

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

STEARNS COUNTY
ST. CLOUD, 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Year Ended December 31, 2006



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

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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ST. CLOUD, MINNESOTA**

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**ORGANIZATION SCHEDULE
2006**

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Dewayne Marek	March 2006	January 2009
2nd District	Mark Sakry*	January 2003	January 2007
3rd District	Vince Schaefer	January 2003	January 2007
4th District	Leigh Lenzmeier	January 2005	January 2009
5th District	Don Otte	January 2003	January 2007
Officers			
Elected			
Attorney	Janelle Kendall	January 2003	January 2007
Auditor/Treasurer	Randy Schreifels	January 2003	January 2007
County Recorder/Registrar of Titles	Diane Grundhoefer	January 2003	January 2007
Sheriff	John Sanner	January 2003	January 2007
Appointed			
Administrator	George Rindelaub		Indefinite
Agriculture Inspector	John Waldorf		Indefinite
Assessor	Gary Grossinger	January 2005	December 2009
Emergency Management	Marvin Klug		Indefinite
Extension	Debbie Botzek-Linn		Indefinite
Facilities Manager	Ralph Braegelmann		Indefinite
Highway Engineer	Mitch Anderson	May 2004	May 2008
Human Resources	Jennifer Thorsten		Indefinite
Medical Examiner	Dr. David Frederickson	January 2006	January 2007
Information Services	George McClure		Indefinite
Parks	Charles Wocken		Indefinite
Environmental Service	Don Adams		Indefinite
Purchasing	Bill Davison		Indefinite
Veterans Service Officer	Terry Ferdinandt	February 2004	March 2008
Human Services Director	Roma Steil		Indefinite

*Chair

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Stearns County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County, Minnesota, as of and for the year ended December 31, 2006, including the Housing and Redevelopment Authority (HRA) of Stearns County as of and for the year ended June 30, 2006, which collectively comprise Stearns County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Stearns County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the HRA of Stearns County, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the HRA of Stearns County, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County as of

December 31, 2006, including the HRA of Stearns County as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2007, on our consideration of Stearns County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It does not include the HRA of Stearns County, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 21, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

This section of Stearns County's annual financial report presents an overview and analysis of the County's financial performance during the fiscal year that ended on December 31, 2006.

FINANCIAL HIGHLIGHTS

- The assets of Stearns County exceeded its liabilities by \$230,069,208 (net assets). Of this amount, \$22,696,979 represents unrestricted net assets that may be used to meet the County's ongoing obligations to citizens and creditors. The unrestricted net assets decreased by \$8,026,814 (28.0 percent) compared to December 31, 2005.
- The County's total net assets increased by \$19,936,362, or about 9.5 percent, over the prior year.
- As of the close of the fiscal year, Stearns County's governmental funds reported combined ending fund balances of \$39,259,829. Of this amount, \$31,268,402 or approximately 80 percent, is available for spending at the County's discretion.
- At the end of the year, unreserved fund balance for the General Fund was \$12,921,760. This is approximately 33.9 percent of total General Fund expenditures during the year and an increase of \$4,077,423 over the fund's 2005 unreserved fund balance. At the end of 2005, the General Fund's unreserved fund balance was approximately 24.5 percent of total expenditures.
- Total bonded debt at the end of the year was \$15,571,888. In 2006, the County issued \$451,888 in bonds and paid \$4,450,000 of bond principal reducing bonded debt by 20.4 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts--Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (MD&A) (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the County.

- The first two statements are county-wide financial statements which provide both short-term and long-term information about the County’s overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County, reporting the County’s operations in more detail than the county-wide statements.
- The governmental funds statements tell how basic services such as general government, human services, and highways and streets were financed in the short-term as well as what remains for future spending.
- The proprietary fund statements offer short-term and long-term financial information about activities the County operates like a business, such as loans to individual for septic system upgrades.
- Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

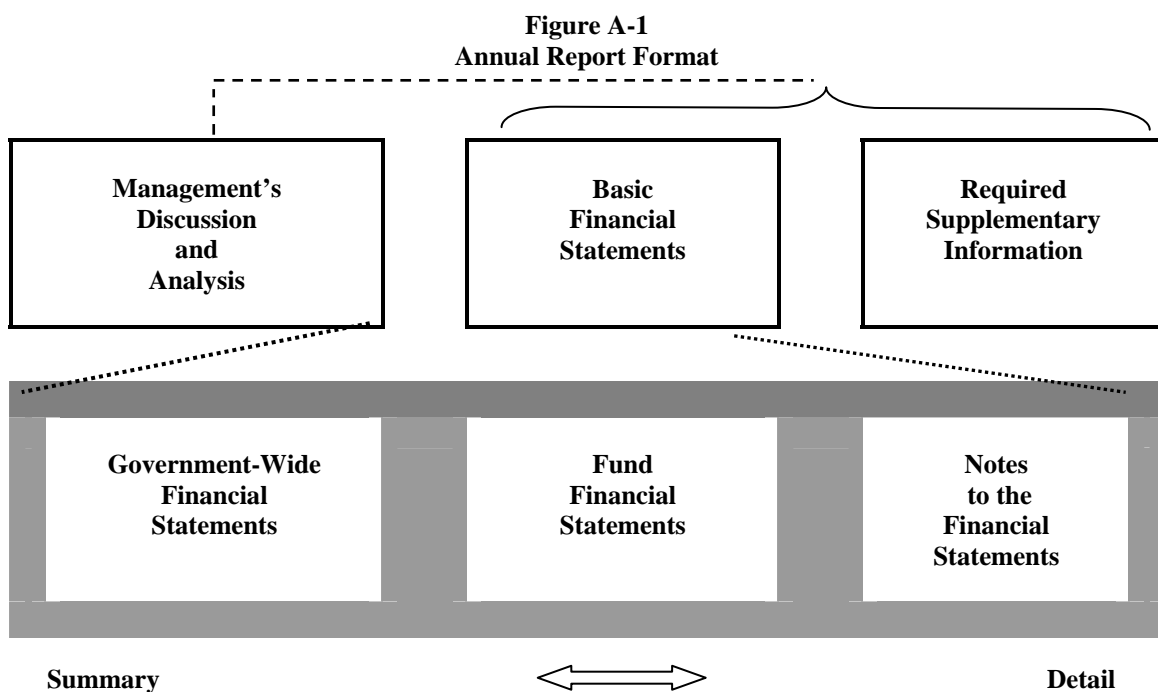


Figure A-2 summarizes the major features of the County’s financial statements, including the portion of the County’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and content of each of the statements.

Figure A-2 Major Features of the County’s Government-Wide and Fund Financial Statements				
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire County government (except fiduciary funds) and the County’s component unit	The activities of the County that are not proprietary or fiduciary	Activities the County operates similar to private business	Instances in which the County is the trustee or agent for someone else’s resources
Required financial statements	Statement of net assets and statement of activities	Balance sheet and operating statement	Statement of net assets; statement of revenues, expenses, and changes in net assets; and statement of cash flows	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short- and long-term	All assets and liabilities, both short-term and long-term; agency funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

County-Wide Statements

The county-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the County’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two county-wide statements report the County's net assets and how they have changed. Net assets--the difference between the County's assets and liabilities--are one way to measure the County's financial health or position.

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the County, additional non-financial factors such as changes in the County's property tax base and the condition of county buildings and other facilities need to be considered.

In the county-wide financial statements the County's activities are shown in two categories:

- Governmental activities - The County's basic services are included here. Property taxes and state aids finance most of these activities.
- Business-type activities - Those activities supported to a large extent by user fees and charges.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's funds--focusing on its most significant or "major" funds--not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The County establishes other funds to control and manage money for particular purposes (for example, repaying its long-term debts) or to show that it is properly using certain revenues (for example, federal grants).

The County has three kinds of funds:

- Governmental funds - The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the county-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- Proprietary funds - The County maintains one type of proprietary fund--an enterprise fund. Enterprise funds are reported as business-type activities in the government-wide financial statements. Stearns County uses an enterprise fund to account for its Septic Loan Program.
- Fiduciary funds - The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the county-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$230,069,208 on December 31, 2006. (See Table A-1)

Table A-1
Stearns County Net Assets

	<u>2006</u>	<u>2005</u>	<u>Percent (%) Change</u>
Assets			
Current and other assets	\$ 51,697,561	\$ 60,537,922	(14.6)
Capital and noncurrent assets	<u>209,848,184</u>	<u>183,300,213</u>	14.5
Total Assets	<u>\$ 261,545,745</u>	<u>\$ 243,838,135</u>	7.3
Liabilities			
Current liabilities	\$ 9,957,552	\$ 8,112,909	22.7
Long-term Liabilities	<u>21,518,985</u>	<u>25,592,380</u>	(15.9)
Total Liabilities	<u>\$ 31,476,537</u>	<u>\$ 33,705,289</u>	(6.6)
Net Assets			
Invested in capital assets, net of related debt	\$ 199,938,898	\$ 172,678,973	15.8
Restricted	7,433,061	5,929,810	25.4
Unrestricted	<u>22,697,249</u>	<u>31,524,063</u>	(28.0)
Total Net Assets	<u>\$ 230,069,208</u>	<u>\$ 210,132,846</u>	9.5

Changes in Net Assets

The county-wide total revenues were \$107,718,964 for the year ended December 31, 2006. Property taxes and intergovernmental revenues accounted for 89.1 percent of total revenue for the year. (See Figure A-2)

Table A-2
Stearns County Changes in Net Assets

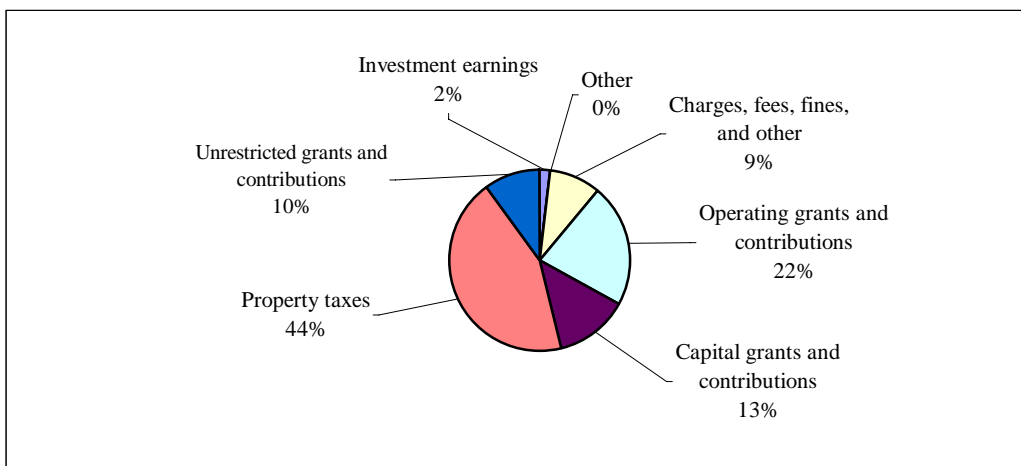
	2006	2005	Percent (%) Change
Revenues			
Program revenues			
Charges, fees, fines, and other	\$ 9,204,818	\$ 8,406,653	9.5
Operating grants and contributions	24,149,408	24,715,978	(2.3)
Capital grants and contributions	14,021,887	25,799,892	(45.7)
General revenues			
Property taxes	46,568,297	42,257,372	10.2
Unrestricted grants and contributions	11,209,045	11,026,720	1.7
Investment earnings	2,436,678	1,405,492	73.4
Other	128,831	300,935	(57.2)
Total Revenues	\$ 107,718,964	\$ 113,913,042	(5.4)
Expenses			
General government	\$ 15,648,619	\$ 16,074,070	(2.6)
Public safety	23,113,103	21,457,444	7.7
Highways and streets	9,949,130	9,497,273	4.8
Sanitation	464,559	500,905	(7.3)
Human services	28,609,664	27,777,977	3.0
Health	2,019,335	1,641,863	23.0
Culture and recreation	3,324,903	3,000,822	10.8
Conservation of natural resources	3,874,418	3,458,169	12.0
Economic development	125,373	86,334	45.2
Interest and fiscal charges on long-term liabilities	653,498	822,516	(20.5)
Total Expenses	\$ 87,782,602	\$ 84,317,373	4.1
Increase in Net Assets	\$ 19,936,362	\$ 29,565,669	(32.6)
Beginning Net Assets	210,132,846	180,537,177	16.4
Ending Net Assets	\$ 230,069,208	\$ 210,132,846	9.5

Total revenues surpassed expenses, increasing net assets \$19,936,362 over last year.

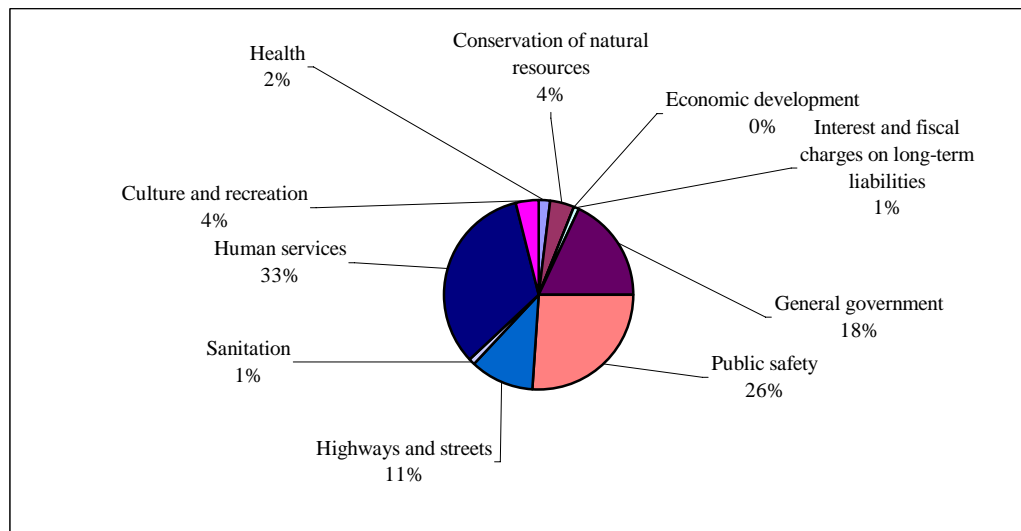
The county-wide cost of all governmental activities this year was \$87,782,602.

