one year		1,762,286
Due in more than one year		12,028,432
		12,028,432
Total Liabilities	\$	15,056,088

Net Assets

Invested in capital assets - net of related debt	\$	57,439,614
Restricted for		
Debt service		657,262
General government		382,021
Public safety		247,699
Highways and streets		449,091
Health		600
Unrestricted		14,309,057
		14,309,057
Total Net Assets	\$	73,485,344

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 2

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

			Program Revenues			
Expenses		Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions		Net (Expense) Revenue and Change in Net Assets Governmental Activities
Functions/Programs						
Governmental activities						
General government	\$ 5,895,015	\$ 745,557	\$ 209,313	\$ 319,960		\$ (4,620,185)
Public safety	3,266,310	285,085	429,289	-		(2,551,936)
Highways and streets	3,011,968	111,885	2,955,599	339,000		394,516
Sanitation	618,599	627,187	69,701	-		78,289
Human services	7,012,230	468,008	3,676,544	-		(2,867,678)
Health	1,182,022	590,287	337,239	-		(254,496)
Culture and recreation	235,235	-	68,000	-		(167,235)
Conservation of natural resources	567,479	213,440	-	-		(354,039)
Economic development	154,899	-	39,258	-		(115,641)
Interest and administrative charges	398,560	-	-	-		(398,560)
Total Governmental Activities	\$ 22,342,317	\$ 3,041,449	\$ 7,784,943	\$ 658,960		\$ (10,856,965)
 General Revenues						
Property taxes					\$ 10,862,227	
Mortgage registry and deed tax					27,972	
Payments in lieu of tax					13,732	
Grants and contributions not restricted to specific programs					2,605,683	
Investment income					783,385	
Miscellaneous					101,173	
Gain from sale of assets					5,764	
Total general revenues					\$ 14,399,936	
Change in net assets					\$ 3,542,971	
Net Assets - January 1					\$ 71,475,006	
Restatement (Note 1.E.)					(1,532,633)	
Net Assets - January 1, as restated					\$ 69,942,373	
Net Assets - December 31					\$ 73,485,344	

FUND FINANCIAL STATEMENTS

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 9,252,856	\$ 1,862,152
Petty cash and change funds	1,227	100
Taxes receivable		
Delinquent	121,654	29,028
Special assessments receivable		
Delinquent	6,578	-
Deferred	5,670	-
Accounts receivable	1,268	538
Accrued interest receivable	148,275	-
Loans receivable	55,000	-
Interfund receivable	537,866	-
Due from other funds	119,598	60,473
Due from other governments	184,916	527,387
Inventories	-	272,785
Prepaid items	14,210	-
	\$ 10,449,118	\$ 2,752,463

EXHIBIT 3

<u>Human Services</u>	<u>Revolving Loan</u>	<u>Ditch</u>	<u>Nonmajor Debt Service Fund</u>	<u>Total Governmental Funds</u>
\$ 3,251,776	\$ -	\$ -	\$ 1,370,400	\$ 15,737,184
-	-	-	-	1,327
47,173	-	-	14,557	212,412
-	3,483	1,092	-	11,153
-	690,649	105,254	-	801,573
591,383	-	449	-	593,638
-	-	-	-	148,275
-	-	-	-	55,000
-	-	-	-	537,866
-	500,000	-	-	680,071
543,704	117,384	-	-	1,373,391
-	-	-	-	272,785
-	-	-	-	14,210
<u>\$ 4,434,036</u>	<u>\$ 1,311,516</u>	<u>\$ 106,795</u>	<u>\$ 1,384,957</u>	<u>\$ 20,438,885</u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

	General	Road and Bridge
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 83,884	\$ 57,713
Salaries payable	127,066	31,858
Contracts payable	100,000	106,885
Interfund payable	-	-
Due to other funds	502,391	82
Due to other governments	77,546	3,386
Matured interest payable	-	-
Deferred revenue - unavailable	124,611	483,865
Deferred revenue - unearned	13,940	3,227
	\$ 1,029,438	\$ 687,016
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 272,785
Loans receivable	55,000	-
Law library	85,697	-
Recorder's equipment purchases	261,095	-
E-911	172,044	-
Boat and water safety	3,785	-
Sheriff's contingency	53,294	-
Sheriff's forfeited property	18,576	-
Attorney's forfeited property	26,274	-
Donations	9,555	-
Capital improvement plan	-	-
Highway projects	-	513,074
ISTS loans	-	-
Unreserved		
Designated for cash flows	2,755,489	652,800
Designated for capital improvements	200,000	-
Designated for long-term improvements	508,420	-
Designated for contingencies	1,000,000	-
Designated for emergency	100,000	-
Designated for court costs	500,000	-
Designated for elections	50,000	-
Designated for insurance	1,700,000	-
Designated for septic/sewer loans	-	-
Undesignated	1,920,451	626,788
Unreserved, reported in nonmajor		
Debt service fund	-	-
	\$ 9,419,680	\$ 2,065,447
Total Fund Balances	\$ 9,419,680	\$ 2,065,447
Total Liabilities and Fund Balances	\$ 10,449,118	\$ 2,752,463

EXHIBIT 3

<u>Human Services</u>	<u>Revolving Loan</u>	<u>Ditch</u>	<u>Nonmajor Debt Service Fund</u>	<u>Total Governmental Funds</u>
\$ 224,998	\$ -	\$ 3,298	\$ -	\$ 369,893
43,758	-	-	-	202,682
-	-	-	-	206,885
-	241,825	296,041	-	537,866
20,516	-	58,082	100,000	681,071
50,676	-	-	-	131,608
-	-	-	5,293	5,293
593,810	692,820	105,341	9,835	2,010,282
5,247	-	-	2,567	24,981
\$ 939,005	\$ 934,645	\$ 462,762	\$ 117,695	\$ 4,170,561
\$ -	\$ -	\$ -	\$ -	\$ 272,785
-	-	-	-	55,000
-	-	-	-	85,697
-	-	-	-	261,095
-	-	-	-	172,044
-	-	-	-	3,785
-	-	-	-	53,294
-	-	-	-	18,576
-	-	-	-	26,274
-	-	-	-	9,555
-	-	-	610,000	610,000
-	-	-	-	513,074
-	205,521	-	-	205,521
1,061,513	-	-	-	4,469,802
-	-	-	-	200,000
-	-	-	-	508,420
-	-	-	-	1,000,000
-	-	-	-	100,000
-	-	-	-	500,000
-	-	-	-	50,000
-	-	-	-	1,700,000
-	171,350	-	-	171,350
2,433,518	-	(355,967)	-	4,624,790
-	-	-	657,262	657,262
\$ 3,495,031	\$ 376,871	\$ (355,967)	\$ 1,267,262	\$ 16,268,324
\$ 4,434,036	\$ 1,311,516	\$ 106,795	\$ 1,384,957	\$ 20,438,885

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 3A

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

Fund Balances - total governmental funds (Exhibit 3)		\$	16,268,324
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			67,568,574
Other assets are not available to pay for current period expenditures and are deferred in the funds.			
Deferred revenue	\$	2,010,282	
Deferred charges reported on Exhibit 1		67,451	
Less: prepaid interest reported as fund assets		<u>(4,737)</u>	2,072,996
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
General obligation bonds	\$	(10,840,000)	
Less: unamortized discount on bonds payable		16,543	
Unamortized premium on bonds payable		(3,618)	
Accrued interest payable		(178,761)	
Capital leases payable		(480,000)	
Loans payable		(696,948)	
Compensated absences payable		<u>(1,786,695)</u>	(13,969,479)
The Internal Service Fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities in the statement of net assets.			<u>1,544,929</u>
Net Assets of Governmental Activities (Exhibit 1)		\$	<u>73,485,344</u>

