

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and assuming compliance with certain covenants, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and is not an item of tax preference for federal or Minnesota alternative minimum tax purposes. Such interest is included in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions and in adjusted current earnings of corporations for federal alternative minimum tax purposes. See "TAX EXEMPTION AND RELATED TAX CONSIDERATIONS" herein.

OFFICIAL STATEMENT

\$10,000,000 GENERAL OBLIGATION JAIL BONDS, SERIES 2007A **FARIBAULT COUNTY, MINNESOTA**

Bonds Dated: August 29, 2007**Principal Due:** February 1, 2009 through 2028

The \$10,000,000 General Obligation Jail Bonds, Series 2007A (the "Series 2007A Bonds") are issued by Faribault County, Minnesota, (the "County") pursuant to Minnesota Statutes, Chapter 475 and Section 641.23 to provide funds for the construction of a new jail facility within the County. The Series 2007A Bonds will be general obligations of the County for which its full faith, credit and unlimited taxing powers are pledged.

The Series 2007A Bonds will be issued as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2007A Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2007A Bonds purchased. Principal, payable annually commencing February 1, 2009 and interest will be payable on each February 1 and August 1, commencing February 1, 2008, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to the beneficial owners of the Series 2007A Bonds as described herein.

The scheduled payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by XL Capital Assurance Inc. simultaneously with the delivery of the Bonds.



The Series 2007A Bonds will mature on February 1 in the years and amounts as follows:

MATURITY SCHEDULE

Year	Amount	Interest Rate	Yield	CUSIP	Year	Amount	Interest Rate	Yield	CUSIP
				307545					307545
2009	\$ 320,000	3.750%	3.650%	RU 9	2019	\$ 490,000	4.000%	4.000%	SE 4
2010	335,000	3.750%	3.680%	RV 7	2020	515,000	4.100%	4.040%	SF 1
2011	350,000	3.750%	3.710%	RW 5	2021	540,000	4.100%	4.070%	SG 9
2012	365,000	3.750%	3.750%	RX 3	2022	565,000	4.100%	4.100%	SH 7
2013	380,000	4.000%	3.780%	RY 1	2023	590,000	4.200%	4.120%	SJ 3
2014	395,000	4.000%	3.810%	RZ 8	2024	615,000	4.200%	4.140%	SK 0
2015	415,000	4.000%	3.850%	SA 2	2025	645,000	4.200%	4.160%	SL 8
2016	430,000	4.000%	3.890%	SB 0	2026	675,000	4.200%	4.180%	SM 6
2017	450,000	4.000%	3.930%	SC 8	2027	710,000	4.250%	4.220%	SN 4
2018	470,000	4.000%	3.960%	SD 6	2028	745,000	4.250%	4.250%	SP 9

The Series 2007A Bonds maturing in the years February 1, 2016 and thereafter are subject to prior redemption in whole or in part on February 1, 2015 and any date thereafter at a price of par plus accrued interest to the date of redemption.

BANK QUALIFIED: The Series 2007A Bonds are "Qualified Tax-Exempt Obligations."

LEGAL OPINION: Dorsey & Whitney LLP, Minneapolis, Minnesota.

COUNTY CREDIT ENHANCEMENT PROGRAM: The County will participate in the program.

REGISTRAR/PAYING AGENT: U.S. Bank N.A., St. Paul, Minnesota.

Wells Fargo Brokerage Services, LLC has agreed to purchase the General Obligation Jail Bonds, Series 2007A from Faribault County, Minnesota for an aggregate price of **\$9,980,779.60**. The Bonds will be available for delivery on or about August 29, 2007.

The date of this Official Statement is August 9, 2007.

(THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.)

WELLS FARGO BROKERAGE SERVICES, LLC

NEW ISSUE: FULL BOOK-ENTRY ONLY**RATING: MOODY'S "A3"**

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, interest to be paid on the Series 2007B Bonds is (i) includable in gross income for federal income tax purposes and in taxable net income of individuals, estates and trusts for Minnesota income tax purposes and (ii) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. See "TAXABILITY OF INTEREST" herein.

OFFICIAL STATEMENT**\$750,000**

**TAXABLE GENERAL OBLIGATION WASTE DISPOSAL BONDS, SERIES 2007B
FARIBAULT COUNTY, MINNESOTA**

Bonds Dated: August 29, 2007**Principal Due:** February 1, 2009 through 2018

The \$750,000 Taxable General Obligation Waste Disposal Bonds, Series 2007B (the "Series 2007B" Bonds) are issued by Faribault County, Minnesota, (the "County") pursuant to Minnesota Statutes, Chapter 475 and Section 115.57 to finance the costs of a public loan program to assist property owners in the County in the design, installation, repair and replacement of individual sewage treatment systems and to finance the sealing and replacement of wells on privately owned property. The Series 2007B Bonds will be general obligations of the County for which its full faith, credit and unlimited taxing powers are pledged, but will be payable primarily from special assessments and from ad valorem taxes levied and collected on taxable property of the County which have been pledged and appropriated for this purpose.

The Series 2007B Bonds will be issued as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2007B Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Series 2007B Bonds purchased. Principal, payable annually commencing February 1, 2009 and interest on the Series 2007B Bonds, payable on each February 1 and August 1, commencing February 1, 2008, will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to the beneficial owners of the Series 2007B Bonds as described herein.

The Series 2007B Bonds will mature on February 1 in the years and amounts as follows:

MATURITY SCHEDULE

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP 307545</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP 307545</u>
2009	\$60,000	5.250%	5.150%	SQ 7	2018	95,000	6.000%	5.600%	SZ 7
2010	60,000	5.250%	5.200%	SR 5					
2011	65,000	5.250%	5.250%	SS 3					

\$140,000 5.300% Term Bond due February 1, 2013 Priced to Yield 5.350% CUSIP: 307545 SU 8

\$155,000 5.450% Term Bond due February 1, 2015 Priced at Par CUSIP: 307545 SW 4

\$175,000 5.550% Term Bond due February 1, 2017 Priced at Par CUSIP: 307545 SY 0

The Series 2007B Bonds are not subject to redemption prior to maturity.

NOT BANK QUALIFIED: The Series 2007B Bonds are not "Qualified Tax-Exempt Obligations."

LEGAL OPINION: Dorsey & Whitney LLP, Minneapolis, Minnesota.

REGISTRAR/PAYING AGENT: U. S. Bank N.A., St. Paul, Minnesota.

Northland Securities has agreed to purchase the Taxable General Obligation Waste Disposal Bonds, Series 2007B from Faribault County, Minnesota for an aggregate price of **\$745,326.70**. The Bonds will be available for delivery on or about August 29, 2007.

The date of this Official Statement is August 9, 2007.

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NORTHLAND SECURITIES

No dealer, broker, salesman or other person has been authorized by the County, the Financial Advisor or the Underwriters to give any information or to make any representations other than those contained in this Official Statement or the Final Official Statement and, if given or made, such information and representations must not be relied upon as having been authorized by the County, the Financial Advisor or the Underwriters. This Official Statement or the Final Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the Obligations by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the County and other sources which are believed to be reliable, but it is not to be construed as a representation by the Financial Advisor or Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement or the Final Official Statement nor any sale made thereafter shall, under any circumstances, create any implication that there has been no change in the affairs of the County or in any other information contained herein, since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE OBLIGATIONS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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INTRODUCTION TO THE OFFICIAL STATEMENT

The following information is furnished solely to provide limited introductory information regarding the \$10,000,000 General Obligation Jail Bonds, Series 2007A Bonds (the "Series 2007A Bonds") and \$750,000 Taxable General Obligation Waste Disposal Bonds, Series 2007B Bonds (the "Series 2007B Bonds") (collectively the "Obligations" or the "Bonds") issued by Faribault County, Minnesota (the "County") and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including the appendices hereto.

Issuer:	Faribault County, Minnesota (the "County").
Authority:	<u>Series 2007A Bonds:</u> The Series 2007A Bonds are issued pursuant to Minnesota Statutes, Chapter 475 and Section 641.23. <u>Series 2007B Bonds:</u> The Series 2007B Bonds are issued pursuant to Minnesota Statutes, Chapter 475 and Section 115.57.
Security:	<u>Series 2007A Bonds:</u> The Series 2007A Bonds will be general obligations of the County for which its full faith, credit and unlimited taxing powers are pledged. <u>Series 2007B Bonds:</u> The Series 2007B are general obligations of the County for which its full faith, credit and unlimited taxing powers are pledged, but will be payable primarily from special assessments and from ad valorem taxes levied and collected on taxable property of the County which have been pledged and appropriated for this purpose.
Purpose:	<u>Series 2007A Bonds:</u> The Series 2007A Bond proceeds will be used to provide funds for the construction of a new jail facility within the County. <u>Series 2007B Bonds:</u> The Series 2007B Bond proceeds will be used to finance the costs of a public loan program to assist property owners in the County in the design, installation, repair and replacement of individual sewage treatment systems and to finance the sealing and replacement of wells on privately owned property.
Principal Payable:	<u>Series 2007A Bonds:</u> On February 1 of the years 2009 through 2028. <u>Series 2007B Bonds:</u> On February 1 of the years 2009 through 2018.
Interest Payable:	On February 1 and August 1, commencing February 1, 2008.
Optional Redemption:	<u>Series 2007A Bonds:</u> The Series 2007A Bonds maturing in the years February 1, 2016 and thereafter are subject to prior redemption, in whole or in part, on February 1, 2015 and any date thereafter at a price of par plus accrued interest to the date of redemption. <u>Series 2007B Bonds:</u> The Series 2007B Bonds are not subject to redemption prior to maturity.
Denominations:	Individual purchases may be made in denominations of \$5,000 or integral multiples thereof, of a single maturity.

Tax Status:	<p><u>Series 2007A Bonds:</u> Generally exempt from federal and state income taxes (see “Tax Exemption” and “Other Tax Considerations” on page 21 herein). The Bonds will be designated Qualified Tax-Exempt Obligations.</p> <p><u>Series 2007B Bonds:</u> The interest on the Bonds is includable in gross income for federal income tax purposes and in taxable net income of individuals, estates and trusts for purposes of Minnesota income tax purposes, under existing law. The Bonds will <u>not</u> be designated as Qualified Tax-Exempt Obligations.</p>	
Book-Entry Only:	The Obligations will be issued as book-entry only securities through The Depository Trust Company.	
Delivery:	The Obligations will be available for delivery on or about August 29, 2007.	
Professional Consultants:	<i>Bond Counsel:</i>	Dorsey & Whitney LLP Minneapolis, Minnesota
	<i>Financial Advisor:</i>	Public Financial Management, Inc. Minneapolis, Minnesota
	<i>Bond Registrar/</i>	U.S. Bank, N.A.
	<i>Paying Agent:</i>	St. Paul, Minnesota

Questions regarding the Obligations or the Official Statement can be directed to and additional copies of the Official Statement, and the County’s audited financial reports may be obtained from the County Auditor/Coordinator, Faribault County Courthouse, 415 North Main, Blue Earth, Minnesota 56013, 507/526-6211, or Public Financial Management, Inc., 45 South 7th Street, Suite 2800, Minneapolis, Minnesota 55402, 612/338-3535, the County’s Financial Advisor.

(The remainder of this page has been left blank intentionally.)