- Some of the cost was paid by the users of the County’s programs (\$9,204,818).
- The federal and state governments subsidized certain programs with grants and contributions (\$38,171,295).
- The remaining County costs (\$40,406,489), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$46,568,297 in property taxes, \$11,209,045 in state aid, and \$2,565,509 with investment earnings and other general revenues.

**Figure A-3
Sources of County’s Revenues for 2006**



**Figure A-4
Sources of County’s Expenses for 2006**



**Table A-3
Stearns County Cost of Services
Governmental Activities**

	Total Cost of Services			Net Cost of Services		
	2006	2005	Percent (%) Change	2006	2005	Percent (%) Change
General government	\$ 15,648,619	\$ 16,074,070	(2.6)	\$ 9,692,005	\$ 11,401,418	(15.0)
Public safety	23,113,103	21,457,444	7.7	17,356,179	14,712,227	18.0
Highways and streets	9,949,130	9,497,273	4.8	(5,374,919)	(17,285,102)	68.9
Sanitation	464,559	500,905	(7.3)	(673,851)	(176,395)	(282.0)
Human services	28,609,664	27,777,977	3.0	12,667,279	12,203,933	3.8
Health	2,019,335	1,641,863	23.0	368,018	247,971	48.4
Culture and recreation	3,324,903	3,000,822	10.8	3,166,812	2,763,912	14.6
Conservation of natural resources	3,874,418	3,458,169	12.0	2,484,951	729,795	240.5
Economic development	125,373	86,334	45.2	66,517	(25,425)	361.6
Interest	653,498	822,516	(20.5)	653,498	822,516	(20.5)
Total	\$ 87,782,602	\$ 84,317,373	4.1	\$ 40,406,489	\$ 25,394,850	59.1

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$39,259,829. Of this amount, \$31,268,402, or approximately 80 percent, is available for spending at the County's discretion.

Revenues for the County's governmental funds were \$123,504,513, while total expenditures were \$120,054,703.

General Fund

The General Fund includes the primary operations of the County in providing services to citizens and some capital outlay projects.

The following schedule presents a summary of General Fund revenues:

**Table A-4
General Fund Revenues**

Source	Year Ended December 31		Change	
	2006	2005	Increase/ (Decrease)	Percent (%) Change
Taxes	\$ 18,609,702	\$ 17,721,305	\$ 888,397	5.0
Intergovernmental	12,434,257	10,432,858	2,001,399	19.2
Charges for services	4,459,767	4,046,569	413,198	10.2
Investment income	2,383,759	1,349,958	1,033,801	76.6
Miscellaneous and other	2,554,302	2,617,132	(62,830)	(2.4)
Total General Fund Revenues	\$ 40,441,787	\$ 36,167,822	\$ 4,273,965	11.8

Total General Fund revenue increased by \$4,273,965, or 11.8 percent, from the previous year. The mix of property tax and state aid can change significantly from year to year without any net change in revenue.

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

Function	Year Ended December 31		Change	
	2006	2005	Increase/ (Decrease)	Percent (%) Change
	General government	\$ 15,510,475	\$ 13,092,474	\$ 2,418,001
Public safety	16,421,001	16,369,701	51,300	0.3
Culture and recreation	2,347,370	2,225,488	121,882	5.5
Conservation of natural resources	3,734,472	3,376,379	358,093	10.6
Economic development	75,373	79,634	(4,261)	(5.4)
Intergovernmental	-	917,636	(917,636)	(100.0)
Total General Fund Expenditures	\$ 38,088,691	\$ 36,061,312	\$ 2,027,379	5.6

General Fund Budgetary Highlights

Over the course of the year, the County revised the annual operating budget.

- Actual revenues were \$5,912,856 more than expected.
- The actual expenditures were \$1,312,484 more than budget.

CONSTRUCTION PROJECTS AND DEBT SERVICE

The Capital Projects Fund is currently being used to track the capital notes and capital improvement bonds approved by the Board over the past years. The majority of the expenditures are for the construction of various capital improvements throughout the County. An annual levy is made to fund the bond payments for all previous bond issues.

CAPITAL ASSETS

By the end of 2006, the County had invested over \$263,000,000 in a broad range of capital assets, including buildings, computers, equipment, and infrastructure. (See Table A-6) (More detailed information about capital assets can be found in Note 3.A.3. to the financial statements.) Total depreciation expense for the year was \$5,124,985.

**Table A-6
Stearns County Capital Assets**

	2006	2005	Percent (%) Change
Land	\$ 8,910,062	\$ 8,554,219	4.2
Construction in progress	955,707	773,234	23.6
Right-of-way	5,377,736	-	N/A
Infrastructure	187,732,413	163,957,675	14.5
Buildings	44,592,053	44,400,139	0.4
Machinery, furniture, and equipment	16,050,364	14,485,104	10.8
Less: accumulated depreciation	<u>(53,770,151)</u>	<u>(48,870,158)</u>	10.3
 Total	 <u>\$ 209,848,184</u>	 <u>\$ 183,300,213</u>	 14.5

LONG-TERM LIABILITIES

At year-end, the County had \$21,518,985 in long-term liabilities outstanding. The current portion of these liabilities is \$3,320,720.

**Table A-7
Stearns County Long-Term Liabilities**

	2006	2005	Increase/ (Decrease)	Percent (%) Change
General obligation bonds and notes payable	\$ 15,144,613	\$ 19,610,586	\$ (4,465,973)	(22.8)
Revenue bonds payable	451,888	-	451,888	N/A
Loans payable	25,000	25,000	-	-
Compensated absences payable	<u>5,897,484</u>	<u>5,956,794</u>	<u>(59,310)</u>	(1.0)
 Total	 <u>\$ 21,518,985</u>	 <u>\$ 25,592,380</u>	 <u>\$ (4,073,395)</u>	 (15.9)

FACTORS BEARING ON THE COUNTY'S FUTURE

The County is dependent on the State of Minnesota for a significant portion of its revenue. Recent experience demonstrates that the Legislature may decrease revenues again.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Jim Stegura, Financial Manager, at 320-656-3914, or Randy Schreifels, County Auditor/Treasurer, at 320-656-3901.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 1

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

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing and Redevelopment Authority of Stearns County
<u>Assets</u>				
Cash and pooled investments	\$ 42,542,311	\$ -	\$ 42,542,311	\$ 1,446,194
Petty cash and change funds	9,650	-	9,650	-
Cash with fiscal agent	911,142	-	911,142	-
Delinquent taxes receivable	872,492	-	872,492	167,931
Special assessments receivable				
Delinquent	43,506	-	43,506	-
Deferred	894,936	-	894,936	-
Accounts receivable	310,967	-	310,967	13,247
Accrued interest receivable	209,122	-	209,122	3,856
Loans receivable	155,054	28,739	183,793	1,269,310
Internal balances	28,739	(28,739)	-	-
Due from other governments	5,030,547	-	5,030,547	97,671
Inventories	543,292	-	543,292	-
Prepaid items	80,086	-	80,086	4,909
Deferred charges	65,717	-	65,717	41,236
Capital assets				
Non-depreciable	15,243,505	-	15,243,505	328,894
Depreciable - net of accumulated depreciation	194,604,679	-	194,604,679	3,662,684
Total Assets	\$ 261,545,745	\$ -	\$ 261,545,745	\$ 7,035,932
<u>Liabilities</u>				
Accounts payable	\$ 3,235,017	\$ -	\$ 3,235,017	\$ 45,719
Salaries payable	2,467,290	-	2,467,290	9,159
Contracts payable	1,630,957	-	1,630,957	-
Due to other governments	950,453	-	950,453	-
Accrued interest payable	135,608	-	135,608	22,220
Unearned revenue	1,538,227	-	1,538,227	86,580
Long-term liabilities				
Due within one year	3,320,720	-	3,320,720	87,506
Due in more than one year	18,198,265	-	18,198,265	1,890,179
Total Liabilities	\$ 31,476,537	\$ -	\$ 31,476,537	\$ 2,141,363

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**EXHIBIT 1
(Continued)**

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

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Housing and Redevelopment Authority of Stearns County
<u>Net Assets</u>				
Invested in capital assets, net of related debt	\$ 199,938,898	\$ -	\$ 199,938,898	\$ 2,061,222
Restricted for				
General government	159,914	-	159,914	-
Public safety	406,602	-	406,602	-
Highway and streets	400,915	-	400,915	-
Sanitation	57,339	-	57,339	-
Conservation of natural resources	127,348	-	127,348	-
Economic development	867,301	-	867,301	-
Debt service	5,413,642	-	5,413,642	116,959
Future projects	-	-	-	276,010
Unrestricted	22,697,249	-	22,697,249	2,440,378
Total Net Assets	\$ 230,069,208	\$ -	\$ 230,069,208	\$ 4,894,569

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	Expenses	Fees, Charges, Fines and Other
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 15,648,619	\$ 4,651,939
Public safety	23,113,103	1,184,578
Highways and streets	9,949,130	103,362
Sanitation	464,559	497,225
Human services	28,609,664	1,752,329
Health	2,019,335	230,411
Culture and recreation	3,324,903	126,187
Conservation of natural resources	3,874,418	617,086
Economic development	125,373	41,701
Interest	653,498	-
	\$ 87,782,602	\$ 9,204,818
Total governmental activities	\$ 87,782,602	\$ 9,204,818
Component unit		
Housing and Redevelopment Authority of Stearns County	\$ 2,248,198	\$ 342,921

General Revenues

Property taxes
Tax increments
Gravel taxes
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Unrestricted investment income
Miscellaneous
Gain on forgiveness of debt

Total general revenues and other items

Change in net assets

Net Assets - Beginning

Net Assets - Ending

EXHIBIT 2

Program Revenues Operating Grants and Contributions		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets				
			Primary Government Governmental Activities	Component Unit Housing and Redevelopment Authority of Stearns County			
\$	364,557	\$	940,118	\$	(9,692,005)		
	3,326,538		1,245,808		(17,356,179)		
	3,384,726		11,835,961		5,374,919		
	641,185		-		673,851		
	14,190,056		-		(12,667,279)		
	1,420,906		-		(368,018)		
	31,904		-		(3,166,812)		
	772,381		-		(2,484,951)		
	17,155		-		(66,517)		
	-		-		(653,498)		
\$	24,149,408	\$	14,021,887	\$	(40,406,489)		
\$	1,890,627	\$	37,265			\$ 22,615	
				\$	46,568,297	\$	224,764
					-		154,990
					20,949		-
					94,789		-
					11,209,045		45,626
					2,436,678		41,103
					13,093		-
					-		53,660
				\$	60,342,851	\$	520,143
				\$	19,936,362	\$	542,758
					210,132,846		4,351,811
				\$	230,069,208	\$	4,894,569

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	General	Road and Bridge
<u>Assets</u>		
Cash and pooled investments	\$ 16,760,115	\$ 2,170,370
Petty cash and change funds	9,100	-
Cash with fiscal agent	-	-
Delinquent taxes receivable	344,945	89,952
Special assessments receivable		
Delinquent	-	-
Deferred	-	-
Accounts receivable	261,643	-
Accrued interest receivable	205,098	-
Loans receivable	-	-
Due from other funds	102	-
Due from other governments	337,796	2,535,078
Inventories	35,435	507,857
Advance to other funds	15,074	-
Prepaid items	78,363	-
	\$ 18,047,671	\$ 5,303,257
 <u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 1,808,541	\$ 99,317
Salaries payable	1,293,040	180,677
Contracts payable	-	1,630,957
Due to other funds	-	-
Due to other governments	903,694	8,184
Deferred revenue - unavailable	204,893	1,146,131
Deferred revenue - unearned	298,718	1,073,050
Advance from other funds	-	-
	\$ 4,508,886	\$ 4,138,316
Fund Balances		
Reserved (Note 3.D.)	\$ 617,025	\$ 908,772
Unreserved		
Designated (Note 3.D.)	12,921,760	256,169
Unreserved, reported in nonmajor Special revenue funds	-	-
	\$ 13,538,785	\$ 1,164,941
Total Liabilities and Fund Balances	\$ 18,047,671	\$ 5,303,257

EXHIBIT 3

Human Services	Debt Service	Capital Projects	Nonmajor Funds	Total
\$ 10,968,032	\$ 4,465,933	\$ 4,623,062	\$ 3,554,799	\$ 42,542,311
330	-	-	220	9,650
-	911,142	-	-	911,142
316,109	106,628	-	14,858	872,492
-	2,280	-	41,226	43,506
-	810,124	-	84,812	894,936
15,414	-	-	33,910	310,967
-	4,024	-	-	209,122
-	-	-	155,054	155,054
-	-	-	-	102
2,140,670	284	-	16,719	5,030,547
-	-	-	-	543,292
-	-	-	28,739	43,813
1,723	-	-	-	80,086
\$ 13,442,278	\$ 6,300,415	\$ 4,623,062	\$ 3,930,337	\$ 51,647,020
\$ 1,175,006	\$ -	\$ 20,460	\$ 131,693	\$ 3,235,017
968,609	-	-	24,964	2,467,290
-	-	-	-	1,630,957
102	-	-	-	102
28,425	-	-	10,150	950,453
187,487	876,699	-	134,861	2,550,071
11,405	-	-	155,054	1,538,227
-	10,074	-	5,000	15,074
\$ 2,371,034	\$ 886,773	\$ 20,460	\$ 461,722	\$ 12,387,191
\$ -	\$ 5,413,642	\$ -	\$ 1,051,988	\$ 7,991,427
11,071,244	-	4,602,602	119,204	28,970,979
-	-	-	2,297,423	2,297,423
\$ 11,071,244	\$ 5,413,642	\$ 4,602,602	\$ 3,468,615	\$ 39,259,829
\$ 13,442,278	\$ 6,300,415	\$ 4,623,062	\$ 3,930,337	\$ 51,647,020

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund balances - total governmental funds (Exhibit 3)	\$	39,259,829
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		209,848,184
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		2,550,071
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds and notes - including premium	\$ (15,144,613)	
Revenue bonds	(451,888)	
Loans payable	(25,000)	
Compensated absences	(5,897,484)	
Accrued interest payable	(135,608)	
Deferred debt issuance charges	65,717	
	(21,588,876)	(21,588,876)
Net Assets of Governmental Activities (Exhibit 1)	\$	<u>230,069,208</u>