**NICOLLET COUNTY
ST. PETER, 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	\$ 6,348,251	\$ 1,453,974
Special assessments	258,281	-
Licenses and permits	91,548	-
Intergovernmental	3,224,051	4,132,708
Charges for services	1,358,059	95,733
Fines and forfeits	60,673	-
Gifts and contributions	85,869	2,107
Interest on investments	783,385	-
Miscellaneous	298,034	38,690
	\$ 12,508,151	\$ 5,723,212
Expenditures		
Current		
General government	\$ 5,722,470	\$ -
Public safety	3,154,429	-
Highways and streets	-	7,263,624
Sanitation	272,447	-
Human services	-	-
Health	1,150,612	-
Culture and recreation	116,335	31,939
Conservation of natural resources	276,506	-
Economic development	154,899	-
Capital outlay	131,715	-
Intergovernmental	85,000	-
Debt service		
Principal	385,000	200,000
Interest	36,800	74,108
Bond issuance costs	-	-
Administrative charges	750	431
	\$ 11,486,963	\$ 7,570,102
Excess of Revenues Over (Under) Expenditures	\$ 1,021,188	\$ (1,846,890)
Other Financing Sources (Uses)		
Transfers in	\$ 100,000	\$ 3,250,000
Transfers out	(60,000)	-
Bonds issued	-	-
Premium on bonds issued	-	-
Loans issued	-	-
	\$ 40,000	\$ 3,250,000

EXHIBIT 4

Human Services	Revolving Loan	Ditch	Nonmajor Debt Service Fund	Total Governmental Funds
\$ 2,308,880	\$ -	\$ -	\$ 713,534	\$ 10,824,639
-	153,380	202,983	-	614,644
-	-	-	-	91,548
4,304,129	-	-	76,307	11,737,195
181,287	-	-	-	1,635,079
-	-	-	-	60,673
-	-	-	-	87,976
-	-	-	-	783,385
211,199	-	525	-	548,448
\$ 7,005,495	\$ 153,380	\$ 203,508	\$ 789,841	\$ 26,383,587
\$ -	\$ -	\$ -	\$ -	\$ 5,722,470
-	-	-	-	3,154,429
-	-	-	-	7,263,624
-	346,152	-	-	618,599
6,977,658	-	-	-	6,977,658
-	-	-	-	1,150,612
-	-	-	-	148,274
-	-	308,110	-	584,616
-	-	-	-	154,899
-	-	-	-	131,715
-	-	-	-	85,000
-	95,742	-	460,000	1,140,742
-	4,013	-	210,266	325,187
-	-	-	30,542	30,542
-	-	-	1,406	2,587
\$ 6,977,658	\$ 445,907	\$ 308,110	\$ 702,214	\$ 27,490,954
\$ 27,837	\$ (292,527)	\$ (104,602)	\$ 87,627	\$ (1,107,367)
\$ -	\$ -	\$ -	\$ -	\$ 3,350,000
-	-	-	(3,290,000)	(3,350,000)
-	-	-	3,970,000	3,970,000
-	-	-	3,786	3,786
-	117,384	-	-	117,384
\$ -	\$ 117,384	\$ -	\$ 683,786	\$ 4,091,170

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

	<u>General</u>	<u>Road and Bridge</u>
Net Change in Fund Balances	\$ 1,061,188	\$ 1,403,110
Fund Balances - January 1, as previously reported	\$ 8,858,492	\$ 647,341
Restatement (Note 1.E.)	(500,000)	-
Fund Balances - January 1, as restated	\$ 8,358,492	\$ 647,341
Increase (decrease) in reserved for inventories	\$ -	\$ 14,996
Fund Balances - December 31	\$ 9,419,680	\$ 2,065,447

EXHIBIT 4
(Continued)

Human Services	Revolving Loan	Ditch	Nonmajor Debt Service Fund	Total Governmental Funds
\$ 27,837	\$ (175,143)	\$ (104,602)	\$ 771,413	\$ 2,983,803
\$ 3,467,194	\$ 52,014	\$ (251,365)	\$ 495,849	\$ 13,269,525
-	500,000	-	-	-
\$ 3,467,194	\$ 552,014	\$ (251,365)	\$ 495,849	\$ 13,269,525
\$ -	\$ -	\$ -	\$ -	\$ 14,996
\$ 3,495,031	\$ 376,871	\$ (355,967)	\$ 1,267,262	\$ 16,268,324

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 4A

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

Net change in fund balances - total governmental funds (Exhibit 4) **\$ 2,983,803**

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

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

Deferred revenue - December 31	\$ 2,010,282	
Deferred revenue - January 1	(2,417,473)	(407,191)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold.

Capital outlay reported in the funds	\$ 6,284,249	
Net book value of assets sold	(33,746)	
Depreciation expense	(2,021,273)	4,229,230

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

Proceeds of new debt		
G.O. bonds issued	\$ (3,970,000)	
Premium on bonds	(3,786)	
Loans payable	(117,384)	
New debt bond issuance costs	30,542	(4,060,628)

Repayment of debt principal		1,140,742
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Amortization of premium/discount on debt and issuance costs		(8,285)
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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.

Inventories	\$ 14,996	
Accrued interest payable and prepaid interest	(62,501)	
Compensated absences payable	(149,357)	(196,862)

The net revenue of the Internal Service Fund is reported with governmental activities.		(137,838)
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Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 3,542,971**

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 7,018,691	\$ 6,345,219	\$ 6,348,251	\$ 3,032
Special assessments	244,000	244,000	258,281	14,281
Licenses and permits	56,000	56,000	91,548	35,548
Intergovernmental	2,081,118	2,754,590	3,224,051	469,461
Charges for services	1,354,909	1,354,909	1,358,059	3,150
Fines and forfeits	59,000	59,000	60,673	1,673
Gifts and contributions	12,150	12,150	85,869	73,719
Investment earnings	386,000	386,000	783,385	397,385
Miscellaneous	141,510	141,510	298,034	156,524
Total Revenues	\$ 11,353,378	\$ 11,353,378	\$ 12,508,151	\$ 1,154,773
Expenditures				
Current				
General government				
Commissioners	\$ 249,364	\$ 249,364	\$ 239,989	\$ 9,375
Courts	48,546	48,546	53,336	(4,790)
Law library	159,629	159,629	41,184	118,445
County administration	272,596	272,596	266,823	5,773
County auditor	384,493	384,493	371,490	13,003
County treasurer	300,004	300,004	277,304	22,700
County assessor	483,680	483,680	474,733	8,947
Elections	42,000	42,000	351,448	(309,448)
Accounting and auditing	55,000	55,000	79,066	(24,066)
Data processing	752,795	752,795	695,951	56,844
Machine room	67,500	67,500	67,612	(112)
Attorney	625,436	625,436	634,302	(8,866)
Recorder	455,582	455,582	370,395	85,187
Surveyor	10,000	10,000	16,733	(6,733)
Environmental services	416,805	416,805	410,194	6,611
Buildings and plant	662,346	662,346	476,348	185,998
Telecommunications	124,072	124,072	144,314	(20,242)
Veterans service officer	109,846	109,846	118,449	(8,603)
Other general government	653,722	653,722	632,799	20,923
Total general government	\$ 5,873,416	\$ 5,873,416	\$ 5,722,470	\$ 150,946

