

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

KANDIYOHI COUNTY
WILLMAR, MINNESOTA

YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Year Ended December 31, 2006



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

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	13
Statement of Activities	Exhibit 2	15
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	17
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets-- Governmental Activities	Exhibit 4	21
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	24
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	25
Statement of Changes in Fiduciary Net Assets - County Cemetery Investment Trust Fund	Exhibit 8	26
Notes to the Financial Statements		27
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	67
Road and Bridge Special Revenue Fund	Schedule 2	69
Human Services Special Revenue Fund	Schedule 3	70
Sanitary Landfill/Recycling Center Special Revenue Fund	Schedule 4	71
Notes to the Required Supplementary Information		72

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Financial Section (Continued)		
Supplementary Information		
Combining and Individual Fund Financial Statements		
Nonmajor Governmental Funds		
Combining Balance Sheet	Statement 1	74
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement 2	76
Budgetary Comparison Schedules		
Capital Equipment Special Revenue Fund	Schedule 5	78
County Building Special Revenue Fund	Schedule 6	79
Green Lake Sewer Special Revenue Fund	Schedule 7	80
County Library Special Revenue Fund	Schedule 8	81
Health and Human Services Building Special Revenue Fund	Schedule 9	82
Agency Funds		
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	Statement 3	85
Other Schedules		
Tax Capacity, Tax Rates, Levies, and Percentage of Collections	Schedule 10	90
Schedule of Deposits and Investments	Schedule 11	92
Ditch Balance Sheet - Ditch Special Revenue Fund	Schedule 12	95
Schedule of Intergovernmental Revenue	Schedule 13	101
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 14	103
Other Required Reports		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		112
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		115
Schedule of Expenditures of Federal Awards	Schedule 15	118

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

ORGANIZATION
2006

Office	Name	Term of Office	
		From	To
Commissioners			
1st District	Richard Falk	January 1999	January 2007
2nd District	Richard Larson	January 1997	January 2009
3rd District	Dean Shuck*	January 2003	January 2007
4th District	Dennis Peterson	January 1993	January 2009
5th District	Harlan Madsen**	January 1995	January 2007
Officers			
Elected			
Attorney	Boyd Beccue	January 1995	January 2007
Auditor/Treasurer	Sam Modderman	January 1995	January 2007
Recorder	Julie Kalkbrenner	January 1995	January 2007
Registrar of Titles	Julie Kalkbrenner	January 1995	January 2007
Sheriff	Dan Hartog	January 2003	January 2007
Surveyor	Duane Bonnema	January 2003	January 2007
Appointed			
Administrator	Wayne Thompson		Indefinite
Assessor	Tim Falkum	January 2005	December 2008
Court Administrator	Theresa Fredrickson		Indefinite
Examiner of Titles	Dean Anderson		Indefinite
Public Works Director	Gary Danielson	May 1994	May 2007
Veterans Service Officer	Steve Peterson		Indefinite
Human Services Director	Larry Kleindl		Indefinite
Medical Examiner	Lyle Munneke		Indefinite
Community Corrections Director	Debra West		Indefinite
Chair*			
Vice Chair**			

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Kandiyohi County

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

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the

aggregate remaining fund information of Kandiyohi County as of December 31, 2006, including the Kandiyohi County HRA as of June 30, 2006, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2007, on our consideration of Kandiyohi County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It does not include the Kandiyohi County HRA, which was audited by other auditors.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

November 2, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

Kandiyohi County's Management's Discussion and Analysis (MD&A) provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the County's financial statements (beginning with Exhibit 1).

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$114,982,654 of which \$69,418,864 is invested in capital assets, net of related debt and \$4,298,956 is restricted to specific purposes.
- Kandiyohi County's net assets increased by \$11,864,102 for the year ended December 31, 2006. The net assets of the County's discretely presented component unit increased by \$207,529.
- The net cost of governmental activities was \$15,659,082 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$27,523,184.
- Governmental funds' fund balances decreased by \$6,060,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. Kandiyohi County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

There are two government-wide financial statements. The Statement of Net Assets and the Statement of Activities (Exhibits 1 and 2) provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements start with Exhibit 3. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by

providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

Government-Wide Financial Statements--The Statement of Net Assets and the Statement of Activities

Our analysis of the County as a whole begins with Exhibit 1. The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps the reader determine whether the County's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the County's net assets and changes in them. You can think of the County's net assets--the difference between assets and liabilities--as one way to measure the County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors need to be considered, however, such as changes in the County's property tax base and the condition of County roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, we divide the County into two kinds of activities:

- Governmental activities--The County's basic services are reported here, including general government, public safety, highways and streets, human services, health, environmental services, culture and recreation, and conservation of natural resources. Property taxes and state and federal grants finance most of these activities.
- Component units--The County includes one separate legal entity in its report. The Kandiyohi County Housing and Redevelopment Authority, is presented in a separate column. Although legally separate, this component unit is important because the County is financially accountable for it.

Fund Financial Statements

Our analysis of the County's major funds begins with Exhibit 3. The fund financial statements provide detailed information about the significant funds--not the County as a whole. Some funds are required to be established by state law and by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The County's two kinds of funds--governmental and fiduciary--use different accounting methods.

- **Governmental funds**--The County's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the County's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.
- **Fiduciary funds**--The County is the trustee, or fiduciary, over assets which can be used only for the trust beneficiaries based on the trust arrangement. All of the County's fiduciary activities are reported in the Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on Exhibits 7 and 8. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

The County's net assets were \$114,982,654 on December 31, 2006. (See Table A-1.)

Table A-1
Net Assets

	Governmental Activities		Percent (%) Change
	2006	2005	
Current and other assets	\$ 70,346,068	\$ 75,737,729	(7.1)
Capital assets	<u>125,758,698</u>	<u>110,173,162</u>	14.1
Total Assets	<u>\$ 196,104,766</u>	<u>\$ 185,910,891</u>	5.5
Current liabilities	\$ 6,257,622	\$ 8,123,347	(23.0)
Long-term liabilities	<u>74,864,490</u>	<u>74,668,992</u>	0.3
Total Liabilities	<u>\$ 81,122,112</u>	<u>\$ 82,792,339</u>	(2.0)
Net Assets			
Invested in capital assets, net of related debt	\$ 69,418,864	\$ 51,924,757	33.7
Restricted assets	4,298,956	1,305,635	229.3
Unrestricted	<u>41,264,834</u>	<u>49,888,160</u>	(17.3)
Total Net Assets	<u>\$ 114,982,654</u>	<u>\$ 103,118,552</u>	11.5

Changes in Net Assets

The County-wide total revenues were \$65,126,546 for the year ended December 31, 2006. Property taxes and intergovernmental revenues accounted for 69.9 percent of total revenues for the year. (See Figures A-3 and A-4.)