**STEARNS COUNTY
ST. CLOUD, 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	\$ 18,609,702	\$ 5,109,567
Special assessments	-	-
Licenses and permits	524,098	-
Intergovernmental	12,434,257	30,336,148
Charges for services	4,459,767	50,609
Fines and forfeits	129,417	-
Gifts and contributions	-	-
Investment income	2,383,759	-
Miscellaneous	1,900,787	52,753
	\$ 40,441,787	\$ 35,549,077
Expenditures		
Current		
General government	\$ 15,510,475	\$ -
Public safety	16,421,001	-
Highways and streets	-	35,859,075
Sanitation	-	-
Human services	-	-
Health	-	-
Culture and recreation	2,347,370	-
Conservation of natural resources	3,734,472	71,563
Economic development	75,373	-
Intergovernmental		
Highways and streets	-	506,798
Capital outlay	-	-
Debt service		
Principal	-	-
Interest	-	-
Bond issuance costs	-	11,654
	\$ 38,088,691	\$ 36,449,090
Excess of Revenues Over (Under) Expenditures	\$ 2,353,096	\$ (900,013)
Other Financing Sources (Uses)		
Transfers in	\$ 2,790,297	\$ 419,222
Transfers out	(978,017)	(125,929)
Bonds and notes issued	-	451,888
Proceeds from sale of capital assets	13,093	-
	\$ 1,825,373	\$ 745,181
Net Change in Fund Balances	\$ 4,178,469	\$ (154,832)
Fund Balances - January 1	9,360,316	1,274,027
Increase (decrease) in reserved for inventories	-	45,746
	\$ 13,538,785	\$ 1,164,941
Fund Balances - December 31	\$ 13,538,785	\$ 1,164,941

EXHIBIT 5

<u>Human Services</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 16,583,089	\$ 5,460,913	\$ -	\$ 799,953	\$ 46,563,224
-	165,384	-	637,624	803,008
-	-	-	51,607	575,705
19,730,047	785,988	-	76,442	63,362,882
1,143,479	-	-	488,463	6,142,318
-	-	-	222,132	351,549
-	-	-	39,080	39,080
-	51,006	-	19,068	2,453,833
1,133,398	-	-	125,976	3,212,914
\$ 38,590,013	\$ 6,463,291	\$ -	\$ 2,460,345	\$ 123,504,513
\$ -	\$ 15,497	\$ -	\$ 432,765	\$ 15,958,737
5,562,626	-	-	10,347	21,993,974
-	-	-	14,890	35,873,965
-	-	-	465,243	465,243
29,759,008	-	-	-	29,759,008
1,997,078	-	-	-	1,997,078
-	-	-	922,133	3,269,503
-	-	-	40,983	3,847,018
-	-	-	50,000	125,373
-	-	-	-	506,798
-	-	1,063,102	-	1,063,102
-	4,400,000	-	50,000	4,450,000
-	728,310	-	4,940	733,250
-	-	-	-	11,654
\$ 37,318,712	\$ 5,143,807	\$ 1,063,102	\$ 1,991,301	\$ 120,054,703
\$ 1,271,301	\$ 1,319,484	\$ (1,063,102)	\$ 469,044	\$ 3,449,810
\$ 592,864	\$ -	\$ 144,000	\$ 98,057	\$ 4,044,440
(607,230)	(46,700)	(2,270,000)	(16,564)	(4,044,440)
-	-	-	-	451,888
-	-	-	-	13,093
\$ (14,366)	\$ (46,700)	\$ (2,126,000)	\$ 81,493	\$ 464,981
\$ 1,256,935	\$ 1,272,784	\$ (3,189,102)	\$ 550,537	\$ 3,914,791
9,814,309	4,140,858	7,791,704	2,918,078	35,299,292
-	-	-	-	45,746
\$ 11,071,244	\$ 5,413,642	\$ 4,602,602	\$ 3,468,615	\$ 39,259,829

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 3,914,791

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	\$ 2,550,071	
Deferred revenue - January 1	(17,271,045)	(14,720,974)

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

Expenditures for general capital assets and infrastructure	\$ 37,027,741	
Net book value of assets sold	(5,354,785)	
Current year depreciation	(5,124,985)	26,547,971

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal 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 effect of issuance costs and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.

Debt issued		
Revenue bonds	\$ (451,888)	
Principal repayments		
General obligation bonds and notes	4,450,000	
Issuance costs and premiums	11,654	
Current year amortization of issuance costs and premiums	1,186	4,010,952

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

Change in accrued interest payable	\$ 78,566	
Change in compensated absences	59,310	
Change in inventories	45,746	183,622

Change in net assets of governmental activities (Exhibit 2) \$ 19,936,362

PROPRIETARY FUND

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STEARNS COUNTY
ST. CLOUD, MINNESOTA

EXHIBIT 7

STATEMENT OF NET ASSETS
SEPTIC LOAN ENTERPRISE FUND
DECEMBER 31, 2006

Assets

Noncurrent assets	
Loans receivable	\$ 28,739

Liabilities

Noncurrent liabilities	
Advance from other funds	28,739
	<hr/>

Net Assets

Unrestricted	\$ -
	<hr/> <hr/>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CASH FLOWS
SEPTIC LOAN ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows From Operating Activities	
Septic system loans made	\$ (28,739)
Cash Flows From Noncapital Financing Activities	
Advance from other funds	<u>28,739</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ -
Cash and Cash Equivalents, January 1	<u>-</u>
Cash and Cash Equivalents, December 31	<u><u>\$ -</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Net operating income (loss)	\$ -
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities	
(Increase) decrease in loans receivable	<u>(28,739)</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (28,739)</u></u>

FIDUCIARY FUND

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STEARNS COUNTY
ST. CLOUD, MINNESOTA

EXHIBIT 9

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Agency Fund</u>
<u>Assets</u>	
Cash and pooled investments	\$ 3,664,117
Due from other governments	<u>3,859</u>
Total Assets	<u>\$ 3,667,976</u>
<u>Liabilities</u>	
Accounts payable	\$ 44,216
Due to other governments	<u>3,623,760</u>
Total Liabilities	<u>\$ 3,667,976</u>

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Stearns County was established February 23, 1854, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Stearns County and its component unit for which the County is financially accountable. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Discrete Component Unit

The Housing and Redevelopment Authority (HRA) of Stearns County is a component unit of Stearns County and is reported in a separate column in the County's government-wide financial statements to emphasize that the HRA is legally separate from Stearns County. The HRA operates as a local governmental unit for the purpose of providing housing and redevelopment services to Stearns County. The governing body consists of a five-member Board of Commissioners appointed by the Stearns County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended June 30, 2006.

The complete financial statements of the HRA of Stearns County can be obtained by writing to the Housing and Redevelopment Authority of Stearns County, 401 West Wind Court, P. O. Box 484, Cold Spring, Minnesota 56320.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Joint Ventures

The County participates in a joint venture described in Note 4.C. The County also participates in a related organization and a jointly-governed organization described in Notes 4.D. and 4.E., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

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

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.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

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

The Capital Projects Fund is used to account for the financial resources to be used for capital acquisition, construction, or improvement of capital facilities.

The County reports the following major enterprise fund:

The Septic Loan Fund is used to account for loans issued to individuals within the County for septic system upgrades.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Additionally, the County reports the following fund type:

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. This fund accounts for assets that the County holds for others in an agent capacity.

C. Measurement Focus and Basis of Accounting

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

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$2,383,759.

Cash and cash equivalents are identified only for the purpose of the statement of cash flows reporting by the proprietary fund. Pooled investments, which have the characteristics of demand deposits, are considered to be cash and cash equivalents on the statement of cash flows.

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

2. Receivables and Payables

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

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

2. Receivables and Payables (Continued)

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

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. The inventory in the General Fund and the Road and Bridge Special Revenue Fund consists of expendable supplies held for consumption. The cost of the inventory is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by reserved fund balance to indicate that they do not constitute available spendable resources.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, roads, bridges, and similar items), are reported in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 - 50
Office furniture and equipment	5 - 10
Machinery and automotive equipment	3 - 12
Infrastructure	50 - 75

5. Compensated Absences

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

6. Deferred Revenue

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.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Long-Term Obligations

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

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

8. Fund Equity

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

9. Use of Estimates

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures over Appropriations

The following funds had expenditures in excess of budget at the function level for the year ended December 31, 2006:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
General government	\$ 15,510,475	\$ 15,004,174	\$ 506,301
Public safety	16,421,001	15,499,097	921,904
Special Revenue Funds			
Road and Bridge			
Current			
Highways and streets	35,859,075	17,072,445	18,786,630
Intergovernmental			
Highways and streets	506,798	-	506,798
Debt Service	11,654	-	11,654
Human Services			
Current			
Public Safety	5,562,626	5,184,757	377,869
County Building			
Current			
Highways and streets	14,890	-	14,890
Law Library			
Current			
General government	280,689	140,000	140,689
Debt Service Fund			
Current			
General government	15,497	-	15,497

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and investments	\$ 42,542,311
Petty cash and change funds	9,650
Cash with escrow agent	911,142
Statement of fiduciary net assets	
Cash and pooled investments	<u>3,664,117</u>
 Total Cash and Investments	 <u>\$ 47,127,220</u>

a. Deposits

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

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the County's deposits may not be returned to it.

The County's policy is to minimize custodial credit risk for its deposits by monitoring the collateral balances on a daily basis and obtaining monthly updates on the par and market value of collateral pledged from financial institutions. As of December 31, 2006, the County's deposits were not exposed to custodial credit risk.

b. Investments

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

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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

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 in the possession of an outside party.

The County's policy is to minimize custodial credit risk by limiting investments to the types of securities listed in its investment policy, and obtaining the necessary documentation from the financial institutions, broker/dealers, intermediaries and advisors, with which the County will do investment business. At December 31, 2006, none of the County's investments were exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. The County's policy is to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

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's policy is to minimize its exposure to interest rate risk by (1) structuring its investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and (2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

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 in instruments guaranteed by or direct issues of the United States or rated in the highest quality category by at least two nationally recognized rating agencies.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The following table presents the County's deposit and investment balances at December 31, 2006, and information relating to potential investment risk:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal Farm Credit Bank	AAA	S&P	N/A	1-3 years	\$ 495,250
Federal Home Loan Bank	AAA	S&P		<1 year	\$ 3,288,002
Federal Home Loan Bank	AAA	S&P		1-3 years	3,601,600
Federal Home Loan Bank	AAA	S&P		3-5 years	1,544,501
Federal Home Loan Bank	AAA	S&P		6-10 years	3,197,962
Federal Home Loan Bank	AAA	S&P		>10 years	854,438
Total Federal Home Loan Bank			33.6%		\$ 12,486,503
Federal Home Loan Mortgage Corporation	AAA	S&P		1-3 years	\$ 946,121
Federal Home Loan Mortgage Corporation	AAA	S&P		3-5 years	502,421
Total Federal Home Loan Mortgage Corporation			N/A		\$ 1,448,542
Federal National Mortgage Association	AAA	S&P		3-5 years	\$ 498,750
Federal National Mortgage Association	AAA	S&P		>10 years	64,549
Total Federal National Mortgage Association			N/A		\$ 563,299
Government National Mortgage Association	AAA	S&P	N/A	>10 years	\$ 71,822
Total U.S. government agency securities					\$ 15,065,416
Commercial paper					
Erste Financial	A1P1F1	S&P, Fitch, Moody's	10.7%	<1year	\$ 3,985,400
Falcon Assets	A1P1F1	S&P, Fitch, Moody's	N/A	<1year	1,499,565
Morrigan TRR	A1P1F1	Moody's	8.0%	<1year	2,990,532
Rhineland Funding	A1P1	S&P, Moody's	9.4%	<1year	3,489,035
Total commercial paper					\$ 11,964,532

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
Negotiable certificates of deposit	N/A	N/A		<1 year	\$ 578,932
Negotiable certificates of deposit	N/A	N/A		1-3 years	289,538
Negotiable certificates of deposit	N/A	N/A		3-5 years	183,669
Negotiable certificates of deposit	N/A	N/A		7-10 years	95,567
Total negotiable certificates of deposit			N/A		\$ 1,147,706
MAGIC Fund	N/A	N/A	24.2%	N/A	\$ 8,972,004
Total investments					\$ 37,149,658
Deposits					9,056,770
Petty cash and change funds					9,650
Cash with escrow agent					911,142
Total Cash and Investments - Primary Government					\$ 47,127,220

N/A - Not Applicable
S&P - Standard & Poor's

2. Receivables

Property Taxes and Special Assessments

Property taxes and special assessments which remain unpaid at December 31 are delinquent. No allowance for uncollectible taxes/assessments has been provided because such amounts are not expected to be material.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

2. Receivables (Continued)

Loans Receivable

The following economic development loans made to private enterprises under the County's economic development loan program were outstanding at December 31, 2006:

	Original Loan Amount	Balance Repaid at December 31, 2006	Outstanding Balance at December 31, 2006	Term (Years)	Interest Rate (%)
Governmental activities					
Precision Products, Inc.	\$ 50,000	\$ 1,193	\$ 48,807	10	3
Royal Tire, Inc.	125,000	71,105	53,895	20	2
Cabinet Components and Distribution Company, Inc.	55,000	39,082	15,918	7	6
Bayer Built Woodworks, Inc.	99,500	95,316	4,184	7	5
Pride of Main Street Dairy, LLC	20,000	20,000	-	7	6
Wenner Gas Company	50,000	17,750	32,250	8	1
 Total Loans Receivable - Governmental Activities	 \$ 399,500	 \$ 244,446	 \$ 155,054		
Business-type activities					
Septic system loans	\$ 28,739	\$ -	\$ 28,739	7	5 - 10

**STEARNS COUNTY
ST. CLOUD, 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	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 8,554,219	\$ 355,843	\$ -	\$ 8,910,062
Construction in progress	773,234	471,379	288,906	955,707
Right-of-way	-	5,377,736	-	5,377,736
Total capital assets not depreciated	\$ 9,327,453	\$ 6,204,958	\$ 288,906	\$ 15,243,505
Capital assets depreciated				
Buildings	\$ 44,400,139	\$ 191,914	\$ -	\$ 44,592,053
Machinery and automotive	9,330,916	1,040,801	154,336	10,217,381
Office furniture and equipment	5,154,188	749,451	70,656	5,832,983
Infrastructure	163,957,675	29,129,523	5,354,785	187,732,413
Total capital assets depreciated	\$ 222,842,918	\$ 31,111,689	\$ 5,579,777	\$ 248,374,830
Less: accumulated depreciation for				
Buildings	\$ 9,451,149	\$ 944,835	\$ -	\$ 10,395,984
Machinery and automotive	4,934,227	890,025	154,336	5,669,916
Office furniture and equipment	3,988,621	408,168	70,656	4,326,133
Infrastructure	30,496,161	2,881,957	-	33,378,118
Total accumulated depreciation	\$ 48,870,158	\$ 5,124,985	\$ 224,992	\$ 53,770,151
Total capital assets depreciated, net	\$ 173,972,760	\$ 25,986,704	\$ 5,354,785	\$ 194,604,679
Governmental Activities Capital Assets, Net	\$ 183,300,213	\$ 32,191,662	\$ 5,643,691	\$ 209,848,184

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

Governmental Activities	
General government	\$ 847,134
Public safety	721,975
Highways and streets, including depreciation of infrastructure assets	3,454,454
Human services	45,020
Culture and recreation	54,548
Conservation of natural resources	1,854
Total Depreciation Expense - Governmental Activities	\$ 5,124,985

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

The Human Services Special Revenue Fund owed the General Fund \$102 at December 31, 2006, for health costs incurred by inmates at the jail.