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Public safety				
Sheriff	\$ 1,890,537	\$ 1,890,537	\$ 1,898,530	\$ (7,993)
Boat and water safety	5,300	5,300	3,847	1,453
Emergency services	127,934	127,934	109,601	18,333
Coroner	12,000	12,000	8,659	3,341
E-911 systems	50,000	50,000	16,875	33,125
County jail	275,250	275,250	346,055	(70,805)
Prisoner commission account	10,000	10,000	4,064	5,936
Court services	808,889	808,889	766,798	42,091
Total public safety	\$ 3,179,910	\$ 3,179,910	\$ 3,154,429	\$ 25,481
Sanitation				
Solid waste	\$ 317,500	\$ 317,500	\$ 272,447	\$ 45,053
Health				
Nursing service	\$ 480,009	\$ 480,009	\$ 407,629	\$ 72,380
WIC program	105,962	105,962	85,093	20,869
Senior citizen transportation	80,620	80,620	84,975	(4,355)
Maternal and child health	159,992	159,992	154,574	5,418
Health center	382,472	382,472	385,875	(3,403)
Bioterrorism	30,000	30,000	32,466	(2,466)
Total health	\$ 1,239,055	\$ 1,239,055	\$ 1,150,612	\$ 88,443
Culture and recreation				
Historical society	\$ 92,610	\$ 92,610	\$ 92,610	\$ -
Wayside rest	-	-	23,725	(23,725)
Total culture and recreation	\$ 92,610	\$ 92,610	\$ 116,335	\$ (23,725)
Conservation of natural resources				
Cooperative extension	\$ 155,185	\$ 155,185	\$ 144,915	\$ 10,270
Soil and water conservation	74,046	74,046	74,046	-
Agricultural inspector	13,225	13,225	12,745	480
Agricultural society	44,800	44,800	44,800	-
Total conservation of natural resources	\$ 287,256	\$ 287,256	\$ 276,506	\$ 10,750
Economic development				
Housing and Redevelopment Authority	\$ 94,108	\$ 94,108	\$ 94,108	\$ -
Other	29,141	29,141	60,791	(31,650)
Total economic development	\$ 123,249	\$ 123,249	\$ 154,899	\$ (31,650)

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

**EXHIBIT 5
(Continued)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Intergovernmental				
Culture and recreation - regional library	\$ 94,644	\$ 94,644	\$ 85,000	\$ 9,644
Capital outlay				
General government	\$ -	\$ -	\$ 131,715	\$ (131,715)
Debt service				
Principal	\$ 55,000	\$ 55,000	\$ 385,000	\$ (330,000)
Interest	29,988	29,988	36,800	(6,812)
Administrative charges	750	750	750	-
Total debt service	\$ 85,738	\$ 85,738	\$ 422,550	\$ (336,812)
Total Expenditures	\$ 11,293,378	\$ 11,293,378	\$ 11,486,963	\$ (193,585)
Excess of Revenues Over (Under)				
Expenditures	\$ 60,000	\$ 60,000	\$ 1,021,188	\$ 961,188
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 100,000	\$ 100,000	\$ -
Transfers out	(60,000)	(60,000)	(60,000)	-
Total Other Financing Sources (Uses)	\$ (60,000)	\$ 40,000	\$ 40,000	\$ -
Net Change in Fund Balance	\$ -	\$ 100,000	\$ 1,061,188	\$ 961,188
Fund Balance - January 1, as previously reported	\$ 8,858,492	\$ 8,858,492	\$ 8,858,492	\$ -
Restatement (Note 1.E.)	(500,000)	(500,000)	(500,000)	-
Fund Balance - January 1, as restated	\$ 8,358,492	\$ 8,358,492	\$ 8,358,492	\$ -
Fund Balance - December 31	\$ 8,358,492	\$ 8,458,492	\$ 9,419,680	\$ 961,188

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 6

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
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	\$ 1,600,000	\$ 1,445,985	\$ 1,453,974	\$ 7,989
Intergovernmental	3,021,577	3,175,592	4,132,708	957,116
Charges for services	-	-	95,733	95,733
Gifts and contributions	-	-	2,107	2,107
Miscellaneous	-	-	38,690	38,690
Total Revenues	\$ 4,621,577	\$ 4,621,577	\$ 5,723,212	\$ 1,101,635
Expenditures				
Current				
Highways and streets				
Administration	\$ 238,188	\$ 238,188	\$ 243,235	\$ (5,047)
Maintenance	1,351,802	1,266,694	1,625,888	(359,194)
Construction	2,800,000	2,600,000	5,082,567	(2,482,567)
Equipment maintenance and shop	231,587	231,587	309,916	(78,329)
Material and services for resale	-	-	2,018	(2,018)
Total highways and streets	\$ 4,621,577	\$ 4,336,469	\$ 7,263,624	\$ (2,927,155)
Culture and recreation				
Parks	\$ -	\$ -	\$ 31,939	\$ (31,939)
Debt service				
Principal	\$ -	\$ 200,000	\$ 200,000	\$ -
Interest	-	74,108	74,108	-
Administrative (fiscal) charges	-	-	431	(431)
Total debt service	\$ -	\$ 274,108	\$ 274,539	\$ (431)
Total Expenditures	\$ 4,621,577	\$ 4,610,577	\$ 7,570,102	\$ (2,959,525)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 11,000	\$ (1,846,890)	\$ (1,857,890)
Other Financing Sources (Uses)				
Transfers in	71,000	3,250,000	3,250,000	-
Net Change in Fund Balance	\$ 71,000	\$ 3,261,000	\$ 1,403,110	\$ (1,857,890)
Fund Balance - January 1	647,341	647,341	647,341	-
Increase (decrease) in reserved for inventories	-	-	14,996	14,996
Fund Balance - December 31	\$ 718,341	\$ 3,908,341	\$ 2,065,447	\$ (1,842,894)

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 7

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
HUMAN SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,890,340	\$ 2,293,266	\$ 2,308,880	\$ 15,614
Intergovernmental	3,306,555	3,903,629	4,304,129	400,500
Charges for services	276,850	276,850	181,287	(95,563)
Miscellaneous	376,050	376,050	211,199	(164,851)
Total Revenues	\$ 6,849,795	\$ 6,849,795	\$ 7,005,495	\$ 155,700
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,292,535	\$ 2,292,535	\$ 2,323,493	\$ (30,958)
Social services	4,732,260	4,732,260	4,654,165	78,095
Total Expenditures	\$ 7,024,795	\$ 7,024,795	\$ 6,977,658	\$ 47,137
Net Change in Fund Balance	\$ (175,000)	\$ (175,000)	\$ 27,837	\$ 202,837
Fund Balance - January 1	3,467,194	3,467,194	3,467,194	-
Fund Balance - December 31	\$ 3,292,194	\$ 3,292,194	\$ 3,495,031	\$ 202,837

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 8

**STATEMENT OF FUND NET ASSETS
SELF-INSURANCE INTERNAL SERVICE FUND
DECEMBER 31, 2006**

Assets

Current assets	
Cash and pooled investments	\$ 1,687,196
Due from other funds	1,000
Due from other governments	<u>2,000</u>
Total Assets	\$ 1,690,196

Liabilities

Current liabilities	
Accounts payable	<u>145,267</u>

Net Assets

Unrestricted	<u><u>\$ 1,544,929</u></u>
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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 9

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

Operating Revenues	
Charges for services	\$ 2,322,904
Operating Expenses	
Professional services	<u>2,460,742</u>
Income (Loss)	\$ (137,838)
Net Assets - January 1	<u>1,682,767</u>
Net Assets - December 31	<u><u>\$ 1,544,929</u></u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

EXHIBIT 10

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

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 2,322,904
Payments to suppliers	<u>(2,442,514)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (119,610)
Cash and Cash Equivalents at January 1	<u>1,806,806</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 1,687,196</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	<u>\$ (137,838)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
(Increase) decrease in due from other funds	\$ (1,000)
(Increase) decrease in due from other governments	(2,000)
Increase (decrease) in accounts payable	44,140
Increase (decrease) in claims payable	<u>(22,912)</u>
Total adjustments	<u>\$ 18,228</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (119,610)</u></u>

NICOLLET COUNTY
ST. PETER, MINNESOTA

EXHIBIT 11

STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2006

<u>Assets</u>	
Cash and pooled investments	<u>\$ 1,353,081</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 1,353,081</u>

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Nicollet County was established March 5, 1853, and is an organized County having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Administrator serves as the clerk of the Board of Commissioners but has no vote.