Table A-2
Changes in Net Assets

	Governmental Activities for Fiscal Year Ended December 31		Total Percent (%) Change
	2006	2005	
Revenues			
Program revenues			
Fees, charges, fines, and other	\$ 15,986,115	\$ 21,772,239	(26.6)
Operating grants and contributions	18,955,976	16,012,847	18.4
Capital grants and contributions	2,661,271	114,061	2,233.2
General revenues			
Property taxes	19,622,276	18,472,632	6.2
Unrestricted state aid	4,071,515	4,190,777	(2.8)
Investment earnings	2,012,412	1,327,562	51.6
Other	1,816,981	1,056,632	72.0
Total Revenues	<u>\$ 65,126,546</u>	<u>\$ 62,946,750</u>	3.5
Expenses			
General government	\$ 6,455,970	\$ 7,427,809	(13.1)
Public safety	12,803,422	12,311,228	4.0
Highways and streets	10,566,635	6,563,264	61.0
Sanitation	3,912,346	3,708,794	5.5
Human services	12,381,478	12,005,273	3.1
Health	2,150,768	2,045,211	5.2
Culture and recreation	1,075,522	994,846	8.1
Conservation of natural resources	1,217,321	714,906	70.3
Economic development	26,124	5,180,502	(99.5)
Interest and fiscal charges on long-term liabilities	2,672,858	2,404,292	11.2
Total Expenses	<u>\$ 53,262,444</u>	<u>\$ 53,356,125</u>	(0.2)
Increase in Net Assets	\$ 11,864,102	\$ 9,590,625	23.7
Beginning Net Assets	<u>103,118,552</u>	<u>93,527,927</u>	10.3
Ending Net Assets	<u>\$ 114,982,654</u>	<u>\$ 103,118,552</u>	11.5

Figure A-3
Sources of County Revenues for Fiscal Year 2006

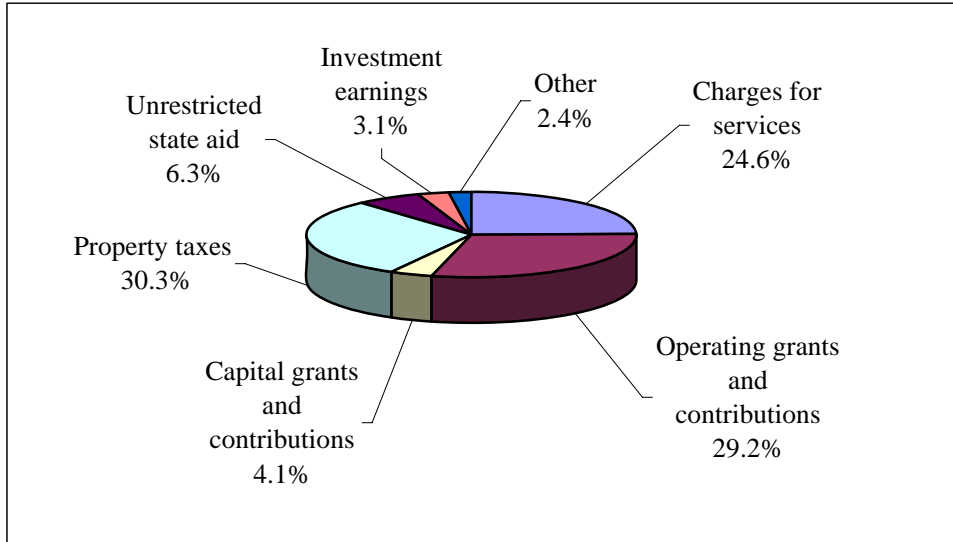
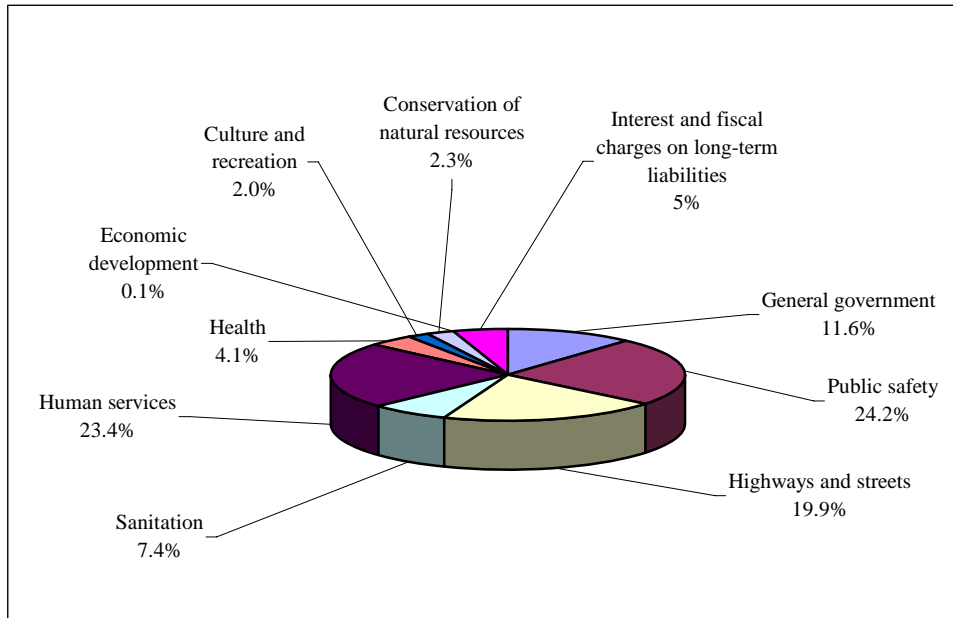


Figure A-4
Sources of County Expenses During Fiscal Year 2006



Total revenues surpassed expenses, increasing net assets \$11,864,102 over last year.

The County-wide cost of all governmental activities this year was \$53,262,444.

- Some of the cost was paid by the users of the County’s programs (\$15,986,115).
- The federal and state governments subsidized certain programs with grants and contributions (\$21,617,247).
- Some of the County’s costs (\$15,659,082), however, were paid for by County taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$19,622,276 in property taxes, \$4,071,515 of state aid, and investment earnings and other general revenues.

Table A-5 presents the cost of each of the County’s program functions, as well as each function’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions.

**Table A-5
Governmental Activities**

	Total Cost of Services		Percent (%) Change	Net Cost of Services		Percent (%) Change
	2006	2005		2006	2005	
General government	\$ 6,455,970	\$ 7,427,809	(13.1)	\$ 3,590,808	\$ 5,128,190	(30.0)
Public safety	12,803,422	12,311,228	4.0	7,963,768	7,478,453	6.5
Highways and streets	10,566,635	6,563,264	61.0	(1,320,262)	(4,580,761)	71.2
Sanitation	3,912,346	3,708,794	5.5	(3,578,163)	(2,123,428)	(68.5)
Human services	12,381,478	12,005,273	3.1	5,137,836	5,772,941	(11.0)
Health	2,150,768	2,045,211	5.2	192,550	573,862	(66.4)
Culture and recreation	1,075,522	994,846	8.1	445,044	605,920	(26.6)
Conservation of natural resources	1,217,321	714,906	70.3	822,999	313,303	162.7
Economic development	26,124	5,180,502	(99.5)	(268,356)	(115,794)	(131.8)
Interest and fiscal charges on long-term liabilities	2,672,858	2,404,292	11.2	2,672,858	2,404,292	11.2
Total	\$ 53,262,444	\$ 53,356,125		\$ 15,659,082	\$ 15,456,978	

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$46,208,780.