2. Advance From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Ditch Special Revenue Fund	\$ 5,000
	Debt Service Fund	10,074
Solid Waste Special Revenue Fund	Septic Loan Enterprise Fund	<u>28,739</u>
Total Advance From/To Other Funds		<u>\$ 43,813</u>

The General Fund advanced County Ditch 37 funds to make needed repairs. The advance is being paid off with special assessments on the benefited properties.

The General Fund advanced the Debt Service Fund funds for various projects undertaken by the Clearwater River Watershed District. The advance will be repaid with special assessments on the benefited properties within the watershed district.

The Solid Waste Special Revenue Fund advanced the Septic Loan Enterprise Fund funds to finance various loans to taxpayers for updates to septic systems. The advance will be repaid from principal and interest payments on the loans.

**STEARNS COUNTY
ST. CLOUD, 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:

	Transfers In	Description
Transfers to General Fund from		
Road and Bridge Fund	\$ 125,929	Salaries adjustment
Human Services Fund	605,144	Salaries adjustment
Debt Service Fund	46,700	Pay off fairgrounds special assessment
Capital Projects Fund	2,000,000	Purchase of capital equipment
Nonmajor governmental funds	12,524	Salaries adjustment
	<u>2,790,297</u>	
Total transfers to General Fund	\$ 2,790,297	
Transfers to Road and Bridge Fund from		
General Fund	\$ 470	Insurance premium allocation
General Fund	32,294	Information services budget changes
General Fund	9,194	Unemployment/severance adjustment
General Fund	103,264	Transfer of energy costs
Capital Projects Fund	270,000	Highway project funding
Nonmajor governmental funds	4,000	Highway project funding
	<u>419,222</u>	
Total transfers to Road and Bridge Fund	\$ 419,222	
Transfers to Human Services Fund from		
General Fund	\$ 501,778	Information services budget changes
General Fund	34,089	Unemployment/severance adjustment
General Fund	56,997	Salary increases for jail staff
	<u>592,864</u>	
Total transfers to Human Services Fund	\$ 592,864	
Transfers to Capital Projects Fund from		
General Fund	\$ 144,000	Carry forward from 2006 projects
	<u>144,000</u>	
Total transfers to Capital Projects Fund	\$ 144,000	
Transfers to nonmajor governmental funds from		
General Fund	\$ 1,184	Insurance premium allocation
General Fund	4,082	Information services budget changes
General Fund	9,197	Unemployment/severance adjustment
General Fund	5,000	Transfer of energy costs
General Fund	57,768	Repair and maintenance
General Fund	3,000	Courthouse heater repair
General Fund	15,700	Budget transfer
Human Services Fund	2,086	Insurance premium allocation
Nonmajor governmental funds	40	Insurance premium allocation
	<u>98,057</u>	
Total transfers to nonmajor governmental funds	\$ 98,057	
Total Interfund Transfers	\$ 4,044,440	

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	Governmental Activities
Accounts	\$ 3,235,017
Salaries	2,467,290
Contracts	1,630,957
Due to other governments	950,453
Accrued interest	135,608
Total Payables	\$ 8,419,325

2. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable, state grants that are not collected soon enough after year-end to pay liabilities of the current period, state and federal grants received but not yet earned, long-term loans receivable, and highway allotments and other revenue sources either received but unearned or not received soon enough after year-end. Deferred revenue at December 31, 2006, is summarized below by fund:

	Taxes and Special Assessments	Grants	Loans	Highway Allotments and Other	Total
Major governmental funds					
General	\$ 204,893	\$ 221,018	\$ -	\$ 77,700	\$ 503,611
Road and Bridge	51,350	-	-	2,167,831	2,219,181
Human Services	187,487	11,405	-	-	198,892
Debt Service	876,699	-	-	-	876,699
Other governmental funds					
County Building	1,554	-	-	-	1,554
County Park	7,269	-	-	-	7,269
Solid Waste	83,871	-	-	-	83,871
Economic Development	-	-	155,054	-	155,054
Ditch	42,167	-	-	-	42,167
Total	\$ 1,455,290	\$ 232,423	\$ 155,054	\$ 2,245,531	\$ 4,088,298

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Deferred Revenue (Continued)

	Taxes and Special Assessments	Grants	Loans	Highway Allotments and Other	Total
Deferred revenue					
Unavailable	\$ 1,455,290	\$ -	\$ -	\$ 1,094,781	\$ 2,550,071
Unearned	-	232,423	155,054	1,150,750	1,538,227
Total	<u>\$ 1,455,290</u>	<u>\$ 232,423</u>	<u>\$ 155,054</u>	<u>\$ 2,245,531</u>	<u>\$ 4,088,298</u>

3. Vacation and Sick Leave

County employees are granted paid time off, in varying amounts, depending on union/non-union status and length of service.

The County pays unused accumulated paid time off to employees upon termination based on two different severance plans. Unvested paid time off valued at \$2,914,887 at December 31, 2006, is available to employees in the event of an absence but is not paid to them at termination.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt - Bonds and Notes

Bond and note payments are typically made from the debt service funds. Information on individual bonds and notes payables were as follows:

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
General obligation bonds and notes					
2005A G.O. Drainage Bonds	2024	\$40,000 - \$75,000	3.50 - 4.375	\$ 1,090,000	\$ 1,010,000
1993B G.O. Drainage Ditch Refunding Bonds	2008	\$20,000 - \$55,000	2.90 - 5.50	510,000	50,000
1999 G.O. Capital Improvement Bonds	2013	\$105,000 - \$240,000	4.00 - 4.375	2,670,000	1,465,000
2002A G.O. Capital Improvement Bonds	2012	\$385,000 - \$545,000	2.75 - 7.20	4,560,000	2,945,000
2002B G.O. Refunding Bonds	2009	\$460,000 - \$610,000	3.00 - 4.00	3,810,000	1,755,000
1998A HRA Lease Revenue Refunding Bonds	2011	\$650,000 - \$925,000	4.25 - 4.80	8,675,000	4,205,000
2005B G.O. Capital Improvement Bonds	2010	\$450,000 - \$970,000	2.70 - 3.25	<u>4,995,000</u>	<u>3,690,000</u>
Total General Obligation Bonds and Notes				<u>\$ 26,310,000</u>	\$ 15,120,000
Add: Unamortized premium					<u>24,613</u>
Total General Obligation Bonds and Notes, Net					<u>\$ 15,144,613</u>
Revenue bonds					
2006A Public Facilities Revenue Bonds	2008	\$140,000 - \$311,888	2.35	<u>\$ 451,888</u>	<u>\$ 451,888</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

5. Economic Development Loans

The County has entered into loan agreements with the Minnesota Department of Employment and Economic Development. The loans are interest free, and are payable from the Economic Development Special Revenue Fund. Loans payable at December 31, 2006, were as follows:

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
1993 Royal Tire	2014	\$632/month	0.00	\$ 125,000	\$ 25,000

6. Debt Service Requirements

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

<u>Year Ending December 31</u>	<u>General Obligation Bonds and Notes</u>		<u>Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,900,000	\$ 588,799	\$ -	\$ -
2008	2,995,000	478,806	-	-
2009	3,110,000	358,135	-	-
2010	2,605,000	230,689	-	-
2011	1,705,000	121,348	5,910	-
2012 - 2016	1,270,000	187,444	19,090	-
2017 - 2021	315,000	88,830	-	-
2022 - 2024	220,000	19,416	-	-
Total	\$ 15,120,000	\$ 2,073,467	\$ 25,000	\$ -

<u>Year Ending December 31</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 140,000	\$ 7,058
2008	311,888	3,688
Total	\$ 451,888	\$ 10,746

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

7. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds and notes payable	\$ 19,570,000	\$ -	\$ 4,450,000	\$ 15,120,000	\$ 2,900,000
Revenue bonds payable	-	451,888	-	451,888	140,000
Loans payable	25,000	-	-	25,000	-
Compensated absences	5,956,794	4,359,660	4,418,970	5,897,484	280,720
Bond premiums	40,586	-	15,973	24,613	-
Total Long-Term Liabilities	<u>\$ 25,592,380</u>	<u>\$ 4,811,548</u>	<u>\$ 8,884,943</u>	<u>\$ 21,518,985</u>	<u>\$ 3,320,720</u>

8. Operating Leases

The County currently has eight operating leases. The County made operating lease payments totaling \$187,898 in 2006. The following is a schedule of future minimum operating lease payments:

<u>Year Due</u>	<u>Lease Payments</u>
2007	\$ 184,986
2008	71,120
2009	29,008
2010	27,295
2011	14,115
Total	<u>\$ 326,524</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

D. Reserved and Designated Fund Balances

Fund balances are reserved to show amounts segregated from available spendable resources.

	General	Road and Bridge	Debt Service	Other Governmental Funds	Total
Reserved for					
Attorney's forfeited property	\$ 37,155	\$ -	\$ -	\$ -	\$ 37,155
DARE	71,164	-	-	-	71,164
Sheriff's contingency	5,000	-	-	-	5,000
Sheriff's forfeited property	22,770	-	-	-	22,770
Inventories	35,435	507,857	-	-	543,292
Advances to other funds	15,074	-	-	-	15,074
Recorder's equipment	30,182	-	-	-	30,182
E911	268,157	-	-	-	268,157
DWI vehicle forfeiture	39,511	-	-	-	39,511
Highway projects	-	400,915	-	-	400,915
Economic development	-	-	-	867,301	867,301
Gravel pit closure	-	-	-	127,348	127,348
Landfill closure	-	-	-	57,339	57,339
Debt service	-	-	4,502,500	-	4,502,500
Help America Vote grant	92,577	-	-	-	92,577
Cash with fiscal agent	-	-	911,142	-	911,142
Total Reserved	\$ 617,025	\$ 908,772	\$ 5,413,642	\$ 1,051,988	\$ 7,991,427

Designated fund balances show amounts that reflect tentative managerial plans or intent.

	General	Road and Bridge	Human Services	Capital Projects	Other Governmental Funds	Total
Designated for						
Working capital cash flow	\$ 12,492,452	\$ -	\$ -	\$ -	\$ -	\$ 12,492,452
Subsequent years' expenditures	387,840	256,169	11,071,244	4,602,602	-	16,317,855
Sheriff's conceal and carry	41,468	-	-	-	-	41,468
K9 unit	-	-	-	-	16,631	16,631
Sheriff's equipment	-	-	-	-	291	291
Parks' contingency	-	-	-	-	75,660	75,660
Wellness activities	-	-	-	-	26,622	26,622
Total Designated	\$ 12,921,760	\$ 256,169	\$ 11,071,244	\$ 4,602,602	\$ 119,204	\$ 28,970,979

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County is self-insured for its health benefits plan and purchases commercial insurance for other risks of loss. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance for any of the past three years.

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

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

On February 1, 2002, the County contracted with Health Partners and Resource Training & Solutions to administer health benefits plans for its employees as provided by plans accepted from Health Partners and Blue Cross/Blue Shield, respectively. The County sets annual premiums for the plans based on the recommendation of the plan administrators and accumulates premiums collected from all participating funds in the General Fund. Claims processing is handled differently between the two plans.

Claims against the Health Partners account are processed through Health Partners, which bills the County for the actual medical costs incurred. Claims against the Blue Cross/Blue Shield account are processed through Resource Training & Solutions. At the beginning of each month, the County remits to Resource Training & Solutions the

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

anticipated costs for that month as established by the plan in the current plan year. All costs incurred by the County for a plan year in regard to the Blue Cross/Blue Shield plan are then paid from funds collected by Resource Training & Solutions during the plan year. The fee the County pays Resource Training & Solutions includes coverage for any shortfalls in funding versus actual costs for a plan year. Any funds that may remain in the account from a plan year after all costs for that plan year are paid are returned to the County. Changes in the balances of claims liabilities for the past two years are:

	2006	2005
Unpaid claims - January 1	\$ 735,870	\$ 612,910
Current year claims	4,854,618	4,415,222
Claim payments	(4,781,385)	(4,292,262)
Unpaid Claims - December 31	\$ 809,103	\$ 735,870

B. Contingent Liabilities

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 government.

C. Joint Venture

The Stearns-Benton Employment and Training Council was created for the purpose of undertaking, implementing, and maintaining the programs established under the Job Training Partnership Act of 1982 and other federal and state laws and regulations governing the establishment and implementation of programs within areas governed by Stearns and Benton Counties. The Council is an organized joint venture having the duties, powers, and privileges granted joint powers by Minn. Stat. § 471.59. The Council is governed by a Joint Powers Board and a Workforce Development Council. The Joint Powers Board is composed of two Commissioners each from Stearns and Benton Counties and one Workforce Development Council member. As of June 30, 2006, the Workforce Development Council was composed of 27 members from local

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

business, industry, agriculture, labor organizations, public or private education, and community service groups. Included in the Joint Powers Board's duties and powers is the authority to approve the Council's budget and enter into any necessary contracts or leases.