Joint Ventures and Jointly-Governed Organizations

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

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the County. 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.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

The Revolving Loan Special Revenue Fund accounts for financial transactions resulting from loans for the replacement of existing septic systems.

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

Additionally, the County reports the following funds:

The Debt Service Fund is used to account for revenues and expenditures related to the County's debt activity.

The Internal Service Fund is used to account for the accumulation of resources for, and the payment of, insurance costs of the Self-Insurance Program.

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. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the County, these funds are not incorporated into the government-wide statements.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. 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. Nicollet County considers all revenues as available if collected within 60 days after the end of the current period, except for reimbursement (expenditure driven) grants for which the period is 90 days. Property and other taxes, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County's cash and pooled investments are considered to be cash equivalents.

2. 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. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Pooled investment earnings for 2006 were \$783,385.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Deposits and Investments (Continued)

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Investments of the County are reported at fair value.

3. Receivables and Payables

Activities between funds representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as an “interfund receivable/payable.” All other outstanding balances between funds are reported as “due to/from other funds.”

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

All accounts and taxes receivable are shown net of an allowance for uncollectibles. Accounts receivable are individually analyzed to arrive at the accounts receivable allowance for uncollectibles. The taxes receivable allowance is equal to 1/4 percent of outstanding property taxes at year-end.

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.

Special assessments receivable consist of delinquent special assessments payable in the years 1997 through 2006 and deferred special assessments payable in 2007 and after. All special assessments receivable are shown net of an allowance for uncollectibles. The special assessments receivable allowance is equal to 1/4 percent of outstanding special assessments at year-end.

4. Inventories and Prepaid Items

Supplies inventories are valued at cost using the first in/first out (FIFO) method. Inventory in the Road and Bridge Special Revenue Fund consists of expendable supplies held for consumption. The cost of individual inventory items is recorded as an expenditure at the time the item is purchased. Inventories at the government-wide level are reported as expenses when consumed.

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

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

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads and bridges), are reported in the government-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 five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Land improvements	20 - 30
Infrastructure	50 - 75
Machinery and equipment	5 - 15

6. Compensated Absences

It is Nicollet County's policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Unused vacation, compensatory time, and vested sick leave are paid to employees upon termination. Unvested sick leave is available to employees in the event of illness-related absences and is not paid to employees upon termination. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The government-wide statement of net assets reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of all vacation, compensatory time, and 25 percent of total vested sick leave. The noncurrent portion consists of 75 percent of total vested sick leave.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

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

9. Fund Equity

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

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

10. Use of Estimates (Continued)

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

Government-Wide

The net assets at January 1, 2006, were restated to reflect a change in the capitalization policy for infrastructure from \$5,000 to \$100,000. The following table summarizes this change:

	Governmental Activities
Net Assets - January 1, as previously reported	\$ 71,475,006
Restatement for change in capitalization policy	(1,532,633)
Net Assets - January 1, as restated	\$ 69,942,373

Governmental Funds

Fund balance at January 1, 2006, was restated because the Board established a septic loan program in 2005, but the funds to operate it were not transferred. The following table summarizes the change:

	General Fund	Revolving Loan Fund
Fund Balance - January 1, as previously reported	\$ 8,858,492	\$ 52,014
Restatement	(500,000)	500,000
Fund Balance - January 1, as restated	\$ 8,358,492	\$ 552,014

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Road and Bridge, and Human Services major governmental funds and the nonmajor Debt Service Fund. 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.

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.

B. Excess of Expenditures Over Budget

The General Fund and Road and Bridge Special Revenue Fund had expenditures in excess of budget for the year ended December 31, 2006.

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 11,486,963	\$ 11,293,378	\$ 193,585
Road and Bridge Special Revenue Fund	7,570,102	4,610,577	2,959,525

The excess of expenditures over budget was funded by unanticipated revenues, proceeds from capital equipment debt, and available fund balance.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

2. Stewardship, Compliance, and Accountability (Continued)

C. Deficit Fund Equity

The Ditch Special Revenue Fund had a deficit fund balance as of December 31, 2006, as follows:

Fund Balance - modified accrual basis	\$ (355,967)
Deferred revenue - unavailable	105,341
Fund Balance - full accrual basis	\$ (250,626)

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

43 ditches with positive balances	\$ 135,649
43 ditches with deficit balances	(386,275)
Net Fund Balance Deficit	\$ (250,626)

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental funds	
Cash and pooled investments	\$ 15,737,184
Petty cash and change funds	1,327
Internal Service Fund	
Cash and pooled investments	1,687,196
Fiduciary funds	
Cash and pooled investments	
Agency funds	1,353,081
Total Cash and Investments	\$ 18,778,788

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable 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. At December 31, 2006, the County does not have a deposit policy for custodial credit risk. As of December 31, 2006, \$97,235 of the County's bank balance of \$17,870,722 was exposed to custodial credit risk because deposits exceeded insurance and pledged collateral.

**NICOLLET COUNTY
ST. PETER, 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. At December 31, 2006, the County does not have a policy on interest rate risk. The Federal Home Loan Bank securities have stated maturities within 2-5 years.

Credit Risk

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

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. At December 31, 2006, 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.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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. At December 31, 2006, the County does not have a policy on concentration of credit risk. The following table presents the County's investment balances at December 31, 2006:

Investment Type	Concentration Risk Percent of Portfolio	Carrying (Fair) Value
Mutual fund	72.6%	\$ 1,055,112
Negotiable certificate of deposit		
LaSalle Midwest	6.8%	98,000
Federal Home Loan Bank	20.6%	300,379
Total		\$ 1,453,491

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	\$ 212,412	\$ -
Special assessments - prior	11,153	-
Special assessments - noncurrent	801,573	640,581
Accounts	593,638	-
Accrued interest	148,275	-
Loans receivable	55,000	47,982
Due from other governments	1,375,391	-
Total Governmental Activities	\$ 3,197,442	\$ 688,563

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Beginning Balance Restated*	Increase	Decrease	Ending Balance
Capital assets not depreciated					
Land	\$ 1,778,377	\$ 1,727,457	\$ 152,738	\$ -	\$ 1,880,195
Construction in progress	-	100,327	110,769	16,078	195,018
Total capital assets not depreciated	\$ 1,778,377	\$ 1,827,784	\$ 263,507	\$ 16,078	\$ 2,075,213
Capital assets depreciated					
Buildings	\$ 16,187,977	\$ 16,187,977	\$ 419,400	\$ -	\$ 16,607,377
Land improvements	410,595	410,595	29,061	-	439,656
Machinery and equipment	4,602,591	4,602,591	609,092	93,526	5,118,157
Infrastructure	63,063,297	61,156,512	4,979,267	-	66,135,779
Total capital assets depreciated	\$ 84,264,460	\$ 82,357,675	\$ 6,036,820	\$ 93,526	\$ 88,300,969
Less: accumulated depreciation for					
Buildings	\$ 4,429,196	\$ 4,429,196	\$ 417,891	\$ -	\$ 4,847,087
Land improvements	176,476	176,476	17,413	-	193,889
Machinery and equipment	3,778,606	3,778,606	310,920	59,780	4,029,746
Infrastructure	12,786,582	12,461,837	1,275,049	-	13,736,886
Total accumulated depreciation	\$ 21,170,860	\$ 20,846,115	\$ 2,021,273	\$ 59,780	\$ 22,807,608
Total capital assets depreciated, net	\$ 63,093,600	\$ 61,511,560	\$ 4,015,547	\$ 33,746	\$ 65,493,361
Governmental Activities Capital Assets, Net	<u>\$ 64,871,977</u>	<u>\$ 63,339,344</u>	<u>\$ 4,279,054</u>	<u>\$ 49,824</u>	<u>\$ 67,568,574</u>

*See Note 1.E.