DESCRIPTION OF THE OBLIGATIONS

Authorization and Purpose

Series 2007A Bonds

The Series 2007A Bonds will be issued pursuant to Minnesota Statutes, Chapter 475 and Section 641.23. The proceeds will be used to provide funds for the construction of a new jail facility within the County.

Series 2007B Bonds

The Series 2007B Bonds are issued pursuant to Minnesota Statutes, Chapter 475 and Section 115.57. The proceeds will be used to finance the costs of a public loan program to assist property owners in the County in the design, installation, repair and replacement of individual sewage treatment systems and to finance the sealing and replacement of wells on privately owned property.

Security and Sources of Payment

Series 2007A Bonds

The Series 2007A Bonds will be general obligations of the County for which its full faith, credit and unlimited taxing powers are pledged.

Series 2007B Bonds

The Series 2007B are general obligations of the County for which its full faith, credit and unlimited taxing powers are pledged, but will be payable primarily from special assessments and from ad valorem taxes levied and collected on taxable property of the County which have been pledged and appropriated for this purpose.

Credit Enhancement Program

Under the Resolution, the County will obligate itself to be bound by the provisions of Minnesota Statutes Section 373.45, which provides for payment by the State of Minnesota in circumstances of potential defaults under county obligations (herein referred to as the “Act”). Under the Act, if the County believes it may be unable to make a principal or interest payment on the due date, it must notify the Public Finance Authority herein referred to as the “Authority”) as soon as possible, but not less than 15 working days prior to the due date, which notice is to specify certain information provided, the Authority must notify the Commissioner of Finance. The Act provides that “upon receipt of this notice, the Commissioner of Finance shall issue a warrant and authorize the Authority to pay to the paying agent for this debt obligation the specified amount on or before the date due. The amounts needed for this purpose are annually appropriated to the Authority from the State General Fund.”

The Act was not apparently intended to create indebtedness of the State of Minnesota. Payment by the State will be dependent upon the availability of sufficient appropriations for the purpose by the Legislature. Bond Counsel expresses no opinion as to the enforceability of the Act against the State in the absence of available appropriations.

Bond Insurance for the Series 2007A Bonds

Description of the Insurer

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by Issuer/Underwriter as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XL Capital Assurance Inc. (the "Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Singapore.

The Insurer is an indirect wholly owned subsidiary of Security Capital Assurance Ltd ("SCA"), a company organized under the laws of Bermuda. Through its subsidiaries, SCA provides credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. XL Capital Ltd currently beneficially owns approximately 47.5% of SCA's outstanding shares.

The common shares of SCA are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: SCA). **SCA is not obligated to pay the debts of or claims against the Insurer.**

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, the Insurer has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XL Financial Assurance Ltd. ("XLFA") described under "Reinsurance" below.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 75% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financial statements of XLFA, as of December 31, 2006, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$2,007,395,000, \$874,028,000, \$54,016,000 and \$1,079,351,000, respectively, determined in accordance with generally accepted accounting principles in the United

States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The ratings of XLFA or any other member of the SCA group of companies are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the Bondholders will have direct recourse against the Insurer only, and XLFA will not be directly liable to the Bondholders.

Capitalization of the Insurer

Based on the audited financial statements of XLCA, as of December 31, 2006, XLCA had total assets, liabilities, and shareholder's equity of \$1,224,735,000, \$974,230,000, and \$250,505,000, respectively, determined in accordance with U.S. GAAP.

Based on the unaudited statutory financial statements for XLCA as of December 31, 2006 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$429,073,000, total liabilities of \$222,060,000, total capital and surplus of \$207,013,000 and total contingency reserves of \$20,876,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP").

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$328,231,000, total liabilities of \$139,392,000, total capital and surplus of \$188,839,000 and total contingency reserves of \$13,031,000 determined in accordance with SAP.

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by SCA and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by SCA pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in the reports filed with the Commission by SCA is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends,

transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

Interest Computation

Interest on the Obligations is payable semi-annually on February 1 and August 1, commencing February 1, 2008. Interest will be computed on a 360-day year, 30-day month basis, to the owners of record as of the close of business on the fifteenth of the immediately preceding month. Payments coming due on a non-business day will be paid on the next business day.

Redemption Provisions

Optional Redemption

Series 2007A Bonds

The Bonds maturing in the years 2016 and thereafter are subject to redemption on February 1, 2015 and any date thereafter at a price of par plus accrued interest to the redemption date.

Series 2007B Bonds

The Series 2007B Bonds are not subject to redemption prior to maturity.

Mandatory Sinking Fund Redemption – Series 2007B Bonds

Term Bonds maturing on February 1, 2013, are required to be redeemed in part prior to maturity on February 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2012	\$70,000
2013 (Final Maturity)	\$70,000

Term Bonds maturing on February 1, 2015, are required to be redeemed in part prior to maturity on February 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2014	\$75,000
2015 (Final Maturity)	\$80,000

Term Bonds maturing on February 1, 2017, are required to be redeemed in part prior to maturity on February 1 at the principal amount thereof plus accrued interest to the redemption date, in the amounts set forth below:

<u>Year</u>	<u>Amount</u>
2016	\$85,000
2017 (Final Maturity)	\$90,000

Continuing Disclosure

In order to permit bidders for the Obligations and other participating underwriters in the primary offering of the Obligations to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Rule”), the County will covenant and agree, for the benefit of the registered holders or beneficial owners from time to time of the outstanding Obligations, in the Bond Resolution, to provide annual reports of specified information and notice of the occurrence of certain events, if material, as hereinafter described (the “Disclosure Covenants”). The information to be provided on an annual basis, the events as to which notice is to be given, if material, and a summary of other provisions of the Disclosure Covenants, including termination, amendment and remedies, are set forth in Appendix C to this Official Statement.

The County has complied in all material respects with its previous undertakings under the Rule to provide annual reports or notices of material events. Breach of the Disclosure Covenants will not constitute a default or an “Event of Default” under the Bond Resolution (although holders will have any available remedy at law or in equity). A broker or dealer is to consider a known breach of the Disclosure Covenants, however, before recommending the purchase or sale of the Obligations in the secondary market. Thus, a failure on the part of the County to observe the Disclosure Covenants may adversely affect the transferability and liquidity of the Obligations and their market price.

Book-Entry-Only System

The information contained in the following paragraphs of this subsection “Book-Entry Only System” has been extracted from a schedule prepared by Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

The Depository Trust Company (“DTC”), New York, NY will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity specified on the cover page hereof in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to

its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers ownership interest on the Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Obligations, except in the event that use of the book-entry system for the Obligations is discounted.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Obligations within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of, redemption premium, if any, and interest payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or Paying Agent, on payable date in accordance with their respective holding shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC [nor its nominee], Paying Agent, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of County or Paying Agent, disbursement of such payments to Direct Participants will be responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be responsibility of Direct and Indirect Participants.

DTC may discontinue providing its service as depository with respect to the Obligations at any time by giving reasonable notice to County or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

NEITHER THE COUNTY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL

OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE OBLIGATIONS UNDER THE RESOLUTION; (III) THE SELECTION BY DTC OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE OBLIGATIONS OF A SERIES; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OBLIGATIONS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF OBLIGATIONS; OR (VI) ANY OTHER MATTER.

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THE COUNTY

Faribault County covers an area of approximately 720 square miles in south central Minnesota, bordering the Iowa state line. U.S. Interstate Highway 90 as well as State Highways 16, 22 and 169 offers access to the County along with numerous county roads. The County Seat is the City of Blue Earth, which is located approximately 125 miles southwest of the Twin Cities Metropolitan Area. The County encompasses 10 cities and 20 full and fractional townships.

The County was established in 1855 as an organized County having the powers, duties and privileges granted counties by Minnesota Statutes, Chapter 373 (1989). The 2000 population of the County was 16,181.

The County's economy is mainly agricultural. The main crops grown in the County are corn, oats, soybean, sweet corn and green peas; corn production ranked 3rd among 87 state counties based on the 2002 Census of Agriculture published by the U.S. Department of Agriculture.

Education

Faribault County is served by three school districts. The Maple River School District serves the community of Minnesota Lake, United South Central School District serves the communities of Kiester, Bricelyn, Easton and Wells and the Blue Earth Area School District serves the communities of Blue Earth, Winnebago, Elmore, Frost, Delavan, and Guckeen.

Faribault County also has one Catholic grade school supported by St. Casimir's Catholic Parish in Wells.

Post Secondary Schools

While there are no post secondary schools in Faribault County, several are located within a 45 minute commute from most of the communities in Faribault County. [South Central Technical College](#) has campuses in Mankato and [Riverland Community College](#) has campuses in Austin and Albert Lea, providing technical training in a number of areas including agribusiness, fashion merchandising, broadcast sales, health care, automotive repair, and graphic design.

[Minnesota State University, Mankato](#) is a four year college that is part of the state university system. [Bethany Lutheran College](#) is a private, two year, Christian, liberal arts college, located in Mankato.

The Minnesota Extension Service

The Minnesota Extension Service is Faribault County's link to the research and resources of the University of Minnesota, Minnesota's Land Grant University. The Extension Service helps individuals and communities identify and respond to issues that affect their quality of life, their communities and the economy. Programs the Extension Service is currently involved with in Faribault County include an initiative to help decrease agricultural impact on the Minnesota River, a collaborative project involving the issue of school to work, financial management training for volunteer consultants, welfare reform, and the Faribault County Internet Project.

Organization and Administration

The governing body of the County is the Board of County Commissioners (the “Board”) consisting of five members elected to four-year terms of office. The County Auditor, Treasurer, and Attorney are also elected to four-year terms. Regular meetings of the Board of County Commissioners are held at the Faribault County Courthouse in the City of Blue Earth. On the first Tuesday after the first Monday in January and on the first and third Tuesday of each month.

The current County Board and Administration are presented in the tables listed below, term expiration dates are January of the stated year.

Board of Commissioners

<u>Name</u>	<u>Position</u>	<u>Term Commenced</u>	<u>Term Expires</u>
Tom Warmka	<i>Chairman of the Board</i>	2004	2008
Bill Groskreutz, Jr.	<i>Commissioner</i>	2004	2008
Barb Steier	<i>Commissioner</i>	2004	2008
Tom Loveall	<i>Commissioner</i>	2006	2010
Butch Erichsrud	<i>Commissioner</i>	2006	2010

Administration

<u>Name</u>	<u>Position</u>
John Thompson	<i>Auditor/Coordinator</i>
David Frank	<i>Treasurer</i>
Brian Roverud	<i>Attorney</i>

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ECONOMIC AND DEMOGRAPHIC INFORMATION

Population Statistics

The following table presents the population of the County for the past five censuses and the most recent estimate according to the State Demographer.

Table 1
Population Statistics

<u>Census Year</u>	<u>Population</u>
2005 ⁽¹⁾	15,486
2000	16,181
1990	16,937
1980	19,714
1970	20,896
1960	23,685

⁽¹⁾ Estimate.

Source: U.S. Census Bureau, www.census.gov
MN State Demographer, www.demography.state.mn.us

Employment

The major employers in the County are presented in Table 2 listed below.