Revenues for the County’s governmental funds were \$62,589,522, while total expenditures were \$72,822,446. During 2006, the County also issued loans which are included in other financing sources and uses.

GENERAL FUND

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

Table A-6 presents a summary of General Fund revenues.

**Table A-6
General Fund Revenues**

	Year Ended December 31		Change	
	2006	2005	Increase (Decrease)	Percent (%)
	Taxes	\$ 8,946,727	\$ 8,484,100	\$ 462,627
Intergovernmental	5,289,838	4,679,153	610,685	13.1
Charges for services	5,642,890	5,012,641	630,249	12.6
Investment earnings	1,132,917	609,860	523,057	85.8
Miscellaneous and other	1,246,994	1,335,571	(88,577)	(6.6)
Total General Fund Revenue	\$ 22,259,366	\$ 20,121,325	\$ 2,138,041	10.6

Table A-7 presents a summary of General Fund expenditures.

**Table A-7
General Fund Expenditures**

	Year Ended December 31		Change	
	2006	2005	Increase (Decrease)	Percent (%)
	General government	\$ 6,073,292	\$ 5,337,962	\$ 735,330
Public safety	12,219,978	11,557,583	662,395	5.7
Health	2,122,084	2,051,421	70,663	3.4
Culture and recreation	425,361	362,236	63,125	17.4
Conservation of natural resources	560,621	530,625	29,996	5.7
Economic development	26,124	15,210	10,914	71.8
Insurance	824,878	470,783	354,095	75.2
Debt service	48,372	34,641	13,731	39.6
Total General Fund Expenditures	\$ 22,300,710	\$ 20,360,461	\$ 1,940,249	9.5

General Fund Budgetary Highlights

- Actual revenues were \$2,495,166 more than expected.
- Actual expenditures were \$426,310 more than budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006, the County had invested over \$151,858,000 in a broad range of capital assets, including land, landfill, buildings, computers, equipment, and infrastructure. (See Table A-8.) (More detailed information about capital assets can be found in Note 3.A.3. to the financial statements.) Total depreciation expense for the year was \$2,960,439.

Table A-8
Capital Assets

	2006	2005	Percent (%) Change
Land	\$ 4,591,330	\$ 4,262,673	7.7
Landfill	3,217,047	3,217,047	-
Infrastructure	74,834,393	70,599,040	6.0
Buildings	36,082,695	33,608,511	7.4
Machinery, vehicles, furniture, and equipment	10,562,197	9,753,677	8.3
Construction in progress	22,570,361	12,513,224	80.4
Less: accumulated depreciation	<u>(26,099,325)</u>	<u>(23,781,010)</u>	9.7
Total Capital Assets	<u>\$ 125,758,698</u>	<u>\$ 110,173,162</u>	14.1

Debt

At year-end, the County had outstanding debt of \$71,718,576 versus \$71,654,921 last year, an increase of 0.1 percent as shown in Table A-9.

Table A-9
Outstanding Debt

	2006	2005	Percent (%) Change
Installment purchase obligation	\$ 6,055,000	\$ 6,530,000	(7.3)
General obligation bonds	35,050,000	36,220,000	(3.2)
Special assessment bonds	7,065,000	7,805,000	(9.5)
General obligation capital notes	-	765,000	(100.0)
Deferred (discount) premiums	(39,636)	(38,090)	(4.1)
Loans payable	19,742,983	16,423,903	20.2
Paving assessments	6,198	8,104	(23.5)
Estimated liability for landfill for landfill closure/postclosure	<u>3,839,031</u>	<u>3,941,004</u>	(2.6)
Total Long-Term Liabilities	<u>\$ 71,718,576</u>	<u>\$ 71,654,921</u>	0.1

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the County Administrator, Larry Kleindl, Health and Human Services Building, 2200 - 23rd Street N.E., Willmar, Minnesota 56201.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 1

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

	Primary Government Governmental Activities	Component Unit Kandiyohi County Housing and Redevelopment Authority
<u>Assets</u>		
Cash and pooled investments	\$ 41,070,211	\$ 435,081
Accrued interest receivable	344,270	-
Accounts receivable - net	272,958	30,072
Taxes receivable		
Prior - net	365,633	60,542
Special assessments receivable - prior	78,076	-
Due from other governments	3,829,111	-
Inventories	289,896	-
Loans receivable	5,773,360	-
Note receivable current	-	7,704
Note receivable non-current	-	91,776
Deferred charges	97,595	12,209
Restricted assets		
Cash and pooled investments	-	35,159
Cash with escrow agent	7,158,661	-
Special assessments receivable - noncurrent	11,066,297	-
Capital assets		
Non-depreciable	27,161,691	82,359
Depreciable - net of accumulated depreciation	98,597,007	1,139,207
	\$ 196,104,766	\$ 1,894,109
<u>Liabilities</u>		
Accounts payable	\$ 1,327,712	\$ 7,028
Salaries payable	709,282	-
Accrued payroll taxes	-	40,597
Contracts payable	1,311,754	-
Retainage payable	380,667	-
Due to other governments	830,704	14,218
Accrued interest payable	915,022	-
Unearned revenue	782,481	58,411
Accounts payable from restricted assets	-	13,730
Long-term liabilities		
Due within one year	3,828,008	31,226
Due in more than one year	71,036,482	1,372,723
	\$ 81,122,112	\$ 1,537,933

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

***EXHIBIT 1
(Continued)***

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

	Primary Government Governmental Activities	Component Unit Kandiyohi County Housing and Redevelopment Authority
<u>Net Assets</u>		
Invested in capital assets - net of related debt	\$ 69,418,864	\$ (182,383)
Restricted for		
General government	188,514	-
Public safety	316,982	-
Debt service	3,793,460	-
Unrestricted	41,264,834	538,559
Total Net Assets	\$ 114,982,654	\$ 356,176

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	Expenses	Fees, Charges, Fines, and Other
<u>Functions/Programs</u>		
Primary government		
Governmental activities		
General government	\$ 6,455,970	\$ 2,017,299
Public safety	12,803,422	3,691,330
Highways and streets	10,566,635	694,408
Sanitation	3,912,346	7,490,509
Human services	12,381,478	429,555
Health	2,150,768	680,558
Culture and recreation	1,075,522	387,302
Conservation of natural resources	1,217,321	300,674
Economic development	26,124	294,480
Interest and fiscal charges	2,672,858	-
Total primary government	\$ 53,262,444	\$ 15,986,115
Component unit		
Kandiyohi County Housing and Redevelopment Authority	\$ 1,459,940	\$ 450,408

General Revenues

Property taxes, levied for general purposes
Property taxes, levied for debt service
Grants and contributions not restricted to specific programs
Payments in lieu of tax
Investment income
Miscellaneous