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

General government	\$ 429,049
Public safety	112,096
Highways and streets, including depreciation of infrastructure assets	1,445,734
Human services	32,433
Culture and recreation	1,961
Total Depreciation Expense	\$ 2,021,273

**NICOLLET COUNTY
ST. PETER, 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 Fund	Road and Bridge Special Revenue Fund	\$ 82
	Human Services Special Revenue Fund	19,516
	Debt Service Fund	100,000
Total Due to General Fund		\$ 119,598
Road and Bridge Special Revenue Fund	General Fund	\$ 2,391
	Ditch Special Revenue Fund	58,082
Total Due to Road and Bridge Special Revenue Fund		\$ 60,473
Revolving Loan Special Revenue Fund	General Fund	\$ 500,000
Internal Service Proprietary Fund	Human Services Special Revenue Fund	\$ 1,000
Total Due To/From Other Funds		\$ 681,071

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and reimbursable expenditures occurred, and when transactions are recorded in the accounting system and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

2. Interfund Receivable/Payable

Receivable Fund	Payable Fund	Amount
General Fund	Revolving Loan Special Revenue Fund	\$ 241,825
	Ditch Special Revenue Fund	296,041
Total Interfund Receivable/Payable		\$ 537,866

The interfund receivable/payable balance is due to the Revolving Loan and Ditch Special Revenue Funds overdrawing cash from the pooled cash and investments. The balance due from the Ditch Fund is not expected to be repaid within the year.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfer to General Fund from Debt Service Fund	\$ 100,000	Various building upkeep projects
Transfer to Road and Bridge Special Revenue Fund from General Fund	60,000	Appropriation for County parks
Transfer to Road and Bridge Special Revenue Fund from Debt Service Fund	<u>3,190,000</u>	Road construction projects
Total Interfund Transfers	<u>\$ 3,350,000</u>	

C. Liabilities

1. Other Postemployment Benefits - Retirees

Nicollet County provides postemployment health care benefits for early retirees and elected officials.

- The early retirement policy is for employees that exercised an early retirement option between July 1 and October 1, 1991. In this policy, individuals are eligible for benefits until they are age 65.
- Elected County officials and their dependents are eligible for the benefit for a number of years equal to 25 percent of the retiree's years in elective office, with a maximum of five years.

The above-mentioned policies are applicable to two retirees, for whom the County pays 100 percent of health premiums for them and their families. The County's regular health benefit provider underwrites the retirees' policies. Retirees may not convert the benefit into an in-lieu-of-payment to secure coverage under independent plans.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

1. Other Postemployment Benefits - Retirees (Continued)

As of December 31, 2006, two retirees were receiving the premium-coverage benefit. The County finances the plan on a pay-as-you-go basis. For the year ended December 31, 2006, the County recognized \$9,797 of expenditures for three retirees.

2. Capital Leases

The County has entered into a capital lease agreement to provide facilities for Human Services. This lease qualifies as a capital lease for accounting purposes, and is recorded by the County as a capital asset at the present value of the future minimum payments as of the inception of the lease. The capital lease consists of the following at December 31, 2006:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Human Services Building	2013	Semi-annual	\$55,000 - \$80,000	\$ 940,000	<u>\$ 480,000</u>

Lease payments are made by the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2006, were as follows:

<u>Year Ending December 31</u>	
2007	\$ 82,575
2008	84,210
2009	85,523
2010	86,540
2011	87,262
2012 - 2013	<u>165,950</u>
Total minimum lease payments	\$ 592,060
Less: amount representing interest and fiscal fees	<u>(112,060)</u>
Present Value of Minimum Lease Payments	<u>\$ 480,000</u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation bonds					
1999A G.O. Capital Improvement Bonds	2014	\$305,000 - \$415,000	4.20 - 4.65	\$ 4,000,000	\$ 2,865,000
2002A G.O. State-Aid Road Bonds	2014	\$200,000 - \$205,000	4.00 - 4.60	2,450,000	1,635,000
2004A G.O. Capital Improvement Bonds	2015	\$240,000 - \$295,000	2.50 - 3.70	2,605,000	2,370,000
2006A G.O. Capital Improvement Bonds	2017	\$335,000 - \$470,000	4.00	<u>3,970,000</u>	<u>3,970,000</u>
Total General Obligation Bonds				<u>\$ 13,025,000</u>	\$ 10,840,000
Less: unamortized discount					(16,543)
Plus: unamortized premium					<u>3,618</u>
Total General Obligation Bonds, Net					<u>\$ 10,827,075</u>

Capital improvement bonds are being retired by the Debt Service Fund, and state-aid road bonds are paid by the Road and Bridge Special Revenue Fund.

Loans Payable

The County entered into loan agreements with the Minnesota Pollution Control Agency for the purpose of funding Clean Water Partnership (CWP) projects. The loans are secured by special assessments.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Full Maturity	Installment Amount	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
1995 Groundwater Implementation CWP Project	2014	\$12,067	-	\$ 362,000	\$ 181,000
1997 Groundwater Protection CWP Project	2010	\$25,875	-	517,500	181,125
2002 Seven Mile Creek CWP Project	2015	\$11,936	2.00	215,392	185,751
2005 Seven Mile Creek Watershed Continuation CWP Project	2018	\$22,765	2.00	114,910	114,910
2006 Rush River Watershed	2018	\$5,245	2.00	34,162	34,162
Totals				<u>\$ 1,243,964</u>	<u>\$ 696,948</u>

Payments on the loans are made by the Revolving Loan Special Revenue Fund.

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Loans*	
	Principal	Interest	Principal	Interest
2007	\$ 750,000	\$ 431,296	\$ 96,141	\$ 3,614
2008	1,100,000	383,658	96,548	3,207
2009	1,130,000	340,671	96,964	2,792
2010	1,170,000	295,416	71,512	2,368
2011	1,200,000	248,237	46,070	1,936
2012 - 2016	5,020,000	517,694	140,641	3,244
2017	470,000	9,400	-	-
Total	<u>\$ 10,840,000</u>	<u>\$ 2,226,372</u>	<u>\$ 547,876</u>	<u>\$ 17,161</u>

*The debt service requirements for the loans from the Minnesota Pollution Control Agency of \$114,910 and \$34,162 are not known as of December 31, 2006.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
General obligation bonds	\$ 7,530,000	\$ 3,970,000	\$ 660,000	\$ 10,840,000	\$ 750,000
Less: deferred amounts for issuance discounts	(18,666)	-	(2,123)	(16,543)	-
Plus: deferred amounts for issuance premium	-	3,786	168	3,618	-
Total bonds payable	\$ 7,511,334	\$ 3,973,786	\$ 658,045	\$ 10,827,075	\$ 750,000
Capital leases	865,000	-	385,000	480,000	55,000
Loans payable	675,306	117,384	95,742	696,948	96,141
Compensated absences	1,637,338	149,357	-	1,786,695	861,145
Long-Term Liabilities	\$ 10,688,978	\$ 4,240,527	\$ 1,138,787	\$ 13,790,718	\$ 1,762,286

D. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. 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.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

3. Detailed Notes on All Funds

D. Risk Management (Continued)

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

The County established a limited risk management program for health and dental coverages in 1992. Premiums are paid into the Self-Insurance Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County has retained risk up to a \$100,000 stop-loss per family per year (\$2,026,800 aggregate) for the health plan. There is a maximum claim limit of \$750 per person per year for the dental plan.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended December 31	
	2006	2005
Unpaid claims, January 1	\$ 124,039	\$ 142,541
Incurred claims (including IBNRs)	1,919,118	1,704,664
Claims payments	(1,897,890)	(1,723,166)
Unpaid Claims, December 31	\$ 145,267	\$ 124,039

	Year Ended December 31	
	2006	2005
Accounts payable	\$ 145,267	\$ 101,127
Claims payable	-	22,912
Unpaid Claims, December 31	\$ 145,267	\$ 124,039

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

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

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

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.