Table 2
Principal Employers

<u>Employer</u>	<u>Products and Services</u>	<u>Number of Employees</u>
Seneca Foods Corporation	Canned Fruits Vegetables, Etc.	350
Wells Concrete Products, Inc.	Concrete Work	250
Blue Earth Public Schools	Elementary and Secondary Schools	241
St. Lukes Lutheran Care Center	Skilled Nursing Care Facilities	211
Kerry Ingredients	Other Food Manufacturing	210
United Hospital - Blue Earth	General Medical and Surgical Supplies	210
United South Central High School	Elementary and Secondary Schools	175
Parker Oaks Nursing Homes	Nursing Care Facilities	110
Aerospace Systems	Aerospace Product & Parts Manufacturing	105
Wal-Mart	Department Stores	80
Naeve Parkview Home	Skilled Nursing Care Facilities	76
JM Manufacturing	Resin, Synthetic Rubber Mfg	60
Loveall Construction Co.	Foundation, Structure & Bldg. Contractors	60
Tafco Equipment Company	Farm Machinery and Equipment	60
BEVCOMM	Other Telecommunications	59
Elmore Academy-YSI, Inc.	Government-Education Programs	50
USC Public Schools	Elementary and Secondary Schools	41
Corn Plus, Inc.	Scientific Research & Development Services	40
Darling International Inc.	Printing & Related Support Activities	40
Wells Super Valu	Grocery Stores	40

Source: Minnesota Department of Employment and Economic Development.

Labor Force Statistics

The Minnesota Department of Employment and Economic Development compiles labor force and unemployment statistics for the State and for cities and counties within the State. Average annual labor force and unemployment rates for the County as compared to the unemployment rates for the State of Minnesota for the past four years and the most recent data for 2007 are shown below. This information has not been seasonally adjusted.

Table 3
Labor Force and Unemployment Data

<u>Year</u>	<u>Faribault County</u>		<u>State of Minnesota</u>
	<u>Labor Force</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>
2007 ⁽¹⁾	7,670	5.2%	4.2%
2006	7,982	4.5%	4.0%
2005	8,151	4.8%	4.1%
2004	8,367	5.6%	4.6%
2003	8,668	5.2%	4.8%

⁽¹⁾ May 2007 only.

Source: Minnesota Department of Employment and Economic Development.

Effective Buying Income and Retail Sales

Table 4 lists median household Effective Buying Income (EBI) and per capita retail sales for the County and the State of Minnesota for the years 2001 through 2005.

Table 4
Effective Buying Income and Retail Sales

	<u>Effective Buying Income</u>		<u>Per Capita Retail Sales</u>	
	<u>Faribault County</u>	<u>State of Minnesota</u>	<u>Faribault County</u>	<u>State of Minnesota</u>
2005	\$ 34,194	\$ 44,950	\$ 9,791	\$ 16,886
2004	32,649	42,930	10,919	16,798
2003	30,959	41,846	10,131	15,904
2002	31,451	41,662	8,913	15,330
2001	26,163	42,245	8,984	15,827

Source: Sales and Marketing Management's "Survey of Buying Power" for the years 2001-2004. Claritas, Inc. for 2005.

FINANCIAL SUMMARY

(This summary is subject in all respects to more complete information contained in this Official Statement).

Indicated Market Value 2006/07			\$ 1,970,720,595
Estimated Market Value 2006/07			\$ 1,674,428,200
Net Tax Capacity 2006/07			\$ 14,784,748
General Obligation Long Term Debt (Includes the Obligations)			\$ 13,025,000
Overlapping Debt of the County			\$ 30,127,287
Population (2000 Census)			16,181
Debt Ratios			
	<u>Amount</u>	<u>Per Capita (16,181)</u>	<u>% of Indicated Market Value</u>
General Obligation Debt	\$ 13,025,000	\$ 805	0.66%
Overlapping Debt	<u>30,127,287</u>	<u>1,862</u>	<u>1.53%</u>
Total	<u>\$ 43,152,287</u>	<u>\$ 2,667</u>	<u>2.19%</u>

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DEBT STRUCTURE

General Obligation Debt

Table 5 and Table 6 summarize the County's general obligation debt outstanding as of the issuance of the Bonds.

Table 5
General Obligation Debt by Issue

<u>Issue</u> <u>Date</u>	<u>Purpose</u>	<u>Original</u> <u>Amount</u>	<u>Final</u> <u>Maturity</u>	<u>Interest</u> <u>Rates</u>	<u>Principal</u> <u>Outstanding</u>
05/01/97	Courthouse	\$ 190,000	12/01/07	5.60%	\$ 25,000
10/01/97	Refunding Bonds	475,000	04/01/08	5.00%	60,000
01/01/99	Ditch	280,000	12/01/14	4.40%-4.95%	140,000
02/01/01	Refunding Bonds	1,435,000	03/01/09	4.00%	300,000
02/01/01	Taxable Waste Disposal	300,000	12/01/16	6.20%-6.70%	225,000
08/07/01	Taxable Refunding Waste Disposal	285,000	12/01/12	5.75%-6.40%	180,000
07/01/03	Drainage Ditch	725,000	02/01/24	2.70%-4.25%	645,000
03/01/05	Solid Waste Refunding Bonds	1,165,000	06/01/10	2.10%-2.70%	700,000
08/29/07	Taxable Waste Disposal	750,000	02/01/18	Series 2007B Bonds	750,000
08/29/07	Jail Bonds	10,000,000	02/01/28	Series 2007A Bonds	<u>10,000,000</u>
Total General Obligation Debt:					<u>\$ 13,025,000</u>

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Table 6
Annual Maturity Schedule

	<u>Outstanding Debt</u>		<u>Series 2007A Bonds</u>		<u>Series 2007B Bonds</u>		
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 85,000	\$ 33,211	\$ --	\$ --	\$ --	\$ --	\$ 118,211
2008	540,000	77,534	--	171,795	--	17,271	806,600
2009	495,000	59,718	320,000	406,883	60,000	40,905	1,382,506
2010	320,000	45,760	335,000	394,883	60,000	37,755	1,193,398
2011	100,000	37,790	350,000	382,320	65,000	34,605	969,715
2012	105,000	32,620	365,000	369,195	70,000	31,193	973,008
2013	75,000	27,005	380,000	355,508	70,000	27,483	934,996
2014	75,000	23,466	395,000	340,308	75,000	23,773	932,547
2015	60,000	19,841	415,000	324,508	80,000	19,685	919,034
2016	65,000	16,959	430,000	307,908	85,000	15,325	920,192
2017	40,000	13,585	450,000	290,708	90,000	10,650	894,943
2018	40,000	12,065	470,000	272,708	95,000	5,700	895,473
2019	40,000	10,545	490,000	253,908	--		794,453
2020	45,000	8,863	515,000	234,308	--		803,171
2021	45,000	7,018	540,000	213,193	--		805,211
2022	45,000	5,173	565,000	191,053	--		806,226
2023	50,000	3,188	590,000	167,888	--		811,076
2024	50,000	1,063	615,000	143,108	--		809,171
2025	--	--	645,000	117,278	--		762,278
2026	--	--	675,000	90,188	--		765,188
2027	--	--	710,000	61,838	--		771,838
2028	--	--	745,000	31,663	--	--	776,663
Total	<u>\$ 2,275,000</u>	<u>\$ 435,404</u>	<u>\$ 10,000,000</u>	<u>\$ 5,121,149</u>	<u>\$ 750,000</u>	<u>\$ 264,345</u>	<u>\$ 18,845,898</u>

Debt Limit

The statutory limit on “net debt” of a Minnesota County (Minnesota Statutes 475.53) is 2% of the estimated market value of all taxable property within its boundaries. “Net debt” is the amount remaining after deducting from the gross debt certain types of debt including, but not limited to, obligations issued to finance any public revenue producing convenience. Table 7 shows the debt limit computation for the County.

Table 7
Debt Limit Computation

Estimated Market Value	\$ 1,674,428,200
	<u> x 2.0%</u>
Debt Limit (100%)	\$ 33,488,564
Current “Net Debt” (29.94%)	<u> 10,025,000</u>
Remaining Debt Margin (70.06%)	<u><u> 23,463,564</u></u>

Future Financing

The County has no plans to issue additional debt within the next six months.

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Overlapping Debt of the County

The debt of governmental units located in the County is listed in Table 8. The debt listed summarizes the outstanding principal amount of long-term general obligation debt payable from ad valorem property taxes, special assessments or tax increments of these governmental units as of July 1, 2007, unless otherwise noted, attributable to the County.

Table 8
Overlapping Debt

<u>Jurisdiction</u>	<u>G.O. Debt Outstanding</u>	<u>Percentage Allocable to County</u>	<u>Amount Allocable to County</u>
Cities:			
Blue Earth	\$ 13,099,000 ⁽¹⁾	100.00%	\$ 13,099,000
Bricelyn	0 ⁽²⁾	100.00%	0
Elmore	145,000	100.00%	145,000
Kiester	870,000	100.00%	870,000
Minnesota Lake	350,000	99.18%	347,130
Wells	3,220,000 ⁽³⁾	100.00%	3,220,000
Winnebago	4,430,000	100.00%	4,430,000
School Districts:			
ISD #242	\$ 1,705,000	0.62%	\$ 10,571
ISD #2135	4,250,000	13.17%	559,725
ISD #2536	1,470,000	8.83%	129,801
ISD #2835	7,555,000	0.13%	9,821
ISD #2860	1,315,000	99.43%	1,307,505
Other Special Taxing District:			
United Hospital District	5,998,734	100.00%	<u>5,998,734</u>
Total			<u>\$ 30,127,287</u>

⁽¹⁾ It excludes \$3,010,000 of revenue debt and \$1,185,000 of special obligation debt.

⁽²⁾ It excludes \$30,000 of revenue debt.

⁽³⁾ Debt as of December 31, 2006.

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FINANCIAL INFORMATION

Financial Reports

The County's financial reports have been audited by the State Auditor. Copies of the County's audited financial report for the years ended December 31, 2003 through 2005 are available upon request from Public Financial Management, Inc., the Financial Advisor to the County. See Appendix A for selected schedules from the 2005 audited financial report.

Results of Operations

Statements of revenues and expenditures of the General Fund of the County have been compiled from the County's financial reports. They have been organized in such a manner as to facilitate year-to-year comparisons. Table 9 presents a statement of revenues and expenditures of the County's General Fund for the fiscal years 2003 through 2005, and unaudited actual for 2006. Table 10 summarizes the 2007 General Fund Budget.