Total general revenues

Change in net assets

Net Assets - January 1

Net Assets - December 31

EXHIBIT 2

Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Discretely Presented Component Unit
\$ 498,357	\$ 349,506	\$ (3,590,808)	
1,134,154	14,170	(7,963,768)	
8,894,894	2,297,595	1,320,262	
-	-	3,578,163	
6,814,087	-	(5,137,836)	
1,277,660	-	(192,550)	
243,176	-	(445,044)	
93,648	-	(822,999)	
-	-	268,356	
-	-	(2,672,858)	
\$ 18,955,976	\$ 2,661,271	\$ (15,659,082)	
\$ 1,211,001	\$ -		\$ 201,469
		\$ 18,370,956	\$ -
		1,251,320	-
		4,071,515	-
		349,957	-
		2,012,412	6,060
		1,467,024	-
		\$ 27,523,184	\$ 6,060
		\$ 11,864,102	\$ 207,529
		103,118,552	148,647
		\$ 114,982,654	\$ 356,176

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	General	Road and Bridge	Human Services
<u>Assets</u>			
Cash and pooled investments	\$ 8,318,608	\$ 4,029,225	\$ 6,378,752
Cash with escrow agent	-	-	-
Taxes receivable			
Prior	167,785	48,907	89,110
Special assessments receivable			
Prior	3,624	377	-
Noncurrent	514,107	18,702	-
Accounts receivable	25,362	500	80,894
Accrued interest receivable	102,497	29,527	-
Loans receivable	182,584	-	-
Due from other funds	456,765	35,532	2,611
Due from other governments	611,916	1,890,594	1,047,518
Inventories	-	289,896	-
	\$ 10,383,248	\$ 6,343,260	\$ 7,598,885

EXHIBIT 3

<u>Sanitary Landfill/ Recycling Center</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Total</u>
\$ 10,615,316	\$ 2,495,124	\$ -	\$ 9,423,327	\$ 41,260,352
-	7,158,661	-	-	7,158,661
-	24,224	-	41,175	371,201
33,407	34,656	-	7,201	79,265
-	9,634,212	538,215	529,583	11,234,819
154,232	-	2,500	9,470	272,958
125,474	-	-	86,772	344,270
-	5,590,776	-	-	5,773,360
-	163,476	-	14,830	673,214
1,627	85,862	-	191,594	3,829,111
-	-	-	-	289,896
<u>\$ 10,930,056</u>	<u>\$ 25,186,991</u>	<u>\$ 540,715</u>	<u>\$ 10,303,952</u>	<u>\$ 71,287,107</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	General	Road and Bridge	Human Services
<u>Liabilities and Fund Balances</u>			
Liabilities			
Cash overdraft	\$ -	\$ -	\$ -
Accounts payable	385,739	166,219	330,432
Salaries payable	441,997	77,098	152,165
Contracts payable	-	518,870	-
Retainage payable	-	210,986	-
Due to other funds	188,768	29,878	40,104
Due to other governments	182,062	21,277	149,740
Deferred revenue - unavailable	634,624	1,843,384	62,611
Deferred revenue - unearned	736,584	-	-
	\$ 2,569,774	\$ 2,867,712	\$ 735,052
Fund Balances			
Reserved for			
Encumbrances	\$ -	\$ 814,361	\$ -
Inventories	-	289,896	-
Loans receivable	182,584	-	-
Recorder's equipment purchases	178,214	-	-
Sheriff's contingency	73,188	-	-
Debt service	21,643	1,513,019	-
Enhanced 911	243,794	-	-
Election equipment grant	10,300	-	-
Unreserved			
Designated for debt service	-	-	-
Designated for petty cash funds	1,640	-	-
Undesignated	7,102,111	858,272	6,863,833
Unreserved, reported in nonmajor Special revenue funds	-	-	-
	\$ 7,813,474	\$ 3,475,548	\$ 6,863,833
Total Liabilities and Fund Balances	\$ 10,383,248	\$ 6,343,260	\$ 7,598,885

EXHIBIT 3
(Continued)

Sanitary Landfill/ Recycling Center	Debt Service	Capital Projects	Nonmajor Funds	Total
\$ -	\$ -	\$ 190,141	\$ -	\$ 190,141
124,318	-	46,418	274,586	1,327,712
13,332	-	-	24,690	709,282
271,490	-	473,201	48,193	1,311,754
24,737	-	144,944	-	380,667
5	397,043	-	17,416	673,214
13,755	101,800	-	362,070	830,704
25,213	15,270,689	538,215	497,636	18,872,372
45,897	-	-	-	782,481
\$ 518,747	\$ 15,769,532	\$ 1,392,919	\$ 1,224,591	\$ 25,078,327
\$ -	\$ -	\$ 1,545,753	\$ 211,234	\$ 2,571,348
-	-	-	-	289,896
-	-	-	-	182,584
-	-	-	-	178,214
-	-	-	-	73,188
-	7,728,953	-	-	9,263,615
-	-	-	-	243,794
-	-	-	-	10,300
-	1,688,506	-	-	1,688,506
-	-	-	-	1,640
10,411,309	-	(2,397,957)	-	22,837,568
-	-	-	8,868,127	8,868,127
\$ 10,411,309	\$ 9,417,459	\$ (852,204)	\$ 9,079,361	\$ 46,208,780
\$ 10,930,056	\$ 25,186,991	\$ 540,715	\$ 10,303,952	\$ 71,287,107

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)		\$ 46,208,780
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.		125,758,698
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.		
Revenue deferred as unavailable	\$ 18,872,372	
Allowance for uncollectible receivables included in deferred revenue	<u>(175,279)</u>	18,697,093
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Installment purchase obligations	\$ (6,055,000)	
General obligation bonds	(35,050,000)	
Discount and premium	39,636	
Deferred debt issuance costs	97,595	
Special assessment bonds	(7,065,000)	
Paving special assessments	(6,198)	
Loans payable	(19,742,983)	
Landfill closure/postclosure liability	(3,839,031)	
Compensated absences	(3,145,914)	
Accrued interest payable	<u>(915,022)</u>	<u>(75,681,917)</u>
Net Assets of Governmental Activities (Exhibit 1)		<u>\$ 114,982,654</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	General	Road and Bridge	Human Services
Revenues			
Taxes	\$ 8,946,727	\$ 2,656,115	\$ 4,651,892
Special assessments	82,215	9,320	-
Licenses and permits	471,330	-	-
Intergovernmental	5,289,838	10,556,845	8,217,301
Charges for services	5,642,890	560,818	429,555
Fines and forfeits	-	-	-
Gifts and contributions	5,966	-	-
Investment earnings	1,132,917	149,570	-
Miscellaneous	687,483	-	-
Total Revenues	\$ 22,259,366	\$ 13,932,668	\$ 13,298,748
Expenditures			
Current			
General government	\$ 6,073,292	\$ -	\$ -
Public safety	12,219,978	-	-
Highways and streets	-	19,252,624	-
Sanitation	-	-	-
Human services	-	-	12,309,697
Health	2,122,084	-	-
Culture and recreation	425,361	-	-
Conservation of natural resources	560,621	-	-
Economic development	26,124	-	-
Insurance	824,878	-	-
Intergovernmental			
Highways and streets	-	256,191	-
Sanitation	-	-	-
Culture and recreation	-	-	-
Capital outlay	-	-	-
Debt service			
Principal	36,068	205,000	-
Interest	12,304	184,709	-
Administrative (fiscal) charges	-	-	-
Total Expenditures	\$ 22,300,710	\$ 19,898,524	\$ 12,309,697
Excess of Revenues Over (Under) Expenditures	\$ (41,344)	\$ (5,965,856)	\$ 989,051
Other Financing Sources (Uses)			
Transfers in	\$ 2,426,035	\$ -	\$ -
Transfers out	-	-	-
Loans issued	177,573	-	-
Total Other Financing Sources (Uses)	\$ 2,603,608	\$ -	\$ -
Net Changes in Fund Balances	\$ 2,562,264	\$ (5,965,856)	\$ 989,051
Fund Balances - January 1	5,251,210	9,500,628	5,874,782
Increase (decrease) in reserved for inventories	-	(59,224)	-
Fund Balances - December 31	\$ 7,813,474	\$ 3,475,548	\$ 6,863,833