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.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

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	\$ 417,022	\$ 64,407	\$ 42,919
2005	365,621	49,632	44,139
2004	347,381	46,045	42,478

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

B. Defined Contribution Plan

The Public Employees Defined Contribution Plan is a multiple-employer deferred compensation plan for local government officials, except elected county sheriffs. The plan is established and administered in accordance with Minn. Stat. ch. 353D. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

No vesting period is required to receive benefits in the Defined Contribution Plan. At the time of retirement or termination, the market value of the member's account is distributed to the member or another qualified plan.

The County's contributions for the years ending December 31, 2006, 2005, and 2004, were \$5,153, \$5,059, and \$3,989, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

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

B. Joint Ventures

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 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

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Brown-Nicollet Community Health Services Board (Continued)

primarily from state and federal grants. For the year ended December 31, 2005, the most current information available, the Health Services Board had net assets of \$596,477.

Complete financial statements for the Health Services Board can be obtained at 322 South Minnesota Avenue, St. Peter, Minnesota 56082.

Tri-County Solid Waste

Nicollet County entered into a joint powers agreement to create and operate Tri-County Solid Waste, pursuant to the Waste Management Act, Minn. Stat. § 471.59, and a joint powers agreement effective November 3, 1987. Management of Tri-County Solid Waste is vested in the Tri-County Solid Waste Joint Powers Board, which consists of six representatives, two from each Board of Commissioners from Le Sueur, Nicollet, and Sibley Counties. The primary function of Tri-County Solid Waste is to coordinate solid waste management programs, excluding the collection and disposal of solid waste, within the multi-county area. Emphasis is placed on planning, recycling, hazardous waste, problem materials, and education.

One-half of the financing is provided by appropriations from the three counties based on the ratio of their population to the total population of the member counties, and one-half is provided by an equal appropriation from the three counties. Nicollet County contributed \$47,429 in 2006. Sibley County is the fiscal agent. Current financial statements are not available.

South Central Minnesota Emergency Medical Services Joint Powers Board

The South Central Minnesota Emergency Medical Services Joint Powers Board is a joint powers organization founded by nine counties including: Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca, and Watonwan. The primary function of the joint venture is to implement and administer a regional emergency medical services program in Southern Minnesota. The Board receives funding from local, state, and federal government sources.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. Joint Ventures

South Central Minnesota Emergency Medical Services Joint Powers Board (Continued)

During the year, the County made no contributions to the South Central Minnesota Emergency Medical Services Joint Powers Board.

C. Jointly-Governed Organizations

South Central Children's Project Collaborative

Nicollet County, in conjunction with other local governments, formed the South Central Children's Project Collaborative. The Collaborative was established to protect the health and welfare of its citizens. It plans and develops policies pertaining to implementing, directly managing, or contracting for the operation of services for the Family Services Collaborative grant programs and the Children's Mental Health Collaborative grant programs. The goal of the South Central Children's Project Collaborative is to ensure the availability of comprehensive services designed to enhance or strengthen family functioning and the mental health of children. Blue Earth County is the fiscal agent of the Collaborative. Nicollet County has no operational or financial control over the Collaborative. Currently, the Collaborative is not required to be audited.

Sentence to Serve

Nicollet County, in conjunction with other local governments, participates in the State of Minnesota's Sentence to Serve (STS) program. STS is a project of the State Department of Administration's Strive Toward Excellence in Performance (STEP) program. STEP's goal is a statewide effort to make positive improvements in public services. It gives the courts an alternative to jail or fines for the nonviolent offenders that can work on a variety of community or state projects. Private funding, funds from various foundations and initiative funds, as well as the Departments of Corrections and Natural Resources, provide the funds needed to operate the STS program. Although Nicollet County has no operational or financial control over the STS program, Nicollet County budgets for a percentage of this program.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

Nicollet County Family Services Collaborative

Nicollet County entered into the Nicollet County Family Services Collaborative. The purpose of the Collaborative is to enhance family strengths and support through service coordination and access to informal communication. The Collaborative started in 1998 and consists of Nicollet County Social Services, Nicollet County Public Health, Nicollet County Court Services, St. Peter Public Schools, Nicollet Public Schools, and the Minnesota Valley Action Council. Nicollet County is the fiscal agent for the Collaborative. Financing is provided by various grants. Activities of the Collaborative are accounted for in an agency fund of Nicollet County.

South Central Regional Immtrack Collaborative

Nicollet County, in conjunction with Blue Earth, Brown, Le Sueur, Waseca, and Watonwan Counties, formed the South Central Regional Immtrack Collaborative. The purpose of the Collaborative is to protect the health and welfare of its citizens. The Collaborative plans and develops policies pertaining to implementing, directly managing, or contracting for the operation of a regional immunization information system. The goal of the Collaborative is to ensure age-appropriate immunizations and reduce the occurrence of vaccine-preventable diseases by maintaining complete and accurate immunization records. Blue Earth County is the fiscal agent of the Collaborative. Nicollet County has no operational or financial control over the Collaborative. Currently, the Collaborative is not required to be audited.

Brown-Nicollet-Cottonwood Water Quality Joint Powers Board

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.

D. Subsequent Event

On June 26, 2007, Nicollet County passed a resolution to create a County Library Board for the purpose of identifying and implementing new and enhanced library services in the County.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

6. Other Information

A. Special Benefit Tax Levy

In 1993, the South Central Minnesota Multi-County Housing Authority issued \$20,315,000 of revenue bonds to construct housing units in Nicollet County and four surrounding counties. The Authority has since defaulted on these bonds. In 2000, the counties entered into a settlement agreement where each of the counties will approve a special benefit tax levy on behalf of the Authority from 2001 through 2024 to cover the operating deficits based on each county's proportionate share of housing units constructed. Nicollet County's proportionate share of the operating deficit for 2006 is \$94,108. The proportionate shares of the counties may change for years 2007 through 2024 if there are changes in the taxable market value over the 2001 taxable market value.

B. 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.

**COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

DEBT SERVICE FUND

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

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Statement 1

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
DEBT SERVICE NONMAJOR FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 785,044	\$ 708,737	\$ 713,534	\$ 4,797
Intergovernmental	-	76,307	76,307	-
Total Revenues	\$ 785,044	\$ 785,044	\$ 789,841	\$ 4,797
Expenditures				
Debt service				
Principal	\$ 785,044	\$ 574,778	\$ 460,000	\$ 114,778
Interest	-	210,266	210,266	-
Bond issuance costs	-	-	30,542	(30,542)
Administrative charges	-	-	1,406	(1,406)
Total Expenditures	\$ 785,044	\$ 785,044	\$ 702,214	\$ 82,830
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 87,627	\$ 87,627
Other Financing Sources (Uses)				
Transfers out	\$ -	\$ (3,290,000)	\$ (3,290,000)	\$ -
Bonds issued	-	3,970,000	3,970,000	-
Premium on bonds issued	-	-	3,786	3,786
Total Other Financing Sources (Uses)	\$ -	\$ 680,000	\$ 683,786	\$ 3,786
Net Change in Fund Balance	\$ -	\$ 680,000	\$ 771,413	\$ 91,413
Fund Balance - January 1	495,849	495,849	495,849	-
Fund Balance - December 31	\$ 495,849	\$ 1,175,849	\$ 1,267,262	\$ 91,413

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

AGENCY FUNDS

The Agency Fund is used to account for all assets not accounted for by other agency funds and held by the County as an agent for individuals, private organizations, other governments, or other funds.