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Table 9
Statement of Revenues and Expenditures and
Changes in Fund Balances for the General Fund
(Years Ended December 31)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006⁽¹⁾</u>
Revenues:				
Taxes	\$ 2,451,019	\$ 2,618,053	\$ 2,508,197	\$ 3,158,989
Special Assessments	198,620	163,145	140,209	134,924
Licenses and Permits	20,125	1,510	1,453	1,285
Intergovernmental	1,247,525	1,249,759	1,797,526	2,050,323
Charges for Services	460,531	653,725	737,758	661,449
Fines and Forfeits	23,895	17,720	20,436	19,516
Gifts and Donations	6,325	17,136	10,680	2,400
Investment Income	146,457	192,720	222,770	284,536
Miscellaneous	<u>267,123</u>	<u>164,523</u>	<u>180,000</u>	<u>160,989</u>
Total Revenues	\$ 4,821,620	\$ 5,078,291	\$ 5,619,029	\$ 6,474,411
Expenditures:				
Current				
General Government	\$ 2,113,820	\$ 2,248,754	\$ 2,368,220	\$ 2,856,538
Public Safety	1,868,435	2,036,087	2,165,080	2,098,595
Transportation	--	--	61,566	177,546
Sanitation	91,102	140,645	92,780	86,478
Culture and Recreation	234,394	213,498	194,625	197,345
Conservation of Natural Resources	465,586	431,483	510,610	739,556
Economic Development	22,219	110,663	113,242	117,316
Debt Service				
Principal	2,641	2,926	3,364	15,812
Interest	<u>285</u>	<u>424</u>	<u>3,684</u>	<u>3,961</u>
Total Expenditures	\$ 4,798,482	\$ 5,184,480	\$ 5,513,171	\$ 6,293,147
Excess of Revenues Over (Under)				
Expenditures	\$ 23,138	\$ (106,189)	\$ 105,858	\$ 181,264
Other Financing Sources (Uses)				
Transfers Out	\$ (104,526)	\$ (68,600)	\$ (54,533)	\$ (61,669)
Transfers Out to Component Unit	(106,500)	--	--	--
Bonds and Notes Issued	41,062	14,795	12,000	--
Loans Issued	<u>--</u>	<u>--</u>	<u>79,642</u>	<u>--</u>
Total Other Financing Sources (Uses)	\$ (169,964)	\$ (53,805)	\$ 37,109	\$ (61,669)
Net Change in Fund Balance	\$ (146,826)	\$ (159,994)	\$ 142,967	\$ 119,595
Fund Balance-January 1	<u>2,933,051</u>	<u>2,786,225</u>	<u>2,626,231</u>	<u>2,769,198</u>
Fund Balance - December 31	\$ 2,786,225	\$ 2,626,231	\$ 2,769,198	\$ 2,888,793

⁽¹⁾ Unaudited actual information.

Table 10
2007 General Fund Budget

Revenues

Taxes	\$ 3,514,504
Licenses and Permits	970
Intergovernmental	1,781,240
Charges for Services	596,500
Fines	1,000
Interest Income	260,000
Miscellaneous Income	158,200
Other Financing Sources	<u>47,650</u>
Total Revenues	<u>\$ 6,360,064</u>

Expenditures

General Government	\$ 3,413,220
Public Safety	2,122,914
Highways and Streets	181,650
Sanitation	68,500
Culture & Recreation	14,900
Conservation & Natural Resources	436,530
Economic Development	19,350
Transfers to Other Funds	<u>103,000</u>
Total Expenditures	<u>\$ 6,360,064</u>

Other Postemployment Benefits

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

As of December 31, 2005, the County had 41 eligible participants. The County finances the plan on a pay-as-you-go-basis. During 2005, the County expended \$178,076 for these benefits.

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PROPERTY VALUATIONS AND TAXES

Assessed Valuations/Tax Capacity and Estimated Market Valuations

The County Assessor, pursuant to State law, is responsible for the assessment of all taxable property located within a County. State law provides, with certain exceptions, that all taxable property is to be valued at its market value. All real property subject to taxation must be listed and may be revalued each year with reference to its value as of January 2. The assessor views and reappraises all parcels at maximum intervals of four years. Personal property subject to taxation must also be listed and assessed annually as of January 2.

Property is appraised at **Estimated Market Value**, defined as the usual selling price of the property which would be obtained at private sale and not at a forced or auction sale.

The amount of increase in market value for all property classified as residential homestead, which is entered by the assessor in the current assessment year, may not exceed the greater of (i) 8.5% of the preceding year's market value or (ii) 15% of the difference between the current assessment and the preceding assessment.

The taxable value of property, upon which taxes are levied, extended and collected, is a percentage of the Estimated Market Value. In previous years, the term for taxable value was "assessed value". In 1988, the Minnesota State Legislature changed the manner in which the taxable value of property is determined. For taxes payable in 1989, the taxable value of property was called **Gross Tax Capacity**. Since 1990, taxable value has been referred to as **Net Tax Capacity**. The mechanics of the computation are the same as in previous years. Gross/Net Tax Capacity equals Estimated Market Value multiplied by a given percentage called a class rate for the particular classification of property. Neither the assessed value/tax capacity nor the market value may accurately represent what a property's actual market value would be in the market place. By dividing the estimated market value used for tax purposes by the State Equalization Aid Review Committee's (EARC) "Sales Ratio" for any particular year, an **Indicated Market Value** can be calculated which approximates actual market value. Sales ratios represent the relationship between the market value used for tax purposes and actual selling prices which were obtained in real estate transactions within a governmental unit in any particular year.

The 2005 sales ratio for the County is 84.9%.

Table 11 below presents the Indicated Market Value, Estimated Market Value and Net Tax Capacity values for taxable property by type within the County for assessment year 2006/collection year 2007.

Table 11
2006/07 Property Values

	<u>Indicated</u> <u>Market Value</u>	<u>Estimated</u> <u>Market Value</u>	<u>Net Tax Capacity</u>
Real Estate			
Residential	\$ 374,440,989	\$ 317,900,400	\$ 3,171,397
Non-Residential	46,288,693	39,299,100	417,317
Agricultural	1,454,510,365	1,234,879,300	9,948,849
Commercial and Industrial	78,510,365	66,655,300	1,181,437
Public Utility	4,243,698	3,602,900	69,119
Other	<u>4,207,185</u>	<u>3,571,900</u>	<u>35,997</u>
Total Real Estate	\$ 1,962,201,295	\$ 1,665,908,900	\$ 14,824,116
Personal Property	8,519,300	8,519,300	164,149
Less Increment Value	<u>--</u>	<u>--</u>	<u>(203,517)</u>
Total Real and Personal Property	<u>\$ 1,970,720,595</u>	<u>\$ 1,674,428,200</u>	<u>\$ 14,784,748</u>

Table 12 below presents the Estimated Market Value and Net Tax Capacity for the three prior years.

Table 12
Valuation History

<u>Levy Year</u>	<u>Collection Year</u>	<u>Estimated Market Value</u>	<u>Net Tax Capacity</u>
2005	2006	\$ 1,490,585,900	\$ 13,203,040
2004	2005	1,364,058,300	12,027,017
2003	2004	1,229,412,300	10,771,053
2002	2003	1,144,807,900	9,972,610
2001	2002	1,102,811,100	9,348,776

Property Tax Levies and Collections

The tax year in Minnesota is January 1 to December 31. Taxes are collected by the County Treasurer. The sequence of events in the taxation of property begins with the certification of the property tax levy to the County Auditor on or before October 10th. The County Auditor then calculates the tax capacity rates and spreads the taxes designed to meet these property tax requirements. The resulting taxes on property are payable the following year. The due dates for taxes on real property are one-half on or before May 15 and one-half on or before October 15 (except for certain classes of agricultural property whose second-half taxes are due November 15). The due dates for payment of personal property taxes are one-half on or before February 28 and one-half on or before June 30.

Penalties on unpaid taxes occur as follows: On May 16, unpaid property taxes (first one-half) are penalized at a rate of 3% on property classified as homestead and 7% on property classified as non-homestead. Thereafter, an additional 1% is charged on the 16th day of each month up to and including October 16 for both homestead and non-homestead property. On October 16 unpaid property taxes (second one-half) are penalized at a rate of 4% for both homestead property and 4% on non-homestead property is charged on the 16th day of each month up to and including December 16. An additional 2% penalty is charged on the first business day in January following the year in which the taxes were due and interest is charged based on variable rates per annum, on the full amount of the taxes, penalties, and costs unpaid. Personal property tax not paid when due is penalized at a rate of 8%.

Table 13 below presents the County's tax levies and collections for collection years 2003 through 2007.

Table 13
Tax Levies and Collections

<u>Collection Year</u>	<u>Certified Levy</u>	<u>Net Levy</u>	<u>Collected First Year</u>		<u>Collected as of 05/15/07</u>	
			<u>Amount</u>	<u>Percent of Net Levy</u>	<u>Amount</u>	<u>Percent of Net Levy</u>
2007	\$ 6,666,174	\$ 5,844,214	In process of collection			
2006	6,147,554	5,327,740	\$ 5,272,781	98.97%	\$ 5,306,022	99.59%
2005	5,724,544	4,929,121	4,878,745	98.98%	4,919,966	99.81%
2004	5,520,236	4,713,541	4,670,963	99.10%	4,707,050	99.86%
2003	5,223,311	4,575,183	4,530,095	99.01%	4,571,120	99.91%

Source: Faribault County Auditor.

Tax Capacity Rates

Table 14 shows the tax rates for a County taxpayer residing in the City of Blue Earth in Blue Earth Area Schools ISD No. 2860 for the collection years 2003 through 2007.

Table 14
Tax Rates

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Blue Earth Area Schools	5.625%	5.881%	5.224%	2.365%	10.996%
Faribault County	43.554%	44.872%	45.827%	49.379%	51.159%
City of Blue Earth	78.345%	78.336%	79.644%	81.536%	79.443%
Other	<u>0.201%</u>	<u>0.221%</u>	<u>0.235%</u>	<u>0.259%</u>	<u>0.275%</u>
Total	<u>127.725%</u>	<u>129.310%</u>	<u>130.930%</u>	<u>133.539%</u>	<u>141.873%</u>

Source: Faribault County Auditor.

Principal Taxpayers

Table 15 below presents the ten largest tax parcels in the County for the 2006 assessment year.

Table 15
Principal Taxpayers

<u>Taxpayer</u>	<u>Net Tax Capacity</u>	<u>% of Total Net Tax Capacity</u>
Interstate Power Company	\$ 166,553	1.13%
Watonwan Farm Service Co	90,499	0.61%
Wells Concrete Products Co	70,429	0.48%
Corn Plus, Inc.	65,022	0.44%
Blue Earth EDA	54,726	0.37%
Nuvex Ingredients Inc	51,114	0.35%
Blue Earth Valley Communications	44,333	0.30%
Kaska Properties LLC	41,204	0.28%
Youth Services International	30,916	0.21%
Union Pacific Railroad Co	<u>30,002</u>	<u>0.20%</u>
Total	<u>\$ 644,798</u>	<u>4.36%</u>

Source: Faribault County Auditor.

RATING

Series 2007A Bonds

The Series 2007A Bonds are rated by Moody's Investors Service, Inc. The County's underlying (unenhanced) rating is "A3". The rating of the county credit enhancement program is "Aa2". The Series 2007A Bonds are rated "Aaa" based upon the insurance policy to be issued by XL Capital Assurance, Inc. A rating is subject to withdrawal at any time; withdrawal of a rating may have an adverse effect on the marketability of the Series 2007A Bonds. For an explanation of the significance of the rating, an investor should communicate with the rating agency.

Series 2007B Bonds

The Series 2007B Bonds are rated “A3” by Moody’s Investors Service, Inc. A rating is subject to withdrawal at any time; withdrawal of a rating may have an adverse effect on the marketability of the Series 2007B Bonds. For an explanation of the significance of the rating, an investor should communicate with the rating agency.

TAX MATTERS

Series 2007A Bonds

Tax Exemption

It is the opinion of Dorsey & Whitney LLP, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and on certifications to be furnished at closing, and assuming compliance by the Issuer with certain covenants (the “Tax Covenants”), that interest to be paid on the Series 2007A Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes. Such interest is, however, included in taxable income for purposes of Minnesota franchise taxes imposed on corporations and financial institutions.