EXHIBIT 5

Sanitary Landfill/ Recycling Center	Debt Service	Capital Projects	Nonmajor Funds	Total
\$ -	\$ 1,253,502	\$ -	\$ 2,135,802	\$ 19,644,038
870,063	963,412	-	426,360	2,351,370
820	-	-	-	472,150
92,797	270,635	-	531,159	24,958,575
2,662,540	839,059	-	728,074	10,862,936
-	-	-	8,457	8,457
-	-	-	150	6,116
433,615	33,728	-	262,582	2,012,412
2,531	235,592	175,000	1,172,862	2,273,468
\$ 4,062,366	\$ 3,595,928	\$ 175,000	\$ 5,265,446	\$ 62,589,522
\$ -	\$ -	\$ -	\$ 2,040,331	\$ 8,113,623
-	-	-	243,896	12,463,874
-	-	-	318,644	19,571,268
2,525,254	-	-	880,456	3,405,710
-	-	-	-	12,309,697
-	-	-	20,499	2,142,583
-	-	-	367,608	792,969
-	-	-	533,047	1,093,668
-	-	-	-	26,124
-	-	-	-	824,878
-	-	-	-	256,191
-	101,800	-	-	101,800
-	-	-	277,223	277,223
-	-	4,706,420	-	4,706,420
755,000	3,067,000	-	1,906	4,064,974
87,332	2,379,560	-	545	2,664,450
862	6,132	-	-	6,994
\$ 3,368,448	\$ 5,554,492	\$ 4,706,420	\$ 4,684,155	\$ 72,822,446
\$ 693,918	\$ (1,958,564)	\$ (4,531,420)	\$ 581,291	\$ (10,232,924)
\$ -	\$ 1,551,353	\$ -	\$ 1,500,000	\$ 5,477,388
(3,426,035)	-	-	(2,051,353)	(5,477,388)
-	-	3,184,575	870,000	4,232,148
\$ (3,426,035)	\$ 1,551,353	\$ 3,184,575	\$ 318,647	\$ 4,232,148
\$ (2,732,117)	\$ (407,211)	\$ (1,346,845)	\$ 899,938	\$ (6,000,776)
13,143,426	9,824,670	494,641	8,179,423	52,268,780
-	-	-	-	(59,224)
\$ 10,411,309	\$ 9,417,459	\$ (852,204)	\$ 9,079,361	\$ 46,208,780

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ (6,000,776)

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

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

Deferred revenue - December 31	\$ 18,872,372	
Less allowance for uncollectible receivables	(175,279)	
Deferred revenue - January 1	(16,318,689)	
Less allowance for uncollectible receivables	158,620	2,537,024

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

Expenditures for general capital assets and infrastructure	\$ 18,808,557	
Net book value of assets disposed of	(262,582)	
Current year depreciation	(2,960,439)	15,585,536

Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Loans issued		(4,232,148)
Principal repayments		
Installment purchase obligations	\$ 475,000	
General obligation bonds	1,170,000	
Special assessment bonds	740,000	
General obligation capital notes	765,000	
Paving special assessments	1,906	
Loans payable	913,068	4,064,974

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	\$ 4,511	
Current year amortization of premium on bonds issued	7,520	
Current year amortization of discount on bonds issued	(5,974)	
Current year amortization of deferred debt issuance costs	(7,471)	
Change in compensated absences	(131,843)	
Change in inventories	(59,224)	
Change in landfill closure/postclosure liability	101,973	(90,508)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 11,864,102

FIDUCIARY FUNDS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 7

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

	County Cemetery Investment Trust	Agency
<u>Assets</u>		
Cash and pooled investments	\$ 29,191	\$ 1,139,223
Receivables		
Taxes - delinquent	-	965
Accrued interest	10	2,689
Due from other governments	300	98,133
Total Assets	\$ 29,501	\$ 1,241,010
<u>Liabilities</u>		
Accounts payable	\$ -	\$ 2,409
Due to other governments	-	1,238,601
Total Liabilities	\$ -	\$ 1,241,010
<u>Net Assets</u>		
Net assets, held in trust for perpetual care - expendable	\$ 29,501	

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

EXHIBIT 8

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
COUNTY CEMETERY INVESTMENT TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Additions</u>	
Investment earnings	
Interest	\$ 998
Miscellaneous	300
	<hr/>
Total Additions	\$ 1,298
<u>Deductions</u>	
Payments in accordance with trust agreements	704
	<hr/>
Change in net assets	\$ 594
Net Assets - January 1	28,907
	<hr/>
Net Assets - December 31	\$ 29,501
	<hr/> <hr/>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Kandiyohi County was established March 20, 1858, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. Kandiyohi County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year. The County Auditor/Treasurer, elected on a County-wide basis, serves as a clerk of the Board but does not vote in its decisions.

For financial reporting purposes, Kandiyohi County has included all funds, organizations, agencies, boards, commissions, and authorities, and has considered all potential component units for which the County is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the County to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the County.

As required by accounting principles generally accepted in the United States of America, these financial statements present Kandiyohi County (primary government) and its component units for which the County is financially accountable.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Blended Component Unit

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

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The Kandiyohi County Building Authority provides space for the County's offices.	County Commissioners are the members of the Kandiyohi County Building Authority Board.	Separate financial statements are not prepared.

Discretely Presented Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. Kandiyohi County has one discretely presented component unit.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements</u>
The Kandiyohi County Housing and Redevelopment Authority (HRA) administers the public housing programs authorized by the United States Housing Act of 1937, as amended. The HRA also provides assistance grants to eligible families of the Section 8 programs.	The County appoints a voting majority of the HRA's Board of Directors and approves the HRA's budget.	Kandiyohi County HRA Kandiyohi County Health and Human Services Building 2200 - 23rd St. N.E., Suite 2090 Willmar, Minnesota 56201

Joint Ventures

The County participates in four joint ventures described in Note 5.D. The County also participates in the jointly-governed organizations described in Note 5.E.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

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. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported in a single column.