Stearns County contributed \$90,746 for its share of the Council's operating costs in 2006.

Complete financial statements of the Stearns-Benton Employment and Training Council can be obtained by writing to the administrative offices at 3333 West Division Street, Suite 210, St. Cloud, Minnesota 56301-1718.

D. Related Organization

The South Two River Watershed District is governed by a five-member Watershed District Board of Managers appointed by the Stearns County Board of Commissioners. A watershed district is composed of a geographic area which is affected by the watershed from a particular source. The Watershed District Board is responsible for initiating and overseeing certain actions such as ditching, ditch maintenance, engineering, and ditch repair. The costs of these actions, plus the associated administrative costs, must be borne by the "benefited" property owners within each district through a special assessment against the benefited property.

The County maintains an account in its agency fund into which collections of Watershed District special assessments are deposited. Periodically, these funds are paid to the Watershed District.

E. Jointly-Governed Organization

The Tri-County Solid Waste Management Commission was established in July 1983 by a joint powers agreement among Stearns, Benton, and Sherburne Counties to conduct a solid waste management program on behalf of the participating counties. The Commission is an organized joint venture having the duties, powers, and privileges granted joint powers by Minn. Stat. § 471.59. A Board of Directors governs the Commission. Each member county is entitled to no less than two, and no more than four, of its own County Commissioners on the Board. Population of the member

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

4. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organization (Continued)

counties determines how many of their County Commissioners sit on the Board. The Board of Directors is currently composed of eight members: four County Commissioners from Stearns County and two each from Benton and Sherburne Counties.

Each county's proportionate share of the net operating costs is based on the usage of the household hazardous waste facility and the solid waste picked up in each county.

The Commission will remain in existence so long as two or more counties remain as parties to the agreement. Upon dissolution of the Commission, there will be an accounting to determine assets and liabilities. The assets of the Commission will be liquidated and, after payment of liabilities, the proceeds will be distributed to the member counties in the ratio that the total contributions made by each of them bears to the sum total of contributions made by all.

Complete financial statements for the Tri-County Solid Waste Management Commission can be obtained by writing to its administrative offices at 601 North 20th Avenue, St. Cloud, Minnesota 56303.

5. Pension Plans

A. Defined Benefit Plans

Plan Description

All full-time and certain part-time employees of Stearns 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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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.

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

	<u>2006</u>	<u>2007</u>
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

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

5. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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	\$ 1,871,310	\$ 349,182	\$ 294,226
2005	1,639,044	273,439	269,077
2004	1,562,575	252,590	262,699

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. 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 contribution for the years ending December 31, 2006, 2005, and 2004, were \$9,525, \$9,397, and \$9,027, respectively, equal to the contractually required contributions for each year as set by state statute.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

A. Summary of Significant Accounting Policies

Reporting Entity

The Housing and Redevelopment Authority (HRA) of Stearns County is a component unit of Stearns County and is reported in a separate column in the County's financial statements to emphasize that the HRA is a legally separate entity from Stearns County. The HRA operates as a public agency created by Stearns County under the Minnesota Housing and Redevelopment Authority Act of 1947. The primary purpose is to provide housing and redevelopment services to the County. The governing body consists of a five-member Board of Commissioners appointed by the Stearns County Board of Commissioners to serve five-year terms. The financial statements included are as of and for the year ended June 30, 2006.

Deposits and Investments

The HRA's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

Minnesota statutes authorize the HRA to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are obligations guaranteed by the United States or its agencies. Investments are stated at fair value.

The investment in the broker money market is an external investment pool. The reported value of the pool is equal to the value of the pool shares. The HRA has no formal investment policy.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

A. Summary of Significant Accounting Policies (Continued)

Property Taxes

The Commission annually adopts a levy and certifies it to the County for collection. The County is responsible for collecting all property taxes for the HRA. Real property taxes are paid by taxpayers of the County in two equal installments on May 15 and October 15. The County provides tax settlements to the HRA four times per year, in January, June, July, and December.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets are defined by the HRA as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets used in operations are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	40
Improvements other than buildings	10
Furniture and equipment	3 - 10

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

A. Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the HRA's policy to permit certain employees to accumulate paid time off (PTO). After an employee has successfully completed probation, an employee who leaves the employment of the HRA in good standing shall be compensated for previously credited unused PTO at the current rate of pay up to a limited amount, based on years of service. A liability of \$47,329 represents accrued PTO time unused at year-end and is recognized as expense in the year it is earned.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest 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.

B. Stewardship, Compliance, and Accountability

Budgetary Information

Fiscal year budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. All fiscal appropriations lapse at year-end. The HRA Board can modify or amend the budgets at any time. The HRA does not use encumbrance accounting. The budgetary control level is at the fund level.

Deficit Fund Equity

The DEED Albany and DEED Sauk Centre Special Revenue Funds had deficit fund balances of \$3,104 and \$6, respectively, as of June 30, 2006. The Bell Enterprise Fund had net liabilities of \$822 as of June 30, 2006. The HRA plans to eliminate the deficits in the special revenue funds with transfers from other funds and in the Bell Enterprise Fund through future operating profits.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County (Continued)

C. Detailed Notes on All Funds

Deposits and Investments

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (140 percent in the case of mortgage notes pledged). At year-end, the HRA's carrying amount of deposits was \$1,430,783, and the bank balance was \$1,496,403.

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the HRA's deposits and investments may not be returned or the HRA will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Commission, the HRA maintains deposits at depository banks which are members of the Federal Reserve System. As of June 30, 2006, the HRA's deposits were not subject to custodial credit risk.

Investments are carried at fair value. Investment and dividend income are recognized as revenue when earned. As of June 30, 2006, the fair value of the HRA's investment in RBC Dain Rauscher Money Market Fund, an externally pooled investment, was \$15,411. Using the segmented time distribution method to disclose interest rate risk, this investment is less than six months. A credit rating does not apply to this investment.

A reconciliation of cash and pooled investments as shown on the Statement of Net Assets for the HRA follows:

Deposits	\$ 1,430,783
Investments	<u>15,411</u>
Total Cash and Pooled Investments	<u>\$ 1,446,194</u>

Accounts Receivable

Accounts receivable include amounts billed for services provided before year-end. All accounts are deemed collectible.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds (Continued)

Loans Receivable

The following is a summary of the loans receivable at June 30, 2006:

Down payment assistance loans	\$ 30,121
Revolving loan	8,166
DEED Melrose	449,955
DEED Holdingford	259,504
DEED Kimball	263,247
DEED Countrywide	107,630
DEED Sauk Centre	<u>150,687</u>
Total Loans Receivable	<u>\$ 1,269,310</u>

Loans have been issued by the HRA to provide mortgage or down payment assistance to the County property owners. These loans are secured by property mortgages. In addition, loans are receivable from property owners that have been provided rehabilitation assistance. These loans are forgivable based on the number of years the owner lives in the rehabilitated property.

The revolving loan is payable over a period of 16 years and bears interest at three percent per annum.

Due From Other Governments

Due from other governments consists of the following:

	<u>Federal</u>
DEED Stearns Co. County-Wide Fund	\$ 49,846
DEED Sauk Centre Fund	29,892
Nonmajor governmental funds	<u>17,933</u>
Total	<u>\$ 97,671</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds (Continued)

Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital assets not depreciated				
Land	\$ 24,379	\$ -	\$ -	\$ 24,379
Capital assets depreciated				
Buildings	\$ 491,599	\$ -	\$ -	\$ 491,599
Machinery and equipment	53,489	-	-	53,489
Total capital assets depreciated	\$ 545,088	\$ -	\$ -	\$ 545,088
Less: accumulated depreciation for				
Buildings	\$ -	\$ 12,290	\$ -	\$ 12,290
Machinery and equipment	41,096	4,802	-	45,898
Total accumulated depreciation	\$ 41,096	\$ 17,092	\$ -	\$ 58,188
Total capital assets depreciated, net	\$ 503,992	\$ (17,092)	\$ -	\$ 486,900
Governmental Activities Capital Assets, Net	<u>\$ 528,371</u>	<u>\$ (17,092)</u>	<u>\$ -</u>	<u>\$ 511,279</u>
Business-Type Activities				
Capital assets not depreciated				
Land	\$ 304,515	\$ -	\$ -	\$ 304,515
Capital assets depreciated				
Land improvements	\$ 127,155	\$ -	\$ -	\$ 127,155
Buildings	3,534,854	34,265	-	3,569,119
Furniture, equipment, and machinery	187,564	4,637	-	192,201
Total capital assets depreciated	\$ 3,849,573	\$ 38,902	\$ -	\$ 3,888,475
Less: accumulated depreciation for				
Land improvements	\$ 38,445	\$ 4,406	\$ -	\$ 42,851
Buildings	505,813	88,800	-	594,613
Furniture, equipment, and machinery	65,437	9,790	-	75,227
Total accumulated depreciation	\$ 609,695	\$ 102,996	\$ -	\$ 712,691
Total capital assets depreciated, net	\$ 3,239,878	\$ (64,094)	\$ -	\$ 3,175,784
Business-Type Activities Capital Assets, Net	<u>\$ 3,544,393</u>	<u>\$ (64,094)</u>	<u>\$ -</u>	<u>\$ 3,480,299</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds

Capital Assets (Continued)

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

Governmental Activities		
General government		
Housing and economic development	\$	17,092
Business-Type Activities		
Public Housing	\$	48,073
Heading for Home		39,686
Section 8 Housing		906
The Bell		14,331
Total Depreciation Expense - Business-Type Activities	\$	102,996

Deferred Revenue/Unearned Revenue

Governmental funds report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period. Also, governmental funds and business-type activities defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2006, the various components of deferred revenue/unearned revenue reported were as follows:

Fund	Unavailable	Unearned	Total
General			
Taxes receivable	\$ 112,270	\$ -	\$ 112,270
Loans receivable	38,287	-	38,287
DEED Melrose			
Loans receivable	449,955	-	449,955
DEED Holdingford			
Loans receivable	259,504	-	259,504
DEED Kimball			
Loans receivable	263,247	-	263,247
DEED Countrywide			
Loans receivable	107,630	-	107,630
DEED Sauk Centre			
Loans receivable	150,687	-	150,687
Total	\$ 1,381,580	\$ -	\$ 1,381,580

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds (Continued)

Long-Term Debt

Housing Development Bonds

The following bonds were issued to finance the construction of rental buildings and will be repaid from rental income.

	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year-End</u>
Housing Development Revenue Bonds, Series 2001A	\$ 1,070,000	4.65 - 5.40%	July 19, 2001	February 1, 2031	<u>\$ 995,000</u>

Loans

The following loans are through the State's Economic Development and Housing Challenge Program used in the production of housing.

	<u>Authorized and Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance at Year-End</u>
MHFA Loan	\$ 555,500	-	March 15, 2002	May 1, 2032	\$ 555,500
Bell Apartment Loan	400,000	4.32%	April 28, 2005	May 15, 2020	<u>379,856</u>
Total Loans					<u>\$ 935,356</u>

Tax Increment Revenue Note

The HRA issued a Tax Increment Revenue Note, Series 1998, for \$730,000 on February 20, 1998, from a local bank to finance the Cold Spring Granite projects. The note is forgivable to the extent that there will be no future tax increment revenue available for payment. As of the year ended June 30, 2006, there will be no future tax increment revenue, and the \$53,660 of principal that had not been paid was forgiven.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds

Long-Term Debt (Continued)

Debt Service Requirements

Annual debt service requirements for business-type activities are as follows:

Year Ending June 30	MHFA Loans		Bell Apartment Loan		Housing Development Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ -	\$ -	\$ 20,177	\$ 16,333	\$ 20,000	\$ 51,695
2008	-	-	21,139	15,371	20,000	50,765
2009	-	-	22,126	14,384	25,000	49,835
2010	-	-	23,115	13,395	25,000	48,673
2011	-	-	24,148	12,362	25,000	47,510
2012 - 2016	-	-	137,871	44,679	140,000	218,725
2017 - 2021	-	-	131,280	11,818	185,000	178,488
2022 - 2026	-	-	-	-	245,000	124,255
2027 - 2031	-	-	-	-	310,000	52,110
2032	555,500	-	-	-	-	-
Total	<u>\$ 555,500</u>	<u>\$ -</u>	<u>\$ 379,856</u>	<u>\$ 128,342</u>	<u>\$ 995,000</u>	<u>\$ 822,056</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Tax Increment Revenue Note, Series 1998	\$ 171,133	\$ -	\$ 171,133	\$ -	\$ -
Compensated absences	22,486	15,218	18,772	18,932	18,932
Governmental Activities Long-Term Liabilities	<u>\$ 193,619</u>	<u>\$ 15,218</u>	<u>\$ 189,905</u>	<u>\$ 18,932</u>	<u>\$ 18,932</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

C. Detailed Notes on All Funds

Long-Term Debt

Changes in Long-Term Liabilities (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-Type Activities					
Bonds payable					
Housing Development					
Revenue Bonds, Series 2001A	\$ 1,015,000	\$ -	\$ 20,000	\$ 995,000	\$ 20,000
Loans					
MHFA	\$ 555,500	\$ -	\$ -	\$ 555,500	\$ -
Bell apartment	399,261	-	19,405	379,856	20,177
Total loans	\$ 954,761	\$ -	\$ 19,405	\$ 935,356	\$ 20,177
Compensated absences	\$ 16,963	\$ 22,827	\$ 11,393	\$ 28,397	\$ 28,397
Business-Type Activities					
Long-Term Liabilities	\$ 1,986,724	\$ 22,827	\$ 50,798	\$ 1,958,753	\$ 68,574

Pay-As-You-Go Tax Increment Notes

The HRA issues Limited Revenue Pay-As-You-Go Revenue Notes to finance various tax increment projects; these projects are financed through loans from participating banks. The notes through these participating banks are not general obligations of the HRA as they are payable only to the extent of future tax increments received. As such, these obligations do not appear on the HRA's financial statements. The outstanding balances of these loans at June 30, 2006, are summarized below by project.

Rheumes Project	<u>\$ 255,333</u>
-----------------	-------------------

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County (Continued)

D. Defined Contribution Pension Plans

On October 1, 1998, the HRA adopted a defined contribution plan for all employees working at least 20 hours per week for at least five months out of the year. The employer contributes 5.53 percent annually of the employee's base rate of pay to the plan. Participating employees shall vest in employer contributions at the rate of 50 percent for each full year of continuous employment. For the years ended June 30, 2006, 2005, and 2004, employer contributions totaled \$18,225, \$15,892, and \$15,022, respectively.

E. Other Information

Risk Management

The HRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the HRA carries insurance through the Minnesota Counties Insurance Trust. The HRA retains risk for the deductible portions of the insurance. The amount of these deductibles is considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNR). The HRA's management is not aware of any IBNR claims.

Joint Powers Agreement

A Joint Powers Agreement has been entered into between the Housing and Redevelopment Authorities of Carver County, Northwest Minnesota Multi-County, Olmsted County, the City of St. Cloud, Scott County, Southeastern Minnesota Multi-County, and Stearns County (the Members) pursuant to Minn. Stat. § 471.59 and ch. 462C. The purpose of this agreement is to preserve the quality of life in these jurisdictions through the maintenance provision and preservation of adequate housing stock, to encourage new housing construction, and to provide affordable housing to persons of low and moderate income.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

6. Housing and Redevelopment Authority of Stearns County

E. Other Information

Joint Powers Agreement (Continued)

The Members have obtained allocations of tax-exempt bonding authority to be used for issuance of qualified mortgage bonds and have previously issued certain single-family mortgage revenue refunding bonds, which they have determined to refund. The bonds shall be special limited obligations of the Members, payable solely from proceeds, revenues, and other amounts pledged thereto, and more fully described in the indenture. The bonds and interest thereon shall neither constitute nor give rise to indebtedness, pecuniary liability, general or moral obligation, or a pledge of the faith or loan of credit of the Members, the state, or any other political subdivision thereof.

Conduit Debt Obligations

The HRA has issued Industrial Development Notes and Public Project Revenue Bonds to finance construction of industrial and commercial facilities deemed to be in the public interest and the Sauk Centre City Hall. The bonds are secured by the property financed and shall not constitute debt for which the full faith and credit or taxing powers of the HRA will be pledged. Neither the HRA nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

F. Capital Grant Program

The HRA receives capital grant funds from the U.S. Department of Housing and Urban Development. The following schedule reconciles the grants with the current activity:

	Grant Year		
	2003	2004	2005
Funds approved	\$ 39,287	\$ 39,811	\$ 38,407
Funds expended	39,287	39,811	28,970
Excess of Funds Approved	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,437</u>
Funds Advanced	<u>\$ 39,287</u>	<u>\$ 39,811</u>	<u>\$ 28,970</u>
2006 Revenue	<u>\$ 3,000</u>	<u>\$ 5,295</u>	<u>\$ 28,970</u>

REQUIRED SUPPLEMENTARY INFORMATION

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 18,075,482	\$ 18,075,482	\$ 18,609,702	\$ 534,220
Licenses and permits	545,550	545,550	524,098	(21,452)
Intergovernmental	9,653,744	9,692,340	12,434,257	2,741,917
Charges for services	4,242,250	4,450,755	4,459,767	9,012
Fines and forfeits	-	72,004	129,417	57,413
Investment income	765,000	765,000	2,383,759	1,618,759
Miscellaneous	924,000	927,800	1,900,787	972,987
Total Revenues	\$ 34,206,026	\$ 34,528,931	\$ 40,441,787	\$ 5,912,856
Expenditures				
Current				
General government				
Commissioners	\$ (20,451)	\$ 561,818	\$ 497,926	\$ 63,892
Courts	135,000	135,000	106,238	28,762
County administration	638,002	621,651	589,749	31,902
Auditor/Treasurer	4,151,124	4,339,687	4,893,848	(554,161)
Assessor	1,187,892	1,212,329	1,195,704	16,625
Purchasing	289,758	231,021	238,821	(7,800)
Information services	1,022,356	131,658	346,916	(215,258)
Human resources	659,269	744,084	692,954	51,130
Attorney	3,723,290	3,742,547	3,785,267	(42,720)
Recorder	1,089,942	1,398,898	1,140,435	258,463
Maintenance	1,697,759	1,702,465	1,850,589	(148,124)
Veterans service officer	183,300	183,016	172,028	10,988
Total general government	\$ 14,757,241	\$ 15,004,174	\$ 15,510,475	\$ (506,301)
Public safety				
Sheriff	\$ 7,528,694	\$ 7,122,468	\$ 7,714,990	\$ (592,522)
Boat and water safety	33,102	32,977	37,419	(4,442)
Emergency services	120,000	120,000	87,045	32,955
Coroner	220,471	220,477	196,346	24,131
County jail	8,020,357	7,849,808	7,448,004	401,804
Civil defense	244,387	153,367	937,197	(783,830)
Total public safety	\$ 16,167,011	\$ 15,499,097	\$ 16,421,001	\$ (921,904)
Culture and recreation				
Historical society	\$ 520,000	\$ 520,000	\$ 520,000	\$ -
County library	1,826,870	1,826,870	1,826,870	-
Other	500	500	500	-
Total culture and recreation	\$ 2,347,370	\$ 2,347,370	\$ 2,347,370	\$ -

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 1
(Continued)

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Expenditures				
Current (Continued)				
Conservation of natural resources				
Cooperative extension	\$ 325,847	\$ 322,021	\$ 315,030	\$ 6,991
Soil and water conservation	658,000	658,000	658,000	-
Agricultural society	20,000	75,700	75,061	639
Environmental services	2,769,001	2,780,910	2,686,381	94,529
Total conservation of natural resources	\$ 3,772,848	\$ 3,836,631	\$ 3,734,472	\$ 102,159
Economic development				
Community development	\$ 88,935	\$ 88,935	\$ 75,373	\$ 13,562
Total Expenditures	\$ 37,133,405	\$ 36,776,207	\$ 38,088,691	\$ (1,312,484)
Excess of Revenues Over (Under) Expenditures	\$ (2,927,379)	\$ (2,247,276)	\$ 2,353,096	\$ 4,600,372
Other Financing Sources (Uses)				
Transfers in	\$ 2,025,000	\$ 2,862,597	\$ 2,790,297	\$ (72,300)
Transfers out	-	(921,020)	(978,017)	(56,997)
Proceeds from sale of capital assets	19,000	19,000	13,093	(5,907)
Total Other Financing Sources (Uses)	\$ 2,044,000	\$ 1,960,577	\$ 1,825,373	\$ (135,204)
Net Change in Fund Balance	\$ (883,379)	\$ (286,699)	\$ 4,178,469	\$ 4,465,168
Fund Balance - January 1	9,360,316	9,360,316	9,360,316	-
Fund Balance - December 31	\$ 8,476,937	\$ 9,073,617	\$ 13,538,785	\$ 4,465,168

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,088,188	\$ 5,088,188	\$ 5,109,567	\$ 21,379
Intergovernmental	11,659,675	11,659,675	30,336,148	18,676,473
Charges for services	19,750	19,750	50,609	30,859
Miscellaneous	62,100	58,100	52,753	(5,347)
Total Revenues	\$ 16,829,713	\$ 16,825,713	\$ 35,549,077	\$ 18,723,364
Expenditures				
Current				
Highways and streets				
Administration	\$ 626,582	\$ 658,699	\$ 639,928	\$ 18,771
Maintenance	3,834,428	3,777,819	3,707,146	70,673
Construction	10,899,383	10,902,379	29,777,596	(18,875,217)
Equipment, maintenance, and shops	1,667,232	1,733,548	1,734,405	(857)
Total highways and streets	\$ 17,027,625	\$ 17,072,445	\$ 35,859,075	\$ (18,786,630)
Conservation of natural resources				
Agricultural inspector	72,088	72,082	71,563	519
Intergovernmental				
Highways and streets	-	-	506,798	(506,798)
Debt Service				
Bond issuance costs	-	-	11,654	(11,654)
Total Expenditures	\$ 17,099,713	\$ 17,144,527	\$ 36,449,090	\$ (19,304,563)
Excess of Revenues Over (Under) Expenditures	\$ (270,000)	\$ (318,814)	\$ (900,013)	\$ (581,199)
Other Financing Sources (Uses)				
Transfers in	\$ 270,000	\$ 419,222	\$ 419,222	\$ -
Transfers out	-	(125,929)	(125,929)	-
Proceeds from sale of bonds	-	-	451,888	451,888
Total Other Financing Sources (Uses)	\$ 270,000	\$ 293,293	\$ 745,181	\$ 451,888
Net Change in Fund Balance	\$ -	\$ (25,521)	\$ (154,832)	\$ (129,311)
Fund Balance - January 1	1,274,027	1,274,027	1,274,027	-
Increase (decrease) in reserved for inventories	-	-	45,746	45,746
Fund Balance - December 31	\$ 1,274,027	\$ 1,248,506	\$ 1,164,941	\$ (83,565)

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 16,576,636	\$ 16,576,636	\$ 16,583,089	\$ 6,453
Intergovernmental	18,828,617	19,257,225	19,730,047	472,822
Charges for services	616,258	626,858	1,143,479	516,621
Miscellaneous	702,666	869,568	1,133,398	263,830
Total Revenues	\$ 36,724,177	\$ 37,330,287	\$ 38,590,013	\$ 1,259,726
Expenditures				
Current				
Public safety				
Community corrections	\$ 5,339,693	\$ 5,184,757	\$ 5,562,626	\$ (377,869)
Human services				
Administrative services	\$ 2,851,255	\$ 2,784,557	\$ 2,707,346	\$ 77,211
Gateway services	5,794,166	6,862,623	7,049,385	(186,762)
Community supports	8,234,517	8,656,143	8,435,370	220,773
Family and children services	6,469,943	6,359,051	6,522,073	(163,022)
Finance and technology	6,129,555	5,217,411	5,044,834	172,577
Total human services	\$ 29,479,436	\$ 29,879,785	\$ 29,759,008	\$ 120,777
Health				
Nursing service	\$ 1,905,048	\$ 2,064,423	\$ 1,997,078	\$ 67,345
Total Expenditures	\$ 36,724,177	\$ 37,128,965	\$ 37,318,712	\$ (189,747)
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 201,322	\$ 1,271,301	\$ 1,069,979
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 535,867	\$ 592,864	\$ 56,997
Transfers out	-	(607,230)	(607,230)	-
Total Other Financing Sources (Uses)	\$ -	\$ (71,363)	\$ (14,366)	\$ 56,997
Net Change in Fund Balance	\$ -	\$ 129,959	\$ 1,256,935	\$ 1,126,976
Fund Balance - January 1	9,814,309	9,814,309	9,814,309	-
Fund Balance - December 31	\$ 9,814,309	\$ 9,944,268	\$ 11,071,244	\$ 1,126,976

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006

1. Budgetary Information

Budget Policies

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, certain special revenue funds, and the Debt Service Fund. All annual appropriations lapse at fiscal year-end unless specifically carried over to the next budget year by Board action. Expenditures may not exceed budgeted appropriations at the function level within each individual fund.

Budgets can be amended or modified during the year only by the County Board, County Auditor/Treasurer, or Financial Manager. All transfers of budgeted amounts within departments (except capital outlay) can be made by the County Auditor/Treasurer or the Financial Manager. Any other transfers, appropriations, or capital outlay changes or additions require County Board approval. Additional appropriations would be allowed only to the extent that resources are currently available or attainable to cover expenditures.

Encumbrances

Encumbrance accounting, under which commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is used in the governmental funds. Encumbrances outstanding at year-end are reported as reserved fund balances since they do not constitute expenditures or actual liabilities. Encumbrances lapse at year-end and are re-budgeted the following year.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

2. Excess of Expenditures Over Budget

The following major governmental funds had expenditures in excess of budget at the function level for the year ended December 31, 2006.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund			
Current			
General government	\$ 15,510,475	\$ 15,004,174	\$ 506,301
Public safety	16,421,001	15,499,097	921,904
Road and Bridge Special Revenue Fund			
Current			
Highways and streets	35,859,075	17,072,445	18,786,630
Intergovernmental			
Highways and streets	506,798	-	506,798
Debt Service	11,654	-	11,654
Human Service Special Revenue Fund			
Current			
Public safety	5,562,626	5,184,757	377,869

SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 5,459,882	\$ 5,459,882	\$ 5,460,913	\$ 1,031
Special assessments	-	-	165,384	165,384
Intergovernmental	780,331	780,331	785,988	5,657
Investment income	-	-	51,006	51,006
Total Revenues	\$ 6,240,213	\$ 6,240,213	\$ 6,463,291	\$ 223,078
Expenditures				
Current				
General government				
Other	\$ -	\$ -	\$ 15,497	\$ (15,497)
Debt service				
Principal	5,310,000	5,310,000	4,400,000	910,000
Interest	930,213	930,213	728,310	201,903
Total Expenditures	\$ 6,240,213	\$ 6,240,213	\$ 5,143,807	\$ 1,096,406
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 1,319,484	\$ 1,319,484
Other Financing Sources (Uses)				
Transfers out	-	(46,700)	(46,700)	-
Net Change in Fund Balance	\$ -	\$ (46,700)	\$ 1,272,784	\$ 1,319,484
Fund Balance - January 1	4,140,858	4,140,858	4,140,858	-
Fund Balance - December 31	\$ 4,140,858	\$ 4,094,158	\$ 5,413,642	\$ 1,319,484

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

NONMAJOR FUNDS

SPECIAL REVENUE FUNDS

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes.

County Building - to account for funds being accumulated for future building construction and capital acquisition. Financing is provided primarily by an annual property tax levy.

County Park - to account for the operations of the County's park system. Financing is provided primarily by an annual property tax levy and state grants.

Law Library - to account for funds used to maintain the law library. Financing is provided by the assessment of fees according to state statute.

Solid Waste - to account for revenues and expenditures related to County-wide solid waste management. Financing is provided by a County-wide solid waste management fee.

Economic Development - to account for the revenues and expenditures associated with economic development loans issued to the business community to spur growth. Financing is provided by repayments of loans originally financed by intergovernmental revenues.

Ditch - to account for the costs for maintaining County ditches. Financing is provided by special assessments against the benefited property owners.

Miscellaneous - to account for County gravel tax, missing heirs, forfeited tax sale, and other activities.

AGENCY FUND

Agency Fund - to account for assets held by the County as an agent for other governmental units, individuals, private organizations, or other funds.

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	<u>County Building</u>	<u>County Park</u>	<u>Law Library</u>
<u>Assets</u>			
Cash and pooled investments	\$ 128,377	\$ 395,330	\$ 287,278
Petty cash and change funds	-	220	-
Taxes receivable delinquent	2,653	12,205	-
Special assessments receivable			
Delinquent	-	-	-
Deferred	-	-	-
Accounts receivable	-	-	-
Loans receivable	-	-	-
Advance to other funds	-	-	-
Due from other governments	-	-	13,823
Total Assets	<u>\$ 131,030</u>	<u>\$ 407,755</u>	<u>\$ 301,101</u>
<u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts payable	\$ -	\$ 21,562	\$ 46,560
Salaries payable	-	17,059	3,140
Due to other governments	-	10,150	-
Deferred revenue - unavailable	1,554	7,269	-
Deferred revenue - unearned	-	-	-
Advance from other funds	-	-	-
Total Liabilities	<u>\$ 1,554</u>	<u>\$ 56,040</u>	<u>\$ 49,700</u>
Fund Balances			
Reserved for economic development	\$ -	\$ -	\$ -
Reserved for gravel pit closure	-	-	-
Reserved for landfill closure	-	-	-
Unreserved			
Designated for K9 unit	-	-	-
Designated for sheriff's equipment	-	-	-
Designated for parks' contingency	-	-	-
Designated for wellness activities	-	-	-
Undesignated	129,476	351,715	251,401
Total Fund Balances	<u>\$ 129,476</u>	<u>\$ 351,715</u>	<u>\$ 251,401</u>
Total Liabilities and Fund Balances	<u>\$ 131,030</u>	<u>\$ 407,755</u>	<u>\$ 301,101</u>

Statement 1

Special Revenue Funds

<u>Solid Waste</u>	<u>Economic Development</u>	<u>Ditch</u>	<u>Miscellaneous</u>	<u>Total</u>
\$ 1,341,453	\$ 867,301	\$ 175,376	\$ 359,684	\$ 3,554,799
-	-	-	-	220
-	-	-	-	14,858
40,694	-	532	-	41,226
43,177	-	41,635	-	84,812
33,910	-	-	-	33,910
-	155,054	-	-	155,054
28,739	-	-	-	28,739
2,896	-	-	-	16,719
<u>\$ 1,490,869</u>	<u>\$ 1,022,355</u>	<u>\$ 217,543</u>	<u>\$ 359,684</u>	<u>\$ 3,930,337</u>
\$ 7,778	\$ -	\$ -	\$ 55,793	\$ 131,693
4,765	-	-	-	24,964
-	-	-	-	10,150
83,871	-	42,167	-	134,861
-	155,054	-	-	155,054
-	-	5,000	-	5,000
<u>\$ 96,414</u>	<u>\$ 155,054</u>	<u>\$ 47,167</u>	<u>\$ 55,793</u>	<u>\$ 461,722</u>
\$ -	\$ 867,301	\$ -	\$ -	\$ 867,301
-	-	-	127,348	127,348
-	-	-	57,339	57,339
-	-	-	16,631	16,631
-	-	-	291	291
-	-	-	75,660	75,660
-	-	-	26,622	26,622
1,394,455	-	170,376	-	2,297,423
<u>\$ 1,394,455</u>	<u>\$ 867,301</u>	<u>\$ 170,376</u>	<u>\$ 303,891</u>	<u>\$ 3,468,615</u>
<u>\$ 1,490,869</u>	<u>\$ 1,022,355</u>	<u>\$ 217,543</u>	<u>\$ 359,684</u>	<u>\$ 3,930,337</u>

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

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

	<u>County Building</u>	<u>County Park</u>	<u>Law Library</u>
Revenues			
Taxes	\$ 141,829	\$ 637,175	\$ -
Special assessments	-	-	-
Licenses and permits	-	51,607	-
Intergovernmental	13,858	62,584	-
Charges for services	-	-	-
Fines and forfeits	-	-	222,132
Gifts and contributions	-	31,904	-
Investment income	-	1,913	-
Miscellaneous	-	8,420	-
Total Revenues	\$ 155,687	\$ 793,603	\$ 222,132
Expenditures			
Current			
General government	\$ 152,076	\$ -	\$ 280,689
Public safety	-	-	-
Highway and streets	14,890	-	-
Sanitation	-	-	-
Culture and recreation	-	922,133	-
Conservation of natural resources	-	-	-
Economic development	-	-	-
Debt service			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	\$ 166,966	\$ 922,133	\$ 280,689
Excess of Revenues Over (Under) Expenditures	\$ (11,279)	\$ (128,530)	\$ (58,557)
Other Financing Sources (Uses)			
Transfers in	\$ 76,468	\$ 21,589	\$ -
Transfers out	-	(16,524)	-
Total Other Financing Sources (Uses)	\$ 76,468	\$ 5,065	\$ -
Net Change in Fund Balance	\$ 65,189	\$ (123,465)	\$ (58,557)
Fund Balance - January 1	64,287	475,180	309,958
Fund Balance - December 31	\$ 129,476	\$ 351,715	\$ 251,401

Statement 2

Special Revenue Funds

<u>Solid Waste</u>	<u>Economic Development</u>	<u>Ditch</u>	<u>Miscellaneous</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 20,949	\$ 799,953
590,680	-	46,944	-	637,624
-	-	-	-	51,607
-	-	-	-	76,442
488,463	-	-	-	488,463
-	-	-	-	222,132
-	-	-	7,176	39,080
-	17,155	-	-	19,068
8,762	41,701	-	67,093	125,976
\$ 1,087,905	\$ 58,856	\$ 46,944	\$ 95,218	\$ 2,460,345
\$ -	\$ -	\$ -	\$ -	\$ 432,765
-	-	-	10,347	10,347
-	-	-	-	14,890
465,243	-	-	-	465,243
-	-	-	-	922,133
-	-	40,983	-	40,983
-	50,000	-	-	50,000
-	-	50,000	-	50,000
-	-	4,940	-	4,940
\$ 465,243	\$ 50,000	\$ 95,923	\$ 10,347	\$ 1,991,301
\$ 622,662	\$ 8,856	\$ (48,979)	\$ 84,871	\$ 469,044
\$ -	\$ -	\$ -	\$ -	\$ 98,057
(40)	-	-	-	(16,564)
\$ (40)	\$ -	\$ -	\$ -	\$ 81,493
\$ 622,622	\$ 8,856	\$ (48,979)	\$ 84,871	\$ 550,537
771,833	858,445	219,355	219,020	2,918,078
\$ 1,394,455	\$ 867,301	\$ 170,376	\$ 303,891	\$ 3,468,615

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 5

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 141,288	\$ 141,288	\$ 141,829	\$ 541
Intergovernmental	13,712	13,712	13,858	146
Total Revenues	\$ 155,000	\$ 155,000	\$ 155,687	\$ 687
Expenditures				
Current				
General government	\$ 155,000	\$ 231,468	\$ 152,076	\$ 79,392
Highways and streets	-	-	14,890	(14,890)
Total Expenditures	\$ 155,000	\$ 231,468	\$ 166,966	\$ 64,502
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (76,468)	\$ (11,279)	\$ 65,189
Other Financing Sources (Uses)				
Transfers in	-	76,468	76,468	-
Net Change in Fund Balance	\$ -	\$ -	\$ 65,189	\$ 65,189
Fund Balance - January 1	64,287	64,287	64,287	-
Fund Balance - December 31	\$ 64,287	\$ 64,287	\$ 129,476	\$ 65,189

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 6

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 636,749	\$ 636,749	\$ 637,175	\$ 426
Licenses and permits	50,000	50,000	51,607	1,607
Intergovernmental	501,923	501,923	62,584	(439,339)
Gifts and contributions	34,000	34,000	31,904	(2,096)
Investment income	-	-	1,913	1,913
Miscellaneous	17,000	17,000	8,420	(8,580)
Total Revenues	\$ 1,239,672	\$ 1,239,672	\$ 793,603	\$ (446,069)
Expenditures				
Current				
Culture and recreation				
Parks	1,239,672	1,248,737	922,133	326,604
Excess of Revenues Over (Under) Expenditures	\$ -	\$ (9,065)	\$ (128,530)	\$ (119,465)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 21,589	\$ 21,589	\$ -
Transfers out	-	(16,524)	(16,524)	-
Total Other Financing Sources (Uses)	\$ -	\$ 5,065	\$ 5,065	\$ -
Net Change in Fund Balance	\$ -	\$ (4,000)	\$ (123,465)	\$ (119,465)
Fund Balance - January 1	475,180	475,180	475,180	-
Fund Balance - December 31	\$ 475,180	\$ 471,180	\$ 351,715	\$ (119,465)

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 7

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 4,000	\$ 4,000	\$ -	\$ (4,000)
Fines and forfeits	136,000	136,000	222,132	86,132
Total Revenues	\$ 140,000	\$ 140,000	\$ 222,132	\$ 82,132
Expenditures				
Current				
General government				
Law library	140,000	140,000	280,689	(140,689)
Net Change in Fund Balance	\$ -	\$ -	\$ (58,557)	\$ (58,557)
Fund Balance - January 1	309,958	309,958	309,958	-
Fund Balance - December 31	\$ 309,958	\$ 309,958	\$ 251,401	\$ (58,557)

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 8

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 560,000	\$ 560,000	\$ 590,680	\$ 30,680
Charges for services	460,000	460,000	488,463	28,463
Miscellaneous	5,000	5,000	8,762	3,762
Total Revenues	\$ 1,025,000	\$ 1,025,000	\$ 1,087,905	\$ 62,905
Expenditures				
Current				
Sanitation				
Solid waste	1,025,000	1,024,960	465,243	559,717
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 40	\$ 622,662	\$ 622,622
Other Financing Sources (Uses)				
Transfers out	-	(40)	(40)	-
Net Change in Fund Balance	\$ -	\$ -	\$ 622,622	\$ 622,622
Fund Balance - January 1	771,833	771,833	771,833	-
Fund Balance - December 31	\$ 771,833	\$ 771,833	\$ 1,394,455	\$ 622,622

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 9

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment income	\$ 20,000	\$ 20,000	\$ 17,155	\$ (2,845)
Miscellaneous	45,000	45,000	41,701	(3,299)
Total Revenues	\$ 65,000	\$ 65,000	\$ 58,856	\$ (6,144)
Expenditures				
Current				
Economic development				
Community development	65,000	65,000	50,000	15,000
Net Change in Fund Balance	\$ -	\$ -	\$ 8,856	\$ 8,856
Fund Balance - January 1	858,445	858,445	858,445	-
Fund Balance - December 31	\$ 858,445	\$ 858,445	\$ 867,301	\$ 8,856

FIDUCIARY FUNDS

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>Assets</u>				
Cash and pooled investments	\$ 4,441,032	\$ 315,158,294	\$ 315,935,209	\$ 3,664,117
Due from other governments	-	3,859	-	3,859
Total Assets	<u>\$ 4,441,032</u>	<u>\$ 315,162,153</u>	<u>\$ 315,935,209</u>	<u>\$ 3,667,976</u>
<u>Liabilities</u>				
Accounts payable	\$ 38,846	\$ 44,216	\$ 38,846	\$ 44,216
Due to other governments	4,402,186	315,117,937	315,896,363	3,623,760
Total Liabilities	<u>\$ 4,441,032</u>	<u>\$ 315,162,153</u>	<u>\$ 315,935,209</u>	<u>\$ 3,667,976</u>

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OTHER SCHEDULES

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 10

TAX CAPACITY, TAX CAPACITY 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	\$ 96,944,506		\$ 108,618,162		\$ 120,840,776	
Personal property	1,440,956		1,478,943		1,587,325	
Net Tax Capacity	\$ 98,385,462		\$ 110,097,105		\$ 122,428,101	
Taxes Levied for County Purposes						
General	\$ 21,292,969	18.421	\$ 23,943,397	16.774	\$ 28,742,382	19.052
Road and Bridge	4,943,288	4.205	5,472,961	5.209	6,308,441	5.377
Human Services	16,786,581	17.903	18,165,529	17.288	19,851,981	16.922
County Building	137,000	0.146	155,000	0.148	139,500	0.119
County Park	1,638,662	0.681	698,672	0.665	787,499	0.671
Regional Library	1,714,988	1.829	1,826,870	1.739	1,942,952	1.656
Debt Service	5,862,360	5.982	6,240,213	5.700	4,783,885	3.692
Total Levy for County Purposes	\$ 52,375,848	49.167	\$ 56,502,642	47.523	\$ 62,556,640	47.489
Less Credits Payable by State	6,274,225		6,568,321		6,841,586	
Net Levy Certified to State	\$ 46,101,623		\$ 49,934,321		\$ 55,715,054	
Less Market Value Credits Payable by State	4,531,498		4,422,437		4,381,547	
Net Levy for County Purposes	\$ 41,570,125		\$ 45,511,884		\$ 51,333,507	
Percentage of Tax Collections for All Purposes	98.97%		98.65%		N/A	

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

**BALANCE SHEET - BY DITCH
(ACCRUAL BASIS)
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2006**

	Assets			
	Cash and Pooled Investments	Special Assessments Receivable		Total
		Delinquent	Deferred	
Judicial Ditches				
1 Grove Lake	\$ 2,070	\$ -	\$ -	\$ 2,070
3	1,485	80	-	1,565
County Ditches				
7 Lateral A	43,943	-	6,784	50,727
9	21,193	-	-	21,193
17	3,545	-	4,682	8,227
29	8,825	8	-	8,833
32	87,195	93	-	87,288
37	2,251	351	6,251	8,853
50	4,838	-	-	4,838
51	31	-	23,918	23,949
Total	\$ 175,376	\$ 532	\$ 41,635	\$ 217,543
Reconciliation				
Add (Deduct)	-	-	-	-
Modified Accrual Per Statement 1	\$ 175,376	\$ 532	\$ 41,635	\$ 217,543

Schedule 11

Liabilities							
Deferred Revenue	Advance from Other Funds	General Obligation Bonds Payable	Total	Undesignated Fund Balance	Total Liabilities and Fund Balance		
\$ -	\$ -	\$ 1,785	\$ 1,785	\$ 285	\$ 2,070		
-	-	1,070	1,070	495	1,565		
-	-	12,535	12,535	38,192	50,727		
-	-	5,565	5,565	15,628	21,193		
-	-	6,550	6,550	1,677	8,227		
-	-	-	-	8,833	8,833		
-	-	18,320	18,320	68,968	87,288		
-	5,000	-	5,000	3,853	8,853		
-	-	4,175	4,175	663	4,838		
-	-	-	-	23,949	23,949		
\$ -	\$ 5,000	\$ 50,000	\$ 55,000	\$ 162,543	\$ 217,543		
42,167	-	(50,000)	(7,833)	7,833	-		
\$ 42,167	\$ 5,000	\$ -	\$ 47,167	\$ 170,376	\$ 217,543		

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 12

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

Shared Revenue

State

Highway users tax	\$	22,415,942
County program aid		6,568,321
Market value credit		4,447,587
PERA rate reimbursement		145,954
Disparity reduction aid		47,183
Police aid		254,687
Enhanced 911		253,034

Total Shared Revenue **\$ 34,132,708**

Reimbursement for Services

Minnesota Department of Human Services	\$	6,501,556
--	----	------------------

Payments

Local

Local contributions	\$	2,266,611
Payments in lieu of taxes		94,789

Total Payments **\$ 2,361,400**

Grants

State

Minnesota Department of Corrections	\$	2,458,407
Public Safety		47,167
Transportation		4,136
Health		476,512
Natural Resources		39,971
Human Services		5,060,575
Veterans Services		5,600
Water and Soil Resources Board		279,301
Office of Environmental Assistance		286,922
Pollution Control Agency		41,745
Peace Officer Standards and Training Board		22,067

Total State **\$ 8,722,403**

Federal

Department of/Agency	\$	464,503
Agriculture		79,802
Justice		5,225,898
Transportation		6,000
Environmental Protection		81,069
Energy		940,118
Election Assistance Commission		3,431,002
Health and Human Services		1,416,423
Homeland Security		

Total Federal **\$ 11,644,815**

Total State and Federal Grants **\$ 20,367,218**

Total Intergovernmental Revenue **\$ 63,362,882**

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 13

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 Stearns County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Stearns County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Stearns 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 Stearns 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:
- | | |
|---|--------------|
| Help America Vote Act | CFDA #90.401 |
| Temporary Assistance for Needy Families | CFDA #93.558 |
| State Domestic Preparedness Equipment Support Program | CFDA #97.004 |
- H. The threshold for distinguishing between Types A and B programs was \$346,567.
- I. Stearns County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-6 Departmental Internal Accounting Controls

Due to the limited number of office personnel within the various County offices, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Offices that do not have sufficient segregation of duties include Sheriff, Jail, Environmental Services, and Parks. These offices may have only one employee to receive and account for departmental collections. This is not unusual in small departmental situations; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Examples of incompatible duties that should be performed by separate individuals are:

- receipting collections, posting collections to registers, and making bank deposits;
- signing checks and reconciling the bank accounts;
- receipting collections and posting collections to the accounts receivable records;
- approving receivable write-offs/write-downs and posting adjustments to the accounts receivable records; and
- data entry, adjusting accounting codes, and reviewing the monthly detailed report of receipts and disbursements for accuracy.

Some procedures the County's management may wish to consider to strengthen controls in these offices include:

- Departmental collections should be remitted to the County Auditor/Treasurer more frequently than once each month, perhaps weekly or even daily, to reduce the amount of funds on hand.

- Department heads should monitor operations within their office to determine that reports are submitted properly and are in agreement with cash balances and grant expenditures.
- When an office has only a department head and one other employee, the department head should perform some of the accounting functions.

We recommend that County management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that adequate controls are in place over cash, receivables, and other items.

Client's Response:

We are aware of the problems with segregation of duties in certain areas. In many of these areas, we feel it would be cost-prohibitive to ensure total segregation. Thereby, other accounting techniques and methods are used to verify the reasonableness of these areas of concern.

The County's intent is to continually monitor the internal controls and establish new controls where feasible and economically reasonable to do so.

02-1 Preparation of Financial Statements

Stearns County is required to prepare financial statement 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 control 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.

Stearns County has established controls and procedures for recording, processing, and summarizing its accounting data used in the preparation of its financial statements.

As is the case with many medium-sized entities, the County has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the County's decision that it is more cost effective to have its auditors prepare

its annual basic financial statements than to incur the time and expense of preparing them internally. As a result of this condition, the government lacks internal control over the preparation of financial statements in accordance with GAAP.

We recommend Stearns County evaluate its current staffing levels to determine the feasibility of internally preparing its annual financial statements in accordance with GAAP. If the County still intends to have staff from the Office of the State Auditor assist in preparation, then at a minimum, the appropriate level of staff must review and approve the County's financial statements, including notes.

Client's Response:

Because of cost efficiencies, it has been the decision of the County to have external auditors assist in the preparation of the annual basic financial statements rather than preparing them fully internally.

The County has intentions to fully prepare the annual financial statements at some point in time dependent upon available manpower and other resources needed to perform this task.

04-1 Jail Internal Controls

The Resident II checking account is used to account for the inmates' money at the jail. An automated system is in place which tracks all monetary transactions related to the inmates. As inmates are checked into the jail, their cash is fed into a money machine which counts the cash and posts the balance to the inmate's account. The correctional officers are authorized to post transactions against the inmates' accounts for site charges such as booking fees, lockers, Huber Law, and medical co-pays. The system automatically keeps track of how much each inmate has and how much the jail has collected in site charges. Checks are written to inmates from the Resident II account by jail staff as they are released. The program coordinator writes checks out of the Resident II account to turn over site charges to the County Auditor/Treasurer's Office on a monthly basis.

While maintaining this automated system, correctional officers may, on occasion, incorrectly post transactions for the wrong amount, to the wrong inmate, or to the wrong site charge. When this occurs, a refund must be entered. Eight officers are currently authorized to enter refunds. When refunds are entered on the system, they automatically post to the proper inmate's account; however, they do not automatically post against the site charge they are refunding. Instead, a separate refund report is generated. At the end of the month, before site charges are remitted to the County, the Jail Programmer must

first manually adjust all site charges for refunds issued during the month based on the refund report. Since this report provides very little information, it is often difficult for the Jail Programmer to determine which site charges were refunded and why. We were, therefore, unable to determine that refunds were applied to the correct site charge and that the correct amounts were subsequently being turned over to the Auditor/Treasurer's Office each month.

To ensure that the proper amount of site charges are being remitted to the County Auditor/Treasurer each month, we recommend that any refunds be accounted for in a manner that is more easily traceable to the site charges. This may be done manually by the officers posting the refunds or through system software changes. We further recommend jail staff take appropriate steps to decrease the number of refunds that need to be entered on the system.

Client's Response:

We will work with the software vendor to make changes where possible and introduce policies and procedures to minimize the number of refunds and/or corrections where possible.

ITEMS ARISING THIS YEAR

06-1 Audit Adjustments

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis. Statement on Auditing Standards (SAS) No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified the following material adjustments in the Road and Bridge Special Revenue Fund:

- Receivables were increased by \$393,353 for state-aid highway project allotments. At the fund level, the additional receivables were entirely offset by deferred revenue for receivables not available during the revenue recognition period. This entry also increased receivables and revenues in the government-wide financial statements.

Schedule 13
(Continued)

- In both the fund and government-wide financial statements, liabilities (deferred revenue) were increased and revenues were decreased by \$1,073,050 for state-aid highway project allotments received in advance.
- Receivables were increased by \$2,141,725 for federal and local funding of highway projects. At the fund level, the additional receivables were offset by deferred revenue of \$701,428, leaving an increase in revenues of \$1,440,297. This entry also increased receivables and revenues by \$2,141,725 in the government-wide financial statements.
- Contracts payable and related expenditures were increased by \$1,630,957.
- Revenues and expenditures were increased by \$506,798 to record town road allotment activity.

Proposed audit adjustments are reviewed and approved by the appropriate staff and are reflected in the financial statements. By definition, however, independent external auditors cannot be considered part of the County's internal control.

We recommend the County establish internal controls necessary to determine that all adjusting entries are made to ensure the County's annual financial statements are reported in accordance with GAAP.

Client's Response:

It is the intent of the County to have County personnel calculate and create the entries necessary for all year-end adjustments. This will be accomplished by either assigning County personnel able to make these entries to this task or provide assistance or training to highway staff which will facilitate this task.

06-2 Parks Department

Stearns County Parks Department collections consist of parking permit fees, shelter rental fees, and T-shirt sales. During our review of the Parks Department's financial operations, we found that receipts are issued for collections only if requested by the customer, and permits are not prenumbered. As a result, we were unable to verify that all collections in the Parks Department had been remitted to the County Auditor/Treasurer, and collections could not be reconciled to the number of permits sold.

We recommend the Parks Department record all collections on prenumbered receipts and use prenumbered permits. Receipts should include the following information: date, amount received, payor, method of payment (cash or check), reason for payment, and the signature or initials of the individual preparing the receipt. Reconciliations between the number of permits sold and the money collected should also be done on a daily basis.

Client's Response:

For this year's revenues, we used alternative methods of analyzing the revenues that Parks generated; and it appeared the revenues were in line with that which was anticipated. However, procedures on how departments are operating will be reviewed; and added or amended internal controls will be developed and put into place where deemed necessary. This will be done not only in Parks but eventually in all departments.

The recommendations from the State Auditor's Office is a good start in establishing better internal controls, and the suggestions will be put into place as soon as existing inventory is depleted or at levels where discarding makes better sense than the potential of lost revenues.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
Stearns County

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County as of and for the year ended December 31, 2006, and have issued our report thereon dated November 21, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Housing and Redevelopment Authority (HRA) of Stearns County, the discretely presented component unit, for the year ended June 30, 2006, as described in our report on Stearns County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stearns 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 96-6, 02-1, 04-1, 06-1, and 06-2 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 the County's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stearns 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, Stearns County complied with the material terms and conditions of applicable legal provisions.

Stearns County's written responses to the significant deficiencies 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 Stearns 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

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 21, 2007

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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
Stearns County

Compliance

We have audited the compliance of Stearns 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. Stearns 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.

Stearns County's financial statements include the operations of the Housing and Redevelopment Authority (HRA) of Stearns County component unit, which received \$1,503,856 in federal awards for the year ended June 30, 2006. This amount is not included in the County's Schedule of Expenditures of Federal Awards for the year ended December 31, 2006. Our audit, described below, did not include the operations of the HRA of Stearns County because it had a separate Single Audit in accordance with OMB Circular A-133.

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 Stearns 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, Stearns 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 Stearns 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 Stearns County's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Stearns County as of and for the year ended December 31, 2006, and have issued our report thereon dated November 21, 2007. We did not audit the financial statements of the HRA of Stearns County's discretely presented component unit for the year ended June 30, 2006. Those financial statements were audited by other auditors. 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, others within the County, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 21, 2007

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**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 14

**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	\$ 427,770
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for Food Stamp Program	10.561	36,733
Total U.S. Department of Agriculture		\$ 464,503
U.S. Department of Justice		
Direct		
Edward Byrne Memorial Justice Assistance Grant	16.738	\$ 29,454
Passed Through Minnesota Department of Public Safety		
Juvenile Accountability Incentive Block Grant	16.523	8,581
Crime Victim Assistance	16.575	1,115
Enforcing Underage Drinking Laws Program	16.727	1,140
Passed Through Minnesota Trial Courts		
Drug Court Discretionary Grant	16.585	39,512
Total U.S. Department of Justice		\$ 79,802
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation		
Highway Planning and Construction	20.205	\$ 5,159,515
Passed Through City of Waite Park		
State and Community Highway Safety	20.600	3,000
Passed Through Minnesota Department of Public Safety		
State and Community Highway Safety	20.600	55,615
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	7,768
Total U.S. Department of Transportation		\$ 5,225,898
U.S. Environmental Protection Agency		
Passed Through Stearns County Soil and Water Conservation District		
Nonpoint Source Implementation Grant	66.460	\$ 6,000
U.S. Department of Energy		
Passed Through Stearns County Soil and Water Conservation District		
Regional Biomass Energy Program	81.079	\$ 81,069
U.S. Election Assistance Commission		
Passed Through Minnesota Secretary of State		
Help America Vote Act	90.401	\$ 847,541

**STEARNS COUNTY
ST. CLOUD, MINNESOTA**

Schedule 14
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Passed Through Central Minnesota Council on Aging Special Programs for the Aging - Title IIIB	93.044	\$ 26,330
Passed Through Minnesota Department of Health Immunization Grant	93.268	27,921
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	299,294
Temporary Assistance for Needy Families	93.558	79,812
Maternal and Child Health Services Block Grant	93.994	137,260
Passed Through Minnesota Department of Human Services Projects for Assistance in Transition from Homelessness	93.150	35,919
Promoting Safe and Stable Families	93.556	89,327
Temporary Assistance for Needy Families	93.558	735,280
Child Care Development Block Grants	93.575	1,289,094
Foster Care Title IV-E	93.658	48,464
Social Services Block Grant Title XX	93.667	628,951
Chafee Foster Care Independence Program	93.674	14,366
Block Grants for Community Mental Health Services	93.958	18,984
Total U.S. Department of Health and Human Services		\$ 3,431,002
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety State Domestic Preparedness Equipment Support Program	97.004	\$ 1,245,808
Hazard Mitigation Grant	97.039	13,101
Homeland Security Grant	97.067	129,887
Passed Through Minnesota Department of Natural Resources Boating Safety Financial Assistance	97.012	27,627
Total U.S. Department of Homeland Security		\$ 1,416,423
Total Federal Awards		\$ 11,552,238

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 Stearns County. The County's reporting entity is defined in Note 1 to the basic financial statements. This schedule does not include \$1,503,856 of federal awards expended by the Housing and Redevelopment Authority of Stearns County, a component unit.
2. The expenditures on this schedule are on the modified accrual basis of accounting. Due to timing differences in revenue recognition under the modified accrual basis, expenditures on this schedule do not match the federal revenues reported in the financial statements. In 2006, \$92,577 of current year federal revenues for CFDA No. 90.401 were not recognized as expenditures because they had not been spent by year-end.
3. During 2006, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.