Certain provisions of the Internal Revenue Code of 1986, as amended (the “Code”), however, impose continuing requirements that must be met after the issuance of the Series 2007A Bonds in order for interest thereon to be and remain not includable in federal gross income and in Minnesota taxable net income of individuals, estates and trusts. These requirements include, but are not limited to, provisions regarding the use of the Series 2007A Bond proceeds and the facilities financed with such proceeds; restrictions on the investment of Bond proceeds and other amounts; and provisions requiring that certain investment earnings be rebated periodically to the federal government. Noncompliance with such requirements may cause interest on the Series 2007A Bonds to be includable in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Compliance with the Tax Covenants will satisfy the current requirements of the Code with respect to exemption of interest on the Series 2007A Bonds. No provision has been made for redemption of or for an increase in the interest rate on the Series 2007A Bonds in the event that interest on the Bonds becomes includable in federal gross income or in Minnesota taxable net income.

Related Tax Considerations

Interest on the Series 2007A Bonds is not an item of tax preference for federal or Minnesota alternative minimum tax purposes, but it is included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax. Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the Series 2007A Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the Series 2007A Bonds, may be subject to taxation under section 1375 of the Code, and corresponding provisions of Minnesota law, for an S corporation that has accumulated earnings and profits at the close of the taxable year, if more than 25 percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2007A Bonds or, in the case of a financial institution, that portion of the Owner’s interest expense allocated to the Series 2007A Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates and trusts. Indebtedness may be allocated to the Series 2007A Bonds for this purpose even though not directly traceable to the purchase of the Series 2007A Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Series 2007A Bonds. In the case of an insurance company subject to the tax imposed by section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Obligations that is received or accrued during the

taxable year. Interest on the Series 2007A Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by section 884 of the Code, and is included in net investment income of foreign insurance companies under section 842(b) of the Code.

Because of the Code's basis reduction rules for amortizable bond premium, Bondholders who acquire the Series 2007A Bonds at a premium may be required to recognize taxable gain upon sale of the Series 2007A Bonds, even if the Series 2007A Bonds are sold for an amount equal to or less than their original cost.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE SERIES 2007A BONDS OR RECEIPT OF INTEREST ON THE SERIES 2007A BONDS. PROSPECTIVE PURCHASERS OR BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO COLLATERAL TAX CONSEQUENCES AND APPLICABLE STATE AND LOCAL TAX RULES IN STATES OTHER THAN MINNESOTA.

Minnesota Tax Exemption

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued. In January 2006, the Kentucky Court of Appeals held, in *Davis v. Department of Revenue*, that the state's exemption of interest on its own bonds and those of its political subdivisions and its taxation of interest on the bonds of other states and their political subdivisions unlawfully discriminates against interstate commerce. The Kentucky Supreme Court declined to review this decision. Kentucky tax officials petitioned the United States Supreme Court to review the *Davis* decision, and on May 21, 2007, the petition was granted. In 1994, the Ohio Court of Appeals had reached the opposite conclusion on this legal issue, upholding a similar Ohio statute, in *Shaper v. Tracy*.

If the United States Supreme Court were to affirm the *Davis* decision, it is likely that Minnesota's tax treatment of state and local government bonds would also be held to be unconstitutional. If Minnesota's treatment of state and local government bonds were held to unlawfully discriminate against interstate commerce, the court would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those and other years preceding the decision were to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Bonds to become taxable by Minnesota and the market value of the Series 2007A Bonds to decline.

Qualified Tax-Exempt Obligations

The County will designate the Series 2007A Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the federal Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes interest expense that is allocable to carrying and acquiring tax-exempt obligations.

Series 2007B Bonds

Taxability of Interest

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, interest to be paid on the Series 2007B Bonds is (i) includable in gross income for federal income tax purposes and in taxable net income of individuals, estates and trusts for Minnesota income tax purposes and (ii) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Not Qualified Tax-Exempt Obligations

The County will not designate the Series 2007B Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Original Issue Premium

The Series A Bonds and Series B Bonds shown on the cover as being sold at a price in excess of 100% (collectively, the “Premium Bonds”) are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, who are subject to special rules, bondholders from time to time must reduce their federal income tax bases for the Premium Bonds for purposes of determining gain or loss on the sale or payment of such Bonds. Premium generally is amortized on the basis of a bondholder’s constant yield to maturity with semiannual compounding. This might result in taxable gain upon sale of the Premium Bonds, even if they are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal income tax purposes. Bondholders should consult their tax advisors concerning the timing and rate of premium amortization.

Original Issue Discount

The Series B Bonds shown on the cover as being sold at a price of less than 100% (collectively, the “Discount Bonds”), are offered and sold to the public at an original issue discount (the “OID”). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of such Bond. The issue price of Discount Bonds is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity are sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over such shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excludable from the owner’s gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond. A purchaser of a Discount Bond at its issue price in the initial public offering who holds that Bond to maturity will realize no gain or loss upon the retirement of that Bond.

Owners of Discount or Premium Bonds (or book-entry interests in them) should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences and the treatment of OID and bond premium for state and local tax purposes.

LITIGATION

There is no litigation of any nature now pending or, to the knowledge of the County, threatened which does or could restrain or enjoin the issuance, sale, execution or delivery of the Obligations, or in any way contest or affect the validity of such Obligations or any proceedings of the County taken with respect to the issuance or sale thereof.

FINANCIAL ADVISOR

The County has retained Public Financial Management, Inc., of Minneapolis, Minnesota, as financial advisor (the "Financial Advisor") in connection with the issuance of the Obligations. In preparing the Official Statement, the Financial Advisor has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the County to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Obligations.

Requests for information concerning the County should be addressed to Public Financial Management, Inc., 45 South Seventh Street, Suite 2800, Minneapolis, Minnesota 55402 (612/338-3535, 612/338-7264 FAX).

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Obligations are subject to the opinion of Dorsey & Whitney LLP, of Minneapolis, Minnesota, Bond Counsel, as to validity and tax exemption. Bond Counsel has not participated in the preparation of this Official Statement and expresses no opinion as to its accuracy, completeness or sufficiency.

CERTIFICATION

The County will furnish a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by its County Auditor has been duly authorized by the County.

FARIBAULT COUNTY, MINNESOTA

By /s/ John Thompson
Faribault County Auditor/Coordinator

APPENDIX A

**Excerpts from the County's
Audited Financial Statements for the
Year Ended December 31, 2005**

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Discretely Presented Component Units Housing and Redevelopment Authority	Economic Development Authority
<u>Assets</u>			
Cash and pooled investments	\$ 5,942,189	\$ 9,924	\$ 165,467
Petty cash and change funds	2,602	-	-
Taxes receivable - prior	86,659	-	-
Special assessments receivable			
Prior	14,547	-	-
Noncurrent	1,030,808	-	-
Accounts receivable	16,004	-	-
Accrued interest receivable	31,321	-	116
Loans receivable	-	-	238,553
Due from other governments	2,859,023	-	-
Inventories	1,174,836	-	-
Prepaid items	24,919	-	-
Restricted assets			
Investments - temporary	-	-	16,792
Advances to other governments	40,000	-	-
Advances to other agencies	-	-	100,000
Deferred charges	28,551	-	-
Capital assets			
Non-depreciable	2,583,425	-	-
Depreciable - net of accumulated depreciation	37,641,632	-	-
Total Assets	\$ 51,476,516	\$ 9,924	\$ 520,928
<u>Liabilities</u>			
Accounts payable	\$ 192,447	\$ -	\$ 1,484
Salaries payable	154,591	-	-
Contracts payable	83,662	-	-
Due to other governments	72,648	-	-
Accrued interest payable	26,295	-	-
Unearned revenue	13,591	-	-
Advance from other governments	-	-	50,000
Long-term liabilities			
Due within one year	612,331	-	-
Due in more than one year	3,444,934	-	-
Total Liabilities	\$ 4,600,499	\$ -	\$ 51,484

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 1
(Continued)

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

	Primary Government Governmental Activities	Discretely Presented Component Units Housing and Redevelopment Authority	Economic Development Authority
<u>Net Assets</u>			
Invested in capital assets - net of related debt	\$ 40,151,626	\$ -	\$ -
Restricted for			
Debt service	220,199	-	-
Transportation	1,252,691	-	-
General government	81,587	-	-
Public safety	71,941	-	-
Conservation of natural resources	11,274	-	-
Economic development	-	-	16,792
Unrestricted	5,086,699	9,924	452,652
Total Net Assets	<u>\$ 46,876,017</u>	<u>\$ 9,924</u>	<u>\$ 469,444</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

	<u>Expenses</u>	<u>Fees, Charges, Fines, and Other</u>
<u>Functions/Programs</u>		
Primary Government		
Governmental activities		
General government	\$ 2,436,529	\$ 644,564
Public safety	2,205,394	225,188
Transportation	5,093,051	440,204
Sanitation	92,780	9,417
Human services	1,570,639	-
Culture and recreation	289,015	42,471
Conservation of natural resources	796,340	521,401
Economic development	113,242	-
Interest	168,653	-
Total primary government	<u>\$ 12,765,643</u>	<u>\$ 1,883,245</u>
Component units		
Housing and Redevelopment Authority	\$ 276,276	\$ -
Economic Development Authority	52,561	17,327
Total component units	<u>\$ 328,837</u>	<u>\$ 17,327</u>

General Revenues

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

Total general revenues

Change in net assets

Net Assets - January 1

Net Assets - December 31

EXHIBIT 2

		Net (Expense) Revenue and Changes in Net Assets		
Program Revenues		Primary Government Governmental Activities	Discretely Presented Component Units	
			Housing and Redevelopment Authority	Economic Development Authority
Operating Grants and Contributions	Capital Grants and Contributions			
\$ 39,495	\$ -	\$ (1,752,470)		
296,792	15,376	(1,668,038)		
4,030,517	1,448,655	826,325		
49,079	-	(34,284)		
-	-	(1,570,639)		
-	-	(246,544)		
94,457	-	(180,482)		
-	-	(113,242)		
-	-	(168,653)		
\$ 4,510,340	\$ 1,464,031	\$ (4,908,027)		
\$ 286,200	\$ -		\$ 9,924	\$ -
-	-		-	(35,234)
\$ 286,200	\$ -		\$ 9,924	\$ (35,234)
		\$ 4,954,121	\$ -	\$ -
		9,788	-	-
		20,698	-	-
		1,604,527	-	99,996
		222,923	-	390
		239,382	-	-
		\$ 7,051,439	\$ -	\$ 100,386
		\$ 2,143,412	\$ 9,924	\$ 65,152
		44,732,605	-	404,292
		\$ 46,876,017	\$ 9,924	\$ 469,444

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FUND FINANCIAL STATEMENTS

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

	<u>General</u>	<u>Public Works</u>
<u>Assets</u>		
Cash and pooled investments	\$ 2,158,215	\$ 1,913,535
Petty cash and change funds	2,305	297
Taxes receivable		
Prior	43,894	15,993
Special assessments receivable		
Prior	10,681	-
Noncurrent	657,702	-
Accounts receivable	14,619	1,338
Accrued interest receivable	31,321	-
Due from other funds	3,710	3,570
Due from other governments	198,961	1,447,902
Inventories	-	1,174,836
Prepaid items	14,519	10,400
Advances to other funds	626,305	-
Advances to other governments	40,000	-
	<hr/>	<hr/>
Total Assets	<u>\$ 3,802,232</u>	<u>\$ 4,567,871</u>