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

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

2. Fund Financial Statements

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The County reports the following major governmental funds:

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

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

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

The Sanitary Landfill/Recycling Center Special Revenue Fund is used to account for the County's landfill operations and for funds used in the connection and operation of the County Recycling Center. Financing for the sanitary landfill is provided by special assessments, user charges, and the sale of solid waste bonds. Financing for the construction of the County Recycling Center is provided by the sale of solid waste bonds and a grant from the State of Minnesota under the capital assistance program.

The Debt Service Fund is used to account for financial resources to be used to account for the payment of principal, interest, and related costs of the County's debt obligations.

The Capital Projects Fund is used to account for financial resources to be used for the construction of major capital facilities of the County.

Additionally, the County reports the following fund types:

Fiduciary Funds

The County Cemetery Investment Trust Fund is used to account for the collection and distribution of funds to the County Cemetery Association.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements

Fiduciary Funds (Continued)

The 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. Kandiyohi 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.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2006, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2006 were \$579,191.

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

2. Receivables and Payables

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

All receivables in the government-wide statements, including those of the discretely presented component unit, are shown net of an allowance for uncollectibles.

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when purchased rather than when consumed.

4. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of 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, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The purchase of computer software and most communications equipment are not capitalized due to their estimated lives of less than five years. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1 Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Landfill	50
Public domain infrastructure	50 - 75
Furniture, equipment, and vehicles	5 - 20

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 and 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 in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Long-Term Obligations (Continued)

the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

9. Fund Equity

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

10. Use of Estimates

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Twenty-five of 109 drainage systems of the Ditch Special Revenue Fund have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the unreserved, undesignated fund balance as of December 31, 2006:

Account balances	\$	641,676
Account deficits		(383,730)
Fund Balance	\$	257,946

The Capital Projects Fund had a deficit fund balance of \$852,204 at December 31, 2006. The deficit is expected to be eliminated through bond proceeds from the Minnesota Public Financing Authority.

B. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2006:

	Expenditures	Final Budget	Excess
General Fund	\$ 22,300,710	\$ 21,874,400	\$ 426,310
Special Revenue Funds			
Road and Bridge	19,898,524	15,133,000	4,765,524
Sanitary Landfill/Recycling Center	3,368,448	2,980,100	388,348
Capital Equipment	710,811	-	710,811
County Library	440,200	438,400	1,800
Health and Human Services Building	477,248	452,350	24,898

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Government-wide statement of net assets	
Governmental activities	
Cash and pooled investments	\$ 41,070,211
Cash with escrow agent	7,158,661
Statement of fiduciary net assets	
Cash and pooled investments	<u>1,168,414</u>
Total Cash and Investments	<u>\$ 49,397,286</u>

a. Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. The County's deposits in banks at December 31, 2006, were entirely covered by federal depository insurance and collateral in accordance with Minnesota statutes.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as 'high risk' by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (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.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County 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.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Percent (%) of Portfolio	Maturity Date	
U.S. Government Securities/Bonds					
U.S. Treasury Bonds	N/A	N/A		5/15/2007	\$ 123,038
U.S. Treasury Bonds	N/A	N/A		11/15/2007	6,366,290
Total U.S. Treasury Bonds			17.8%		\$ 6,489,328
Mutual Funds	N/R	N/A	<5%		\$ 669,333
Federal Home Loan Bank	Aaa	Moody		6/18/2008	\$ 1,000,310
Federal Home Loan Bank	Aaa	Moody		9/07/2007	997,500
Federal Home Loan Bank	Aaa	Moody		9/24/2008	1,498,590
Federal Home Loan Bank	Aaa	Moody		5/25/2018	1,905,620
Federal Home Loan Bank	Aaa	Moody		5/25/2012	1,000,630
Federal Home Loan Bank	Aaa	Moody		3/01/2013	1,490,625
Federal Home Loan Bank	Aaa	Moody		9/15/2016	1,990,000
Federal Home Loan Bank	Aaa	Moody		12/27/2017	1,984,380
Federal Home Loan Bank	Aaa	Moody		5/22/2013	237,192
Federal Home Loan Bank Multi-Coupon	Aaa	Moody		8/07/2008	99,000
Federal Home Loan Bank	AAA	S & P		1/16/2007	1,700,000
Federal Home Loan Bank	Aaa	Moody		2/02/2007	199,626
Federal Home Loan Bank	Aaa	Moody		7/27/2007	696,941
Federal Home Loan Bank	Aaa	Moody		12/26/2008	387,376
Federal Home Loan Bank	Aaa	Moody		2/13/2009	97,688
Federal Home Loan Bank Multi-Coupon	Aaa	Moody		12/12/2008	198,189
Federal Home Loan Bank Multi-Coupon	Aaa	Moody		6/05/2009	495,470
Federal Home Loan Bank Multi-Coupon	Aaa	Moody		6/30/2009	147,750
Federal Home Loan Bank	Aaa	Moody		10/27/2009	200,062
Federal Home Loan Bank	Aaa	Moody		11/21/2016	298,314
Total Federal Home Loan Bank			45.6%		\$ 16,625,263
Federal National Mortgage Association	Aaa	Moody		9/18/2009	\$ 1,500,945
Federal National Mortgage Association	Aaa	Moody		5/4/2009	1,572,000
Federal National Mortgage Association	Aaa	Moody		4/20/2009	490,315
Federal National Mortgage Association	Aaa	Moody		6/02/2009	182,758
Federal National Mortgage Association	Aaa	Moody		1/19/2010	98,031
Federal National Mortgage Association	N/A	N/A		10/01/2028	12,920
Federal National Mortgage Association	N/A	N/A		12/1/2031	15,813
Total Federal National Mortgage Association			10.6%		\$ 3,872,782

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Percent (%) of Portfolio	Maturity Date	
Federal Home Loan Mortgage Corporation	Aaa	Moody		2/28/2011	\$ 1,494,975
Federal Home Loan Mortgage Corporation	Aaa	Moody		10/23/2008	488,420
Federal Home Loan Mortgage Corporation	Aaa	Moody		9/13/2021	247,845
Federal Home Loan Mortgage Corporation	Aaa	Moody		5/23/2012	98,309
Total Federal Home Loan Mortgage Corporation			6.4%		\$ 2,329,549
Total U.S. Government Securities/Bonds					\$ 29,986,255
Investment pools					
MAGIC Fund	N/A	N/A	N/A	N/A	\$ 5,623,155
Repurchase agreement	N/A	N/A	N/A	N/A	\$ 820,977
Total Investments					\$ 36,430,387
Checking					2,379,764
Savings					5,314,246
Money market					1,657,063
Certificates of deposit					3,551,273
Departmental cash					62,038
Petty cash					2,515
Total Cash and Investments					\$ 49,397,286

N/A - Not Applicable

N/R - Not Rated

<5% - Concentration is less than 5% of investments

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2006, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Funds		
Receivables		
Taxes	\$ 371,201	\$ -
Special assessments	11,314,084	10,301,243
Accounts	272,958	-
Accrued interest	344,270	-
Loans	5,773,360	5,176,664
Due from other governments	3,829,111	-
Total gross receivables	\$ 21,904,984	\$ 15,477,907
Less: allowance for uncollectibles	(175,279)	
Total Net Receivables	\$ 21,729,705	