The Settlement Fund accounts for all taxes and penalties collected and the distribution of the taxes.

The State Revenue Fund accounts for collections for and disbursements to the State of Minnesota.

The Community Health Service Fund accounts for collections and disbursements for the Brown-Nicollet Community Health Service.

The Family Services Collaborative Fund accounts for collections and disbursements for the Family Services Collaborative.

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Statement 2

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 3,681</u>	<u>\$ 939,285</u>	<u>\$ 862,100</u>	<u>\$ 80,866</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 3,681</u>	<u>\$ 939,285</u>	<u>\$ 862,100</u>	<u>\$ 80,866</u>
 <u>SETTLEMENT FUND</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 190,998</u>	<u>\$ 43,808,195</u>	<u>\$ 43,669,975</u>	<u>\$ 329,218</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 190,998</u>	<u>\$ 43,808,195</u>	<u>\$ 43,669,975</u>	<u>\$ 329,218</u>
 <u>STATE REVENUE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 95,125</u>	<u>\$ 4,158,667</u>	<u>\$ 4,159,636</u>	<u>\$ 94,156</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 95,125</u>	<u>\$ 4,158,667</u>	<u>\$ 4,159,636</u>	<u>\$ 94,156</u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

*Statement 2
(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>COMMUNITY HEALTH SERVICE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 291,688	\$ 1,305,788	\$ 1,266,376	\$ 331,100
<u>Liabilities</u>				
Due to other governments	\$ 291,688	\$ 1,305,788	\$ 1,266,376	\$ 331,100
 <u>FAMILY SERVICES COLLABORATIVE FUND</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 808,131	\$ 226,632	\$ 517,022	\$ 517,741
<u>Liabilities</u>				
Due to other governments	\$ 808,131	\$ 226,632	\$ 517,022	\$ 517,741
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 1,389,623	\$ 50,438,567	\$ 50,475,109	\$ 1,353,081
<u>Liabilities</u>				
Due to other governments	\$ 1,389,623	\$ 50,438,567	\$ 50,475,109	\$ 1,353,081

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 1

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

	<u>Interest Rate</u>	<u>Amount</u>
Deposits and Investments		
Checking accounts	Varies	\$ 2,611,432
Cash on hand	None	1,327
Savings or money market accounts	Varies	9,012,538
Mutual funds	Varies	1,055,112
Certificates of deposit	4.91% to 5.45%	5,700,000
U.S. government securities	5.25% to 5.35%	300,379
Negotiable certificates of deposit	3.43%	98,000
Total Deposits and Investments		<u>\$ 18,778,788</u>

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 2

TAX CAPACITY, TAX RATES, LEVIES, AND PERCENTAGE OF COLLECTIONS

	2005		2006		2007	
	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)	Amount	Net Tax Capacity Rate (%)
Tax Capacity						
Real property	\$ 22,414,299		\$ 24,193,033		\$ 25,953,610	
Personal property	722,600		703,449		683,080	
Less: tax increment	(603,000)		(737,392)		(934,613)	
Net Tax Capacity	<u>\$ 22,533,899</u>		<u>\$ 24,159,090</u>		<u>\$ 25,702,077</u>	
Taxes Levied for County Purposes						
County Revenue	\$ 6,815,701	26.645	\$ 7,596,470	27.861	\$ 7,770,582	26.802
Road and Bridge	1,700,000	6.657	1,800,000	6.626	1,832,000	6.350
Human Services	2,738,176	10.598	2,890,340	10.520	3,003,782	10.325
Regional Library*	94,644	1.029	94,644	0.908	94,644	5.052
Debt Service	936,266	4.153	785,044	3.249	1,299,533	0.825
Total Levy for County Purposes	<u>\$ 12,284,787</u>	<u>49.082</u>	<u>\$ 13,166,498</u>	<u>49.164</u>	<u>\$ 14,000,541</u>	<u>49.354</u>
Less State Aids	<u>(1,361,538)</u>		<u>(1,418,931)</u>		<u>(1,431,860)</u>	
Net Levy for County Purposes	<u>\$ 10,923,249</u>		<u>\$ 11,747,567</u>		<u>\$ 12,568,681</u>	
Tax Capacity - Light and Power						
Transmission	<u>\$ 4,542</u>		<u>\$ 4,890</u>		<u>\$ 4,573</u>	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.42, as amended)						
Transmission	<u>\$ 6,800</u>	94.167	<u>\$ 7,376</u>	94.568	<u>\$ 3,765</u>	96.190
Special Assessments						
Ditch liens and assessments	<u>\$ 387,777</u>		<u>\$ 440,545</u>		<u>\$ 452,465</u>	
Percentage of Current Collections for All Purposes	98.990%		98.750%		N/A	

*Not applicable to all sections of the County.

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 3

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

Shared Revenue

State

Highway users tax	\$	3,702,085
County program aid		1,418,931
PERA rate reimbursement		34,276
Disparity reduction aid		11,717
Police aid		43,131
Enhanced 911		109,567
Market value credit		1,114,561
Market value credit - manufactured homes		26,198

Total Shared Revenue **\$ 6,460,466**

Reimbursement for Services

State

Minnesota Department of Human Services	\$	2,118,240
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Payments

Local

Payments in lieu of taxes	\$	13,732
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Grants

State

Minnesota Department of		
Corrections	\$	232,265
Public Safety		339
Health		82,975
Natural Resources		63,500
Human Services		1,102,831
Pollution Control Agency		69,701
Peace Officer Standards and Training Board		4,341
Water and Soil Resources Board		79,127

Total State **\$ 1,635,079**

Federal

Department of		
Agriculture	\$	126,109
Justice		1,000
Transportation		312,600
Education		1,659
Health and Human Services		724,436
Homeland Security		23,914
Election Assistance Commission		319,960

Total Federal **\$ 1,509,678**

Total State and Federal Grants **\$ 3,144,757**

Total Intergovernmental Revenue **\$ 11,737,195**

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 4

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 Nicollet County.
- B. Deficiencies in internal control were disclosed by the audit of financial statements of Nicollet 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*." Some of the significant deficiencies are material weaknesses.
- C. No instances of noncompliance material to the financial statements of Nicollet County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Nicollet County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Help America Vote Act (HAVA)	CFDA #90.401
- H. The threshold for distinguishing between Type A and B programs was \$300,000.
- I. Nicollet 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 Preparation of Financial Statements

Nicollet 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 County's internal control. This condition was caused by the County's decision that it is more efficient to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the County lacks internal control over the preparation of financial statements in accordance with GAAP.

If the County intends to have the staff from the State Auditor's Office assist in preparation, then at a minimum, it must identify and train individuals to obtain expertise so that they can sufficiently review, understand, and approve the County's financial statements, including notes. To demonstrate that this minimum has been met, County employees should prepare summarizing reports exhibiting a level of detail necessary for direct use in preparation of the annual financial report. County-prepared summaries should include, but not be limited to, current year cash transactions by fund, accrued assets and liabilities, capital assets balances and related transactions, and long-term obligation balances and related transactions.

We recommend the County obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. As an alternative, the County could consider hiring an outside consultant to assist in preparing its basic financial statements.

Client's Response:

It is understood that it is the County's responsibility to prepare the financial statements, however, there are certain funding and time restraints that make this requirement difficult to accomplish in the near term. The Board will evaluate and work towards this goal.