EXHIBIT 3

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ 1,497,292	\$ 150,770	\$ 222,377	\$ 5,942,189
-	-	-	2,602
20,158	-	6,614	86,659
-	3,866	-	14,547
-	373,106	-	1,030,808
-	47	-	16,004
-	-	-	31,321
-	4,540	-	11,820
-	47,160	1,165,000	2,859,023
-	-	-	1,174,836
-	-	-	24,919
-	-	-	626,305
-	-	-	40,000
\$ 1,517,450	\$ 579,489	\$ 1,393,991	\$ 11,861,033

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

	<u>General</u>	<u>Public Works</u>
<u>Liabilities and Fund Balances</u>		
Liabilities		
Accounts payable	\$ 90,248	\$ 52,056
Salaries payable	112,729	41,862
Contracts payable	-	75,415
Due to other funds	3,570	4,540
Due to other governments	64,666	2,897
Deferred revenue - unavailable	750,120	1,440,496
Deferred revenue - unearned	11,701	744
Advance from other funds	-	-
Total Liabilities	<u>\$ 1,033,034</u>	<u>\$ 1,618,010</u>
Fund Balances		
Reserved for		
Inventories	\$ -	\$ 1,174,836
Advances to other funds	626,305	-
Advances to other governments	40,000	-
Recording compliance fund	11,157	-
Law library	44,721	-
Recorder's equipment	36,866	-
Enhanced 911	63,052	-
DARE	8,889	-
Conservation of natural resources	11,274	-
Unreserved		
Designated for debt service	-	-
Designated for future expenditures	1,400,000	-
Designated for compensated absences	368,816	210,984
Designated for trust	30,000	-
Designated for building fund	50,000	-
Designated for forfeited building fund	15,000	-
Undesignated	63,118	1,564,041
Total Fund Balances	<u>\$ 2,769,198</u>	<u>\$ 2,949,861</u>
Total Liabilities and Fund Balances	<u>\$ 3,802,232</u>	<u>\$ 4,567,871</u>

EXHIBIT 3
(Continued)

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ -	\$ 49,365	\$ 778	\$ 192,447
-	-	-	154,591
-	8,247	-	83,662
-	460	3,250	11,820
-	5,085	-	72,648
14,331	416,282	1,169,698	3,790,927
1,080	-	66	13,591
-	626,305	-	626,305
\$ 15,411	\$ 1,105,744	\$ 1,173,792	\$ 4,945,991
\$ -	\$ -	\$ -	\$ 1,174,836
-	-	-	626,305
-	-	-	40,000
-	-	-	11,157
-	-	-	44,721
-	-	-	36,866
-	-	-	63,052
-	-	-	8,889
-	-	-	11,274
-	-	220,199	220,199
-	-	-	1,400,000
-	-	-	579,800
-	-	-	30,000
-	-	-	50,000
-	-	-	15,000
1,502,039	(526,255)	-	2,602,943
\$ 1,502,039	\$ (526,255)	\$ 220,199	\$ 6,915,042
\$ 1,517,450	\$ 579,489	\$ 1,393,991	\$ 11,861,033

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS
TO NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$	6,915,042
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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.		40,225,057
--	--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		3,790,927
---	--	-----------

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Unamortized deferred debt charges	\$ 28,551	
General obligation bonds	(2,485,000)	
Special assessments debt	(860,000)	
Unamortized bond discount	11,670	
Capital leases	(23,431)	
Loans payable	(120,704)	
Compensated absences	(579,800)	
Accrued interest payable	(26,295)	
		(4,055,009)

Net assets of governmental activities (Exhibit 1)	\$	<u>46,876,017</u>
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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

	<u>General</u>	<u>Public Works</u>
Revenues		
Taxes	\$ 2,508,197	\$ 869,473
Special assessments	140,209	-
Licenses and permits	1,453	-
Intergovernmental	1,797,526	4,781,331
Charges for services	737,758	406,216
Fines and forfeits	20,436	-
Gifts and contributions	10,680	-
Interest on investments	222,770	-
Miscellaneous	180,000	58,450
Total Revenues	\$ 5,619,029	\$ 6,115,470
Expenditures		
Current		
General government	\$ 2,368,220	\$ -
Public safety	2,165,080	-
Transportation	61,566	5,730,048
Sanitation	92,780	-
Human services	-	-
Culture and recreation	194,625	98,409
Conservation of natural resources	510,610	-
Economic development	113,242	-
Debt service		
Principal	3,364	-
Interest	3,684	-
Bond issuance cost	-	-
Administrative charges	-	-
Total Expenditures	\$ 5,513,171	\$ 5,828,457
Excess of Revenues Over (Under) Expenditures	\$ 105,858	\$ 287,013
Other Financing Sources (Uses)		
Transfers in	\$ -	\$ 13,533
Transfers out	(54,533)	(77,313)
Capital lease issued	12,000	-
Loans issued	79,642	-
Refunding bonds issued	-	-
Discount on bond issuance	-	-
Total Other Financing Sources (Uses)	\$ 37,109	\$ (63,780)
Net Change in Fund Balances	\$ 142,967	\$ 223,233
Fund Balances - January 1	2,626,231	2,647,230
Increase (decrease) in reserved for inventories	-	79,398
Fund Balances - December 31	\$ 2,769,198	\$ 2,949,861

EXHIBIT 5

Human Services	Ditch	Debt Service	Total Governmental Funds
\$ 1,197,103	\$ -	\$ 392,731	\$ 4,967,504
-	228,028	-	368,237
-	-	-	1,453
192,447	-	63,125	6,834,429
-	-	-	1,143,974
-	-	-	20,436
-	-	-	10,680
-	-	153	222,923
-	700	624,382	863,532
\$ 1,389,550	\$ 228,728	\$ 1,080,391	\$ 14,433,168
\$ -	\$ -	\$ -	\$ 2,368,220
-	-	-	2,165,080
-	-	-	5,791,614
-	-	-	92,780
1,570,639	-	-	1,570,639
-	-	-	293,034
-	280,786	-	791,396
-	-	-	113,242
-	45,000	2,185,000	2,233,364
-	32,879	137,653	174,216
-	-	20,700	20,700
-	403	2,856	3,259
\$ 1,570,639	\$ 359,068	\$ 2,346,209	\$ 15,617,544
\$ (181,089)	\$ (130,340)	\$ (1,265,818)	\$ (1,184,376)
\$ -	\$ -	\$ 118,313	\$ 131,846
-	-	-	(131,846)
-	-	-	12,000
-	-	-	79,642
-	-	1,165,000	1,165,000
-	-	(4,788)	(4,788)
\$ -	\$ -	\$ 1,278,525	\$ 1,251,854
\$ (181,089)	\$ (130,340)	\$ 12,707	\$ 67,478
1,683,128	(395,915)	207,492	6,768,166
-	-	-	79,398
\$ 1,502,039	\$ (526,255)	\$ 220,199	\$ 6,915,042

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 67,478**

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

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

Expenditures for capital assets	\$ 3,357,223	
Current year depreciation	<u>(2,782,523)</u>	574,700

In the statement of activities, only gains or losses on the disposal of capital assets are reported; whereas, in the governmental funds, the proceeds increase financial resources. The difference is the net book value of the capital assets disposed of. (24,729)

The issuance of long-term debt provides current financing sources to governmental funds, while the repayment of the principal consumes current financial resources. Neither transaction has any effect on net assets. Also, governmental funds report the net effect of issuance costs and discounts when debt is issued; these amounts are deferred and amortized over the life of the debt in the statement of activities.

Capital lease issued	\$ (12,000)	
Loans issued	(79,642)	
Refunding bonds issued	(1,165,000)	
Bond issuance costs	20,700	
Discount on bonds issued	<u>4,788</u>	(1,231,154)

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

General obligation bonds	\$ 1,860,000	
Special assessments debt	45,000	
Capital notes	325,000	
Capital leases	<u>3,364</u>	2,233,364

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	\$ 13,895	
Change in discount on debt	(1,181)	
Change in deferred debt issue costs	(3,892)	
Change in inventories	79,398	
Change in compensated absences	<u>(42,282)</u>	45,938

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

Change in deferred revenue for taxes and special assessments	\$ 76,807	
Change in deferred revenue for grants	<u>401,008</u>	<u>477,815</u>

Change in Net Assets of Governmental Activities (Exhibit 2) **\$ 2,143,412**

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

EXHIBIT 7

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

	<u>Agency</u>
<u>Assets</u>	
Cash and cash equivalents	<u>\$ 74,708</u>
<u>Liabilities</u>	
Due to other governments	<u>\$ 74,708</u>

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**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

Discretely Presented Component Units

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Units (Continued)

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

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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

2. Fund Financial Statements

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

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 Public Works Special Revenue Fund is used to account for revenues and expenditures relating to public works for the establishment, location, vacation, construction, reconstruction, improvement, and maintenance of roads, bridges, other projects affecting County roadways, parks, and the transit system.

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Faribault County considers all revenues as available if collected within 60 days after the end of the current period. Property and other taxes, 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.

**FARIBAULT COUNTY
BLUE EARTH, 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 Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$222,770.

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

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and 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.

2. Receivables and Payables

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

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

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

3. Inventories

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Inventories (Continued)

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

4. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is imposed by grantors or other governments. Therefore, their use is limited by applicable laws and regulations.

5. Capital Assets

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

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

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Compensated Absences

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

7. Deferred Revenue

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

8. Long-Term Obligations

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

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.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Fund Equity

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

10. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

The Ditch Special Revenue Fund is composed of 182 individual drainage systems. Twenty-four of these systems had a deficit cash balance, and 72 of the systems had individual deficit fund balances. All the ditch systems combined had a fund balance deficit of \$526,255. The individual ditch system fund balance deficits will be eliminated with future special assessment levies against benefited properties.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Primary government	
Cash and pooled investments	\$ 5,942,189
Petty cash and change fund	2,602
Component unit - HRA	9,924
Component unit - EDA	
Cash and pooled investments	165,467
Restricted assets	
Investments	16,792
Agency funds	
Cash and pooled investments	<u>74,708</u>
 Total Cash and Investments	 \$ <u>6,211,682</u>
Cash and investments held by the County Treasurer	\$ 6,201,758
Cash in custody of the HRA (See Note 8.B.)	<u>9,924</u>
 Total Cash and Investments	 \$ <u>6,211,682</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 standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of December 31, 2005, the County's deposits were not exposed to custodial credit risk.

b. Investments

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes their exposure to interest rate risk by limiting long-term investments. County policy states that only 30 percent of County funds may be invested in items that mature in more than one year.