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 4,262,673	\$ 328,657	\$ -	\$ 4,591,330
Construction in progress	12,513,224	14,292,641	4,235,504	22,570,361
Total capital assets not depreciated	\$ 16,775,897	\$ 14,621,298	\$ 4,235,504	\$ 27,161,691
Capital assets depreciated				
Landfill	\$ 3,217,047	\$ -	\$ -	\$ 3,217,047
Buildings	33,608,511	2,681,158	206,974	36,082,695
Machinery, vehicles, furniture, and equipment	9,753,677	1,506,252	697,732	10,562,197
Infrastructure	70,599,040	4,235,353	-	74,834,393
Total capital assets depreciated	\$ 117,178,275	\$ 8,422,763	\$ 904,706	\$ 124,696,332

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less: accumulated depreciation for				
Landfill	\$ 633,581	\$ 64,341	\$ -	\$ 697,922
Buildings	6,137,107	682,476	133,420	6,686,163
Machinery, vehicles, furniture, and equipment	6,012,223	727,804	508,704	6,231,323
Infrastructure	<u>10,998,099</u>	<u>1,485,818</u>	<u>-</u>	<u>12,483,917</u>
Total accumulated depreciation	<u>\$ 23,781,010</u>	<u>\$ 2,960,439</u>	<u>\$ 642,124</u>	<u>\$ 26,099,325</u>
Total capital assets depreciated, net	<u>\$ 93,397,265</u>	<u>\$ 5,462,324</u>	<u>\$ 262,582</u>	<u>\$ 98,597,007</u>
Governmental Activities Capital Assets, Net	<u>\$ 110,173,162</u>	<u>\$ 20,083,622</u>	<u>\$ 4,498,086</u>	<u>\$ 125,758,698</u>

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

Governmental Activities	
General government	\$ 364,919
Public safety	508,592
Highways and streets, including depreciation of infrastructure assets	1,250,984
Sanitation	666,367
Human services	15,535
Health	8,185
Culture and recreation	17,113
Conservation of natural resources	<u>128,744</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,960,439</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	
General	Road and Bridge	\$ 16,751	Charges for services rendered and supplies provided
	Human Services	40,104	Charges for services rendered and supplies provided
	Sanitary Landfill/ Recycling Center	5	Charges for services rendered
	Debt Service	397,043	Reclassification of prior year advance
	Other governmental	<u>2,862</u>	Charges for services rendered and supplies provided
Total due to General Fund		<u>\$ 456,765</u>	
Road and Bridge	General	\$ 20,681	Charges for services rendered
	Road and Bridge	3,647	Charges for services rendered
	Other governmental	<u>11,204</u>	Charges for services rendered
Total due to Road and Bridge Fund		<u>\$ 35,532</u>	
Human Services	General	<u>\$ 2,611</u>	Miscoding of revenue
Debt Service	General	<u>\$ 163,476</u>	Miscoding of interest revenue
Other governmental	General	\$ 2,000	Miscoding of contribution revenue
	Road and Bridge	9,480	Charges for services rendered and supplies provided and ditch special assessments
	Other governmental	2,200	Miscoding of rental revenue
	Other governmental	<u>1,150</u>	Charges for services rendered
Total due to other governmental funds		<u>\$ 14,830</u>	
Total Due To/From Other Funds		<u>\$ 673,214</u>	

The above interfund balances are expected to be paid within a year.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

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

2. Interfund Transfers

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

Transfer to General Fund from Sanitary Landfill/Recycling Center	\$ 2,426,035	Provide funds for operations
Transfers to Debt Service Fund from Other nonmajor governmental funds	\$ 1,551,353	Provide funds for debt service
Transfers to nonmajor governmental funds from Sanitary Landfill/Recycling Center	\$ 1,000,000	Provide funds for operations
Other nonmajor governmental funds	500,000	Provide funds for operations
Total transfers to nonmajor governmental funds	\$ 1,500,000	
Total Interfund Transfers	\$ 5,477,388	

C. Liabilities

1. Payables

Payables at December 31, 2006, were as follows:

	Governmental Funds	Fiduciary Funds
Accounts	\$ 1,327,712	\$ 2,409
Salaries	709,282	-
Contracts	1,311,754	-
Due to other governments	830,704	1,238,601
Contracts retainage	380,667	-
Total Payables	\$ 4,560,119	\$ 1,241,010

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Other Postemployment Benefits - Retirees

The County provides postemployment health care benefits for certain retirees. The County contributes one year of single coverage paid health insurance for every three years of service, not to exceed \$409.50 per month per participant, until age 65. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

As of year-end, the County had 27 eligible participants. The County finances the plan on a pay-as-you-go basis. During 2006, the County expended \$105,168 for these benefits.

3. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Interest Rate (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2006</u>
Installment Purchase Obligation 1998 Refunding Certificates of Participation	2016	\$455,000 - \$735,000	4.20 - 4.80	<u>\$ 6,985,000</u>	<u>\$ 6,055,000</u>
General Obligation Bonds					
1998 G.O. Law Enforcement Facility Bonds	2020	\$95,000 - \$230,000	4.40 - 4.90	\$ 3,015,000	\$ 2,370,000
1999 G.O. Law Enforcement Facility Bonds	2020	\$210,000 - \$485,000	4.25 - 4.60	6,500,000	5,105,000
1999 G.O. State-Aid Highway Bonds	2014	\$125,000 - \$290,000	4.10 - 4.13	3,250,000	2,010,000
2000 G.O. Law Enforcement Facility Bonds	2021	\$245,000 - \$1,370,000	5.00 - 5.80	8,820,000	7,465,000
2000 G.O. Solid Waste Refunding Bonds	2011	\$225,000 - \$290,000	4.30 - 4.70	2,560,000	1,220,000
2004 Taxable G.O. Tax Abatement Bonds	2022	\$270,000 - \$540,000	3.125 - 5.30	6,135,000	6,135,000
2004 G.O. Law Enforcement Facility Refunding Bonds	2021	\$385,000 - \$1,340,000	3.375 - 4.15	7,045,000	7,045,000
2005 G.O. Road Reconstruction Bonds	2027	\$125,000 - \$270,000	3.75 - 4.25	<u>3,700,000</u>	<u>3,700,000</u>
Total General Obligation Bonds				<u>\$ 41,025,000</u>	<u>\$ 35,050,000</u>

**KANDIYOHI COUNTY
WILLMAR, 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, 2006
Special Assessment Bonds with Government Commitment					
2001A G.O. Solid Waste Revenue Bonds	2007	\$380,000 - \$480,000	3.50	\$ 2,200,000	\$ 480,000
2001B G.O. Sewer and Water Revenue Bonds	2022	\$30,000 - \$495,000	2.65 - 4.85	6,000,000	5,670,000
2002A Green Lake Sewer and Water Revenue Bonds	2023	\$15,000 - \$80,000	3.50 - 4.85	1,000,000	915,000
Total Special Assessment Bonds with Government Commitment				<u>\$ 9,200,000</u>	<u>\$ 7,065,000</u>