06-2 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is restatement of previously issued financial statements to reflect the correction of a material misstatement or identification by the auditor of a material misstatement in the financial statements that was 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 and Road and Bridge Special Revenue Fund to reclassify debt service payments (\$695,522).
- Additional deferred revenue and receivable amounts were reported in the Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, and Revolving Loan Special Revenue Fund (\$1,023,471 and \$1,192,058).
- Corrections were made to reclassify various revenues in the General Fund and Human Services Special Revenue Fund (\$286,191).
- Corrections were made to record revenues and expenditures offset by each other or by transfers in/out in the General Fund, Road and Bridge Special Revenue Fund, and Debt Service Fund (\$3,403,590).
- The Revolving Loan Special Revenue Fund had a deficit cash balance of \$241,825 at December 31, 2006. Our review disclosed that the Board had established a County septic loan program in 2005, but the funds to operate it had not been transferred from the General Fund (\$500,000).

Schedule 4
(Continued)

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 the following to modify internal controls over financial reporting in order to detect misstatements in the financial statements:

- The County should train all persons coding receipts and disbursements in the accounting system.
- Classification of receipts and disbursements should be monitored by a knowledgeable person throughout the year to ensure all accounts are correctly reported.
- As part of the financial statement preparation, summary schedules and worksheets should be prepared by County staff to document the various accrual adjusting journal entries and to demonstrate how the accounts in the financial records are classified or summarized for the annual financial statements.
- When the financial statements are completed, County staff should review the statements to ensure that the reported amounts can be traced back to the prepared supporting schedules and worksheets.
- The County should designate a person to ascertain that all Board actions that impact the general ledger are recorded.
- A qualified individual should review the draft financial statements to identify potential misstatements.

Client's Response:

The Board will support the Auditor/Treasurer in a clear and open method of adopting the recommendations listed.

06-3 Budgeting

The County has a budget policy that includes the procedures for adopting the budget and reporting a budgetary comparison statement to demonstrate compliance with the budget. The policy is good, but missing a few items we would recommend it address. A formal written budget policy should include elements such as:

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

The ability to modify the budget during the year for new circumstances makes the budget more valuable because budgetary differences are not distorted by the new circumstances. Although the County does have some procedures to monitor the budget, they are not included in the budget policy.

During the year, the County department heads receive budget to actual reports either monthly or quarterly; the County Administrator receives the reports monthly, and the County Board receives the reports quarterly. However, the extent to which anyone reviews these reports is not known. The Auditor/Treasurer's Office assumes there are no issues if they do not hear from the department heads.

We recommend the County Board amend its budget policy to include the elements recommended above. Department heads and the County Board should monitor budgets on an ongoing basis. As budget to actual reports are reviewed, reviewers should indicate their review by signing off on them.

Client's Response:

The recommendations will be reviewed and determine if any changes are necessary.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Ditch Fund Deficit Cash Balances

Minn. Stat. § 103E.655, subd. 2, authorizes loans from ditch systems with a surplus or from the General Fund to a ditch system with insufficient cash to pay expenditures. This statute requires that the fund from which the funds were borrowed be repaid with interest. Allowing a ditch fund to maintain a deficit cash balance, in effect, constitutes an interest-free loan from other funds of the County and, as such, is in noncompliance with Minnesota Law.

At December 31, 2006, 39 ditch systems had negative cash balances totaling \$439,055, and 43 ditch systems had negative fund balances totaling \$386,275.

We recommend that the County eliminate cash and fund balance deficits in individual ditches by borrowing from an eligible fund with a surplus cash balance, as permitted by statute, or by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the creation of a repair fund to provide for the repair and maintenance costs of a ditch system.

99-1A Security for Deposits

At December 31, 2006, the total amount of deposits not covered by pledged collateral was \$97,235. Deposits held at ProGrowth Bank of Nicollet exceeded the amount of federal insurance and collateral placed in safekeeping.

Minn. Stat. § 118A.03, subd. 3, requires that cash balances in excess of the maximum amounts of federal deposit insurance be protected by a surety bond or pledged collateral whose fair market value is at least ten percent more than the uninsured amount on deposit plus accrued interest.

We recommend that the County implement procedures to ensure compliance with the provisions of Minn. Stat. § 118A.03.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

02-1 Business Continuity Plan

The County does not have a formal business continuity plan if a disaster or major computer breakdown were to occur. A business continuity plan would give greater assurance that the County is prepared for a disaster or major computer breakdown.

A business continuity plan should include, but is not limited to, the following:

- a list of key personnel, including actual recovery team, who should be available during the recovery process;
- a description of the responsibilities of each member of the recovery team and all other County employees;
- a plan as to how the County should continue operations until normal operations are re-established, including the use of alternative computer facilities or the use of manual procedures;
- a list of materials the County would need to continue operations and how they are to be obtained;

- identification of what space should be used; and
- a schedule for developing and periodically reviewing and updating the plan.

We recommend that the County develop and implement a business continuity plan. All County employees should be familiar with the plan. The plan should detail the steps to be taken to continue operations in the event of a disaster or major computer breakdown.

Client's Response:

Nicollet County has been in the forefront of disaster planning with Emergency Management, Public Health, Social Services, Public Works, Maintenance, Office of Technology and other departments. This "Plan" is a work in progress.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

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

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

Schedule 4
(Continued)

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 Nicollet 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

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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
Nicollet County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nicollet County as of and for the year ended December 31, 2006, and have issued our report thereon dated October 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1, 06-2, and 06-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Nicollet 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, of the significant deficiencies described above, we consider items 06-1 and 06-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nicollet 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, Nicollet County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-1 and 99-1A.

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 Nicollet County and are reported for that purpose.

Nicollet County's written responses to the significant deficiencies, material weaknesses, and management practices comments identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of County Commissioners, management, others within Nicollet 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

October 25, 2007

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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
Nicollet County

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nicollet 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, Nicollet County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nicollet County as of and for the year ended December 31, 2006, and have issued our report thereon dated October 25, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures

of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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 Nicollet 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

Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

October 25, 2007

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**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 5

**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	\$ 126,259
Passed Through Minnesota Department of Human Services Administrative Matching Grant for Food Stamp Program	10.561	6,795
Total U.S. Department of Agriculture		\$ 133,054
U.S. Department of Justice		
Passed Through Minnesota Department of Public Safety Enforcing Underage Drinking Laws Program	16.727	\$ 1,000
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 339,000
U.S. Department of Education		
Passed Through Minnesota Department of Health Special Education Grant for Infants and Families with Disabilities	84.181	\$ 1,659
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State Help America Vote Act	90.401	\$ 319,960
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Immunization Grant	93.268	\$ 1,360
Center for Disease Control and Prevention	93.283	50,664
Temporary Assistance for Needy Families (TANF)	93.558	19,319
Maternal and Child Health Services Block Grant	93.994	32,056
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	3,437
Temporary Assistance for Needy Families (TANF)	93.558	297,395
Child Care Development Block Grant	93.575	19,965
Child Welfare Services	93.645	6,894
Foster Care - Title IV-E	93.658	106,143
Social Services Block Grant - Title XX	93.667	156,286
Independent Living	93.674	4,727
Community Mental Health Services Block Grant	93.958	12,421
Total U.S. Department of Health and Human Services		\$ 710,667

**NICOLLET COUNTY
ST. PETER, MINNESOTA**

Schedule 5
(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 Homeland Security		
Passed Through Minnesota Department of Public Safety		
Homeland Security Grant Program	97.004	\$ 1,654
Emergency Management Performance Grant	97.042	13,990
Homeland Security Grant Program - Emergency Response	97.067	8,270
Total U.S. Department of Homeland Security		\$ 23,914
Total Federal Awards		\$ 1,529,254

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 Nicollet 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 greater than reported revenues because some reimbursement revenues 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.