	Maturity Dates		
	0 - 1 Year	1 - 5 Years	5 - 13 Years
Deposits	\$ 3,540,915	\$ -	\$ -
Petty cash	2,602	-	-
MAGIC Fund	511	-	-
Federal Home Loan Bank notes (1)	299,496	891,878	1,168,356
Negotiable certificates of deposit	100,000	-	198,000
Total Cash and Investments	<u>\$ 3,943,524</u>	<u>\$ 891,878</u>	<u>\$ 1,366,356</u>

(1) All of these notes have setup provisions, which could result in the notes being called prior to maturity.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Credit Risk

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

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The County does not have a policy on 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 does not have a policy on concentration of credit risk. The only investments in any one issuer that represent five percent or more of the County's investments are in Federal Home Loan Bank totaling \$2,359,730.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Taxes - prior	\$ 86,659	\$ -
Special assessments - prior	14,547	-
Special assessments - noncurrent	1,030,808	722,323
Accounts	16,004	-
Accrued interest	31,321	-
Due from other governments	2,859,023	940,000
Total	<u>\$ 4,038,362</u>	<u>\$ 1,662,323</u>

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 748,219	\$ 7,278	\$ -	\$ 755,497
Construction in progress	3,907,132	2,663,597	4,742,801	1,827,928
Total capital assets not depreciated	<u>\$ 4,655,351</u>	<u>\$ 2,670,875</u>	<u>\$ 4,742,801</u>	<u>\$ 2,583,425</u>
Capital assets depreciated				
Buildings and improvements	\$ 3,436,716	\$ 173,628	\$ -	\$ 3,610,344
Other improvements	177,638	-	-	177,638
Machinery and equipment	4,779,511	519,998	240,211	5,059,298
Infrastructure	53,441,300	4,735,523	-	58,176,823
Total capital assets depreciated	<u>\$ 61,835,165</u>	<u>\$ 5,429,149</u>	<u>\$ 240,211</u>	<u>\$ 67,024,103</u>

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Buildings	\$ 1,917,237	\$ 91,852	\$ -	\$ 2,009,089
Other improvements	49,927	9,028	-	58,955
Machinery and equipment	2,538,484	490,792	211,859	2,817,417
Infrastructure	22,309,782	2,190,851	3,623	24,497,010
Total accumulated depreciation	\$ 26,815,430	\$ 2,782,523	\$ 215,482	\$ 29,382,471
Total capital assets depreciated, net	\$ 35,019,735	\$ 2,646,626	\$ 24,729	\$ 37,641,632
Capital Assets, Net	\$ 39,675,086	\$ 5,317,501	\$ 4,767,530	\$ 40,225,057

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

General government	\$ 98,999
Public safety	127,639
Highways and streets, including depreciation of infrastructure assets	2,549,553
Conservation of natural resources	6,332
Total Depreciation Expense	\$ 2,782,523

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service Ditch	\$ 3,250 460
Total General Fund		\$ 3,710
Public Works	General	3,570
Ditch	Public Works	4,540
Total Due To/From Other Funds		<u>\$ 11,820</u>

2. Advances From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 626,305</u>

3. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfers to Debt Service Fund from General Fund	\$ 41,000	Provide funds for debt service
Transfers to Debt Service Fund from Public Works Fund	77,313	Provide funds for debt service
Transfers to Public Works Fund from General Fund	<u>13,533</u>	Reimburse fund for transit costs
Total Interfund Transfers	<u>\$ 131,846</u>	

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Other Postemployment Benefits - Retirees

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

As of year-end, the County has 41 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2005, the County expended \$178,076 for these benefits.

2. Capital Leases

The County has entered into two capital lease agreements. Both lease agreements are for financing the acquisition of copiers. These leases qualify as capital leases for accounting purposes and, therefore, are recorded as capital assets at the present value of the future minimum payments as of the inception of the leases. The capital leases consist of the following at December 31, 2005:

<u>Lease</u>	<u>Maturity</u>	<u>Installment</u>	<u>Payment Amount</u>	<u>Original</u>	<u>Balance</u>
Xerox copier	2009	Monthly	\$ 279	\$ 14,795	\$ 12,124
Xerox copier	2010	Monthly	265	12,000	11,307
					<u>\$ 23,431</u>

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

2. Capital Leases (Continued)

Lease payments are being made by the General Fund. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

2006	\$	6,539
2007		6,539
2008		6,539
2009		6,539
2010		1,860
		<hr/>
Total Lease Payments	\$	28,016
Less: amount representing interest		<hr/> (4,585)
Present Value of Minimum Lease Payments	\$	<hr/> 23,431 <hr/>

3. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General Obligation Bonds					
1997 G.O. Landfill Closing Refunding Bonds	2008	\$55,000 - \$60,000	4.80 - 5.00	\$ 475,000	\$ 175,000
1997 G.O. Courthouse Bonds	2007	\$25,000	5.50 - 5.60	190,000	50,000
2001 G.O. Taxable Waste Disposal Bonds	2016	\$15,000 - \$30,000	6.20 - 6.70	300,000	240,000
2001 G.O. Refunding Bonds	2009	\$140,000 - \$215,000	3.75 - 4.00	1,435,000	655,000
2001 G.O. Taxable Refunding Waste Disposal Bonds	2012	\$20,000 - \$35,000	5.75 - 6.40	285,000	200,000
2005 G.O. Solid Waste Revenue Refunding Bonds	2010	\$205,000 - \$250,000	2.10 - 2.70	<hr/> 1,165,000	<hr/> 1,165,000
Total general obligation bonds				<hr/> \$ 3,850,000	\$ 2,485,000
Less: unamortized discount					<hr/> (4,031)
Total General Obligation Bonds, Net					<hr/> \$ 2,480,969 <hr/>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
Special assessment bonds 1999 G.O. Ditch Bonds	2014	\$15,000 - \$20,000	4.30 - 4.95	\$ 280,000	\$ 160,000
2003 G.O. Drainage Ditch Bonds	2024	\$25,000 - \$50,000	1.85 - 4.25	725,000	700,000
Total general obligation special assessment bonds				<u>\$ 1,005,000</u>	\$ 860,000
Less: unamortized discount					<u>(7,639)</u>
Total General Obligation Special Assessment Bonds, Net					<u>\$ 852,361</u>

Loans Payable

The County entered into a loan agreement with the Minnesota Pollution Control Agency for funding Clean Water Partnership projects in the Blue Earth River Watershed. Semi-annual installment payments of \$6,689 will be made until 2015, including interest at two percent. The amount of the original issue was \$120,704. The loans are secured by special assessments placed on the individual parcels. Loan payments will be reported in the General Fund.

4. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 555,000	\$ 84,584	\$ 45,000	\$ 31,576
2007	505,000	66,610	50,000	30,208
2008	490,000	48,859	50,000	28,645
2009	460,000	32,565	50,000	26,935
2010	255,000	20,353	50,000	25,205
2011 - 2015	190,000	41,325	225,000	99,398
2016 - 2020	30,000	2,010	200,000	60,006
2021 - 2025	-	-	190,000	16,440
Total	<u>\$ 2,485,000</u>	<u>\$ 296,306</u>	<u>\$ 860,000</u>	<u>\$ 318,413</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Debt Service Requirements (Continued)

Year Ending December 31	Loans Payable	
	Principal	Interest
2006	\$ 11,019	\$ 2,359
2007	11,240	2,138
2008	11,466	1,912
2009	11,696	1,682
2010	11,931	1,446
2011 - 2015	63,352	3,536
Total	<u>\$ 120,704</u>	<u>\$ 13,073</u>

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable					
General obligation bonds	\$ 3,180,000	\$ 1,165,000	\$ 1,860,000	\$ 2,485,000	\$ 555,000
G.O. special assessment bonds	905,000	-	45,000	860,000	45,000
G.O. capital notes	325,000	-	325,000	-	-
Less: deferred amounts for issuance discounts	(8,063)	(4,788)	(1,181)	(11,670)	-
Total bonds payable	\$ 4,401,937	\$ 1,160,212	\$ 2,228,819	\$ 3,333,330	\$ 600,000
Capital leases	14,795	12,000	3,364	23,431	4,794
Loans payable	41,062	79,642	-	120,704	-
Compensated absences	537,518	42,282	-	579,800	7,537
Long-Term Liabilities	<u>\$ 4,995,312</u>	<u>\$ 1,294,136</u>	<u>\$ 2,232,183</u>	<u>\$ 4,057,265</u>	<u>\$ 612,331</u>

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

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

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

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

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

	<u>2005</u>	<u>2006</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	6.00
Public Employees Police and Fire Fund	9.30	10.50
Public Employees Correctional Fund	8.75	8.75

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

	<u>Public Employees Retirement Fund</u>	<u>Public Employees Police and Fire Fund</u>	<u>Public Employees Correctional Fund</u>
2005	\$ 125,911	\$ 50,105	\$ 23,373
2004	125,704	43,476	16,811
2003	132,366	41,801	16,458

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.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

4. Pension Plans

B. Defined Contribution Plan (Continued)

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 contributions for the years ending December 31, 2005, 2004, and 2003, were \$12,925, \$11,972, and \$11,760, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Risk Management

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

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

5. Risk Management (Continued)

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

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

B. Joint Ventures

Faribault-Martin Human Services Board

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures

Faribault-Martin Human Services Board (Continued)

Complete financial information can be obtained from:

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

Prairieland Solid Waste Board (Prairieland)

Faribault and Martin Counties entered into a joint venture in 1990 to build and operate a solid waste composting plant - Prairieland. Prairieland is composed of ten members, the County Commissioners from both Faribault and Martin Counties. Faribault County's proportionate interest in Prairieland is 43 percent. Prairieland reported net income of \$161,225 in 2005.

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

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

Separate financial information can be obtained from:

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

B. Joint Ventures (Continued)

Rural Minnesota Energy Board

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

The governing body is composed of one voting member and one alternate member from each participating counties' Board of Commissioners. The Board shall remain in existence as long as two or more counties remain parties to the agreement. Should the Board cease to exist, assets shall be liquidated after payment of liabilities, based upon the ratios set out under the equal and proportionate share articles of the agreement. During 2005, Faribault County made no contributions to the Board.

C. Jointly-Governed Organizations

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

The Greater Blue Earth River Basin Joint Powers establishes goals, policies, and objectives to protect and enhance land and water resources in the Greater Blue Earth River Basin. During the year, the County paid \$600 to the Three Rivers RC&D.

The Minnesota Counties Computer Cooperative was established to provide computer programming to member counties. During the year, the County paid \$58,809 to the Cooperative.

The Minnesota Counties Insurance Trust (MCIT) Joint Powers Board provides property/casualty and workers' compensation coverage to several Minnesota counties. During the year, the County paid \$188,688 to MCIT and received \$74,299 in dividends.

**FARIBAUT COUNTY
BLUE EARTH, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Jointly-Governed Organizations (Continued)

The Minnesota River Board was established to promote orderly water quality improvement and management of the Minnesota River watersheds. During the year, the County paid \$1,405 to the Board.

The South Central Drug Task Force was established to coordinate efforts among participating local governments to apprehend and prosecute drug offenders. During the year, the County made no payments to the Task Force.

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

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

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

D. Agricultural Best Management Loan Program

The County has entered into an agreement with the Minnesota Department of Agriculture and a local lending institution to jointly administer a loan program to individuals to implement projects that prevent or mitigate non-point source water pollution. While the County is not liable for the repayment of the loan in any manner, it does have certain responsibilities under the agreement. The County has met those responsibilities for 2005.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

7. Faribault County Economic Development Authority (EDA)

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

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

Basis of Accounting

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

Cash and Pooled Investments

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

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

7. Faribault County Economic Development Authority (EDA) (Continued)

B. Detailed Notes on All Funds

1. Assets

Receivables as of December 31, 2005, consist of \$238,553 loans made to individuals and businesses for development and a \$100,000 advance to MCCF.

Restricted assets as of December 31, 2005, consist of restricted certificates of deposit used to guarantee development loans made by local banks to individuals and businesses.