Loans Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2000 Public Facilities Authority Clean Water G. O. Revenue Note	2020	\$5,119 - \$460,119	2.25	\$ 7,188,360	\$ 5,533,000
2001 Public Facilities Authority Clean Water G. O. Revenue Note	2021	\$2,565 - \$230,565	2.25	3,648,450	2,936,000
2002 Public Facilities Authority Clean Water G. O. Revenue Note	2021	\$428 - \$40,428	2.14	651,000	523,000
2006A Public Facilities Authority Clean Water G.O. Revenue Note	2026	\$1,080 - \$217,080	1.00	2,519,575	2,519,575
1999 Public Facilities Authority Drinking Water G. O. Revenue Note	2019	\$5,540 - \$318,540	3.54	4,446,000	3,330,000
2000 Public Facilities Authority Drinking Water G. O. Revenue Note	2019	\$2,805 - \$161,255	3.54	2,262,450	1,686,450
2001 Public Facilities Authority Drinking Water G. O. Revenue Note	2020	\$1,239 - \$71,239	3.54	1,012,260	791,000
2002 Public Facilities Authority Drinking Water G. O. Revenue Note	2021	\$283 - \$16,283	3.54	233,000	190,000

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

3. Long-Term Debt

Loans Payable (Continued)

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
2006B Public Facilities Authority Wastewater Infrastructure G.O. Revenue Note	2032	\$9,124 - \$109,000	0.00	665,000	665,000
Hawk Creek Watershed Clean Water Partnership Project	2014	\$8,599	2.00	155,169	119,221
Shakopee Creek Watershed Clean Water Partnership Project	2015	\$12,907	2.00	232,906	200,855
Hawk Creek Watershed Continuation Clean Water Partnership Project	2017	\$17,290	2.00	307,260	307,260
Shakopee Creek Watershed Continuation Clean Water Partnership Project	2018	\$11,526	2.00	71,622	71,622
Boiler Replacement Loan	2012	\$9,233	5.00	870,000	870,000
Total Loans Payable				\$ 24,263,052	\$ 19,742,983

Paving Special Assessments

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2006
1999 Paving Special Assessments	2009	\$1,516 - \$2,164	6.50	\$ 14,238	\$ 4,271
2000 Paving Special Assessments	2010	\$517 - \$796	7.25	4,819	1,927
Total Special Assessments				\$ 19,057	\$ 6,198

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Debt Service Requirements

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

Year Ending December 31	Installment Purchase Obligation		General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 495,000	\$ 267,347	\$ 1,415,000	\$ 1,576,347	\$ 765,000	\$ 294,058
2008	510,000	245,613	1,600,000	1,511,759	300,000	275,098
2009	535,000	222,616	2,050,000	1,434,403	310,000	263,656
2010	560,000	198,113	2,145,000	1,344,974	320,000	251,425
2011	585,000	172,204	2,240,000	1,249,111	340,000	238,268
2012 - 2016	3,370,000	415,298	10,610,000	4,810,994	1,925,000	959,096
2017 - 2021	-	-	13,005,000	2,157,216	2,455,000	461,368
2022 - 2026	-	-	1,715,000	198,443	650,000	19,605
2027 - 2030	-	-	270,000	5,738	-	-
Total	\$ 6,055,000	\$ 1,521,191	\$ 35,050,000	\$ 14,288,985	\$ 7,065,000	\$ 2,762,574

Year Ending December 31	Loans		Paving Special Assessments	
	Principal	Interest	Principal	Interest
2007	\$ 1,030,286	\$ 465,397	\$ 1,906	\$ 417
2008	1,253,511	440,814	1,906	290
2009	1,298,405	411,872	1,905	163
2010	1,332,013	379,801	481	35
2011	1,365,863	346,696	-	-
2012 - 2016	7,219,756	1,136,332	-	-
2017 - 2021	5,578,149	317,928	-	-
2022 - 2026	-	566	-	-
2027 - 2030	665,000	-	-	-
Total	\$ 19,742,983	\$ 3,499,406	\$ 6,198	\$ 905

5. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Installment purchase obligation	\$ 6,530,000	\$ -	\$ 475,000	\$ 6,055,000	\$ 495,000
General obligation bonds	36,220,000	-	1,170,000	35,050,000	1,415,000
Special assessment debt with government commitment	7,805,000	-	740,000	7,065,000	765,000
General obligation capital notes	765,000	-	765,000	-	-
Deferred (discount)/premiums	(38,090)	5,974	7,520	(39,636)	1,546
Total bonds payable	\$ 51,281,910	\$ 5,974	\$ 3,157,520	\$ 48,130,364	\$ 2,676,546

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

5. Changes in Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Paving special assessments	8,104	-	1,906	6,198	1,906
Loans payable	16,423,903	4,232,148	913,068	19,742,983	1,030,287
Estimated liability for landfill closure/postclosure	3,941,004	-	101,973	3,839,031	-
Compensated absences	3,014,071	242,521	110,678	3,145,914	119,269
Governmental Activities Long-Term Liabilities	<u>\$ 74,668,992</u>	<u>\$ 4,480,643</u>	<u>\$ 4,285,145</u>	<u>\$ 74,864,490</u>	<u>\$ 3,828,008</u>

Long-term debt was liquidated by payments from the following funds:

General	\$ 36,068
Road and Bridge	205,000
Sanitary Landfill/Recycling Center	755,000
Debt Service	3,067,000
Other governmental funds	1,906
Total Debt Reductions	<u>\$ 4,064,974</u>

6. Crossover Refunding

In 2004, the County issued \$7,045,000 G.O. Law Enforcement Facility Refunding Bonds to refund the G.O. Law Enforcement Facility Bonds, Series 2000. These refunding bonds were used to purchase U.S. government, state, and local government securities that were placed in an irrevocable trust for the purpose of generating resources to make principal payments of \$6,830,000 after the crossover date of February 8, 2008. In 2008, the 2000 bonds will be called, and the first payments on the 2004 bonds will be in 2009.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

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

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

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

B. Funding Policy

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Funding Policy (Continued)

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

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

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

	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Correctional Fund
2006	\$ 878,398	\$ 210,155	\$ 177,311
2005	775,168	171,394	173,517
2004	746,169	158,284	163,453

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

5. Summary of Significant Contingencies and Other Items

A. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although the majority of the closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each year-end. The County estimated the cost of closure and postclosure

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. Landfill Closure and Postclosure Care Costs (Continued)

care to be \$3,839,031 with no remaining capacity to be filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements and, at December 31, 2006, cash and investments of \$4,441,507 are held for these purposes. The County expects that future inflation costs will be paid from investment earnings on these annual contributions. However, if investment earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

B. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. To manage these risks, the County has entered into a joint powers agreement with other Minnesota counties to form the Minnesota Counties Insurance Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The County is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. The County self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance coverage from the prior year. The amount of settlements did not exceed insurance coverage for any of the past three fiscal years.

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

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

B. 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.

Kandiyohi County has a program to self-insure a dental insurance plan for participating employees. The County has contracted with Minnesota Dental Benefits, a third-party administrator, to process claims against the plan.

The County contributed \