2. Liabilities

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

8. Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

The HRA prepares separate financial statements. The HRA presents its one fund as an enterprise fund. The HRA applies all GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

8. Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The HRA Fund is accounted for on the accrual basis of accounting. Accordingly, revenues, including HUD contributions, are recognized when earned and expenses are recognized when incurred.

Cash

All cash of the HRA is on deposit with MVAC and included within its pooled cash and investments. All cash deposits and temporary investments with original terms of three months or less are considered to be cash.

Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

B. Cash

Deposits

In accordance with Minnesota statutes, the HRA maintains deposits at depository banks authorized by the HRA Board. All such depositories are federally insured.

At December 31, 2005, the carrying amount of the HRA's deposits with financial institutions was \$9,924, and bank balances were \$10,024. Balances were fully insured as of December 31, 2005.

Minnesota statutes require that all HRA deposits be protected by insurance, surety bond, or collateral and that securities pledged as collateral be legal instruments and be held in safekeeping by the HRA Treasurer or in a financial institution other than that furnishing the collateral. The market value of collateral pledged must generally exceed deposits not covered by insurance or bonds by at least ten percent. The HRA was in compliance with these Minnesota statutes at December 31, 2005.

**FARIBAULT COUNTY
BLUE EARTH, MINNESOTA**

8. Housing and Redevelopment Authority (HRA)

B. Cash (Continued)

Investments

The HRA had no investments during the year ended December 31, 2005.

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REQUIRED SUPPLEMENTARY INFORMATION

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APPENDIX B

Forms of Legal Opinion

PROPOSED FORM OF LEGAL OPINION

Faribault County, Minnesota

[Purchaser]

Re: \$10,000,000 General Obligation Jail Bonds, Series 2007A
Faribault County, Minnesota

Ladies and Gentlemen:

As Bond Counsel in connection with the authorization, issuance and sale by Faribault County, Minnesota (the Issuer) of the obligations described above, dated, as originally issued, as of August 29, 2007 (the Obligations), we have examined certified copies of certain proceedings taken, and certain affidavits and certificates furnished, by the Issuer in the authorization, sale and issuance of the Obligations, including the form of the Obligations. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1. The Obligations are valid and binding general obligations of the Issuer, enforceable in accordance with their terms.

2. The principal of and interest on the Obligations are payable primarily from ad valorem taxes heretofore duly levied on all taxable property in the Issuer, but if necessary for payment thereof additional ad valorem taxes are required by law to be levied on all such property, which taxes are not subject to any limitation as to rate or amount.

3. Interest on the Obligations (a) is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes; (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax; (c) is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and (d) is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal and Minnesota alternative minimum taxes.

4. The Issuer has designated the Obligations as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the Code), and financial institutions described in Section 265(b)(5) of the Code may treat the Obligations for purposes of Sections 265(b)(2) and 291(e)(1)(B) of the Code as if they were acquired on August 7, 1986.

The opinions expressed in paragraphs 1 and 2 above are subject, as to enforceability, to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors’ rights and the application of equitable principles, whether considered at law or in equity.

DORSEY & WHITNEY LLP

Faribault County, Minnesota
[Purchaser]
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The opinions expressed in paragraphs 3 and 4 above are subject to the condition of the Issuer's compliance with all requirements of the Code that must be satisfied subsequent to the issuance of the Obligations in order that interest thereon may be, and continue to be, excluded from gross income for federal income tax purposes and that the Obligations be and continue to be qualified tax-exempt obligations. The Issuer has covenanted to comply with these continuing requirements. Its failure to do so could result in the inclusion of interest on the Obligations in federal gross income and in Minnesota taxable net income, retroactive to the date of issuance of the Obligations. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences to holders of the Obligations.

We have not been engaged, and have not undertaken, to review the accuracy, completeness or sufficiency of any offering materials relating to the Obligations, and, accordingly, we express no opinion with respect thereto.

Dated this ___ day of August, 2007.

Very truly yours,

PROPOSED FORM OF LEGAL OPINION



Faribault County, Minnesota

[Original Purchaser]

Re: \$750,000 Taxable General Obligation Waste Disposal Bonds, Series 2007B
Faribault County, Minnesota

Ladies and Gentlemen:

As Bond Counsel in connection with the authorization, issuance and sale by Faribault County, Minnesota (the County), of the obligations described above, dated, as originally issued, as of August 29, 2007 (the Bonds), we have examined certified copies of certain proceedings taken, and certain affidavits and certificates furnished, by the County in the authorization, sale and issuance of the Bonds, including the form of the Bonds. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1. The Bonds are valid and binding general obligations of the County, enforceable in accordance with their terms except to the extent to which enforceability thereof may be limited by the exercise of judicial discretion or by state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights.

2. The principal of and interest on the Bonds are payable from special assessments to be levied on property specially benefited by the improvements financed by the Bonds and from ad valorem taxes heretofore duly levied on all taxable property in the County, which have been pledged and appropriated for this purpose, but if necessary for payment thereof additional ad valorem taxes are required by law to be levied on all such property, which taxes are not subject to any limitation as to rate or amount.

3. Interest on the Bonds (a) is includable in gross income for federal income tax purposes and in taxable net income of individuals, estates and trusts for Minnesota income tax purposes and (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax.

We have not been engaged, and have not undertaken, to review the accuracy, completeness or sufficiency of any offering materials relating to the Bonds, and, accordingly, we express no opinion with respect thereto.

Dated this ____ day of August, 2007.

Very truly yours,

APPENDIX C

Form of Continuing Disclosure Certificate

FORM OF CONTINUING DISCLOSURE COVENANTS (EXCERPTS FROM SALE RESOLUTION)

Continuing Disclosure. (a) Purpose and Beneficiaries. To provide for the public availability of certain information relating to the Bonds and the security therefor and to permit the Purchaser and other participating underwriters in the primary offering of the Bonds to comply with amendments to Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), relating to continuing disclosure (as in effect and interpreted from time to time, the Rule), which will enhance the marketability of the Bonds, the County hereby makes the following covenants and agreements for the benefit of the Owners (as hereinafter defined) from time to time of the Outstanding Bonds. The County is the only obligated person in respect of the Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. The County has complied in all material respects with any undertaking previously entered into by it under the Rule. If the County fails to comply with any provisions of this section, any person aggrieved thereby, including the Owners of any Outstanding Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this section, including an action for a writ of mandamus or specific performance. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder to the extent permitted by law. Notwithstanding anything to the contrary contained herein, in no event shall a default under this section constitute a default under the Bonds or under any other provision of this resolution. As used in this section, Owner or Bondowner means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, Beneficial Owner means, in respect of a Bond, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Bond for federal income tax purposes.

(b) Information To Be Disclosed. The County will provide, in the manner set forth in subsection (c) hereof, either directly or indirectly through an agent designated by the County, the following information at the following times:

- (1) on or before 365 days after the end of each fiscal year of the County, commencing with the fiscal year ending December 31, 2006, the following financial information and operating data in respect of the County (the Disclosure Information):
 - (A) the audited financial statements of the County for such fiscal year, containing balance sheets as of the end of such fiscal year and a statement of operations, changes in fund balances and cash flows for the fiscal year then ended, showing in comparative form such figures for the preceding fiscal year of the County, prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board as modified in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the County, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the fiscal officer of the County; and
 - (B) to the extent not included in the financial statements referred to in paragraph (A) hereof, the information for such fiscal year or for the period most recently available of the type contained in the Official Statement under the headings: Current Property Valuations; Direct Debt; Tax Levies and Collections; Population Trend and Employment/Unemployment, which information may be unaudited.

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the County shall provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the County

shall provide the audited financial statements. Any or all of the Disclosure Information may be incorporated by reference, if it is updated as required hereby, from other documents, including official statements, which have been submitted to each of the repositories hereinafter referred to under subsection (c) or the SEC. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The County shall clearly identify in the Disclosure Information each document so incorporated by reference. If any part of the Disclosure Information can no longer be generated because the operations of the County have materially changed or been discontinued, such Disclosure Information need no longer be provided if the County includes in the Disclosure Information a statement to such effect; provided, however, that if such operations have been replaced by other County operations in respect of which data is not included in the Disclosure Information and the County determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations. If the Disclosure Information is changed or this section is amended as permitted by this paragraph (b)(1) or subsection (d), then the County shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

- (2) In a timely manner, notice of the occurrence of any of the following events which is a Material Fact (as hereinafter defined):
 - (A) Principal and interest payment delinquencies;
 - (B) Non-payment related defaults;
 - (C) Unscheduled draws on debt service reserves reflecting financial difficulties;
 - (D) Unscheduled draws on credit enhancements reflecting financial difficulties;
 - (E) Substitution of credit or liquidity providers, or their failure to perform;
 - (F) Adverse tax opinions or events affecting the tax-exempt status of the security;
 - (G) Modifications to rights of security holders;
 - (H) Bond calls;
 - (I) Defeasances;
 - (J) Release, substitution, or sale of property securing repayment of the securities; and
 - (K) Rating changes.

As used herein, a Material Fact is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a Material Fact is also an event that would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

- (3) In a timely manner, notice of the occurrence of any of the following events or conditions:
 - (A) the failure of the County to provide the Disclosure Information required under paragraph (b)(1) at the time specified thereunder;
 - (B) the amendment or supplementing of this section pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the County under subsection (d)(2);
 - (C) the termination of the obligations of the County under this section pursuant to subsection (d);
 - (D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and
 - (E) any change in the fiscal year of the County.

(c) Manner of Disclosure. The County agrees to make available the information described in subsection (b) to the following entities by telecopy, overnight delivery, mail or other means, as appropriate:

- (1) the information described in paragraph (1) of subsection (b), to each then nationally-recognized municipal securities information repository under the Rule and to any state information depository then designated or operated by the State of Minnesota as contemplated by the Rule (the State Depository), if any;

- (2) the information described in paragraphs (2) and (3) of subsection (b), to the Municipal Securities Rulemaking Board and to the State Depository, if any; and
- (3) the information described in subsection (b), to any rating agency then maintaining a rating of the Bonds at the request of the County and, at the expense of such Bondowner, to any Bondowner who requests in writing such information, at the time of transmission under paragraphs (1) or (2) of this subsection (c), as the case may be, or, if such information is transmitted with a subsequent time of release, at the time such information is to be released.

(d) Term; Amendments; Interpretation.

- (1) The covenants of the County in this section shall remain in effect so long as any Bonds are Outstanding. Notwithstanding the preceding sentence, however, the obligations of the County under this section shall terminate and be without further effect as of any date on which the County delivers to the Registrar an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the County to comply with the requirements of this section will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.
- (2) This section (and the form and requirements of the Disclosure Information) may be amended or supplemented by the County from time to time, without notice to (except as provided in paragraph (c)(3) hereof) or the consent of the Owners of any Bonds, by a resolution of this Council filed in the office of the recording officer of the County accompanied by an opinion of Bond Counsel, who may rely on certificates of the County and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the County or the type of operations conducted by the County, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this section as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule.

If the Disclosure Information is so amended, the County agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

- (3) This section is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

APPENDIX D

Specimen Municipal Bond Insurance Policy

**MUNICIPAL BOND
INSURANCE POLICY****ISSUER:** []**Policy No:** []**BONDS:** []**Effective Date:** []

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

Name:
Title:

Name:
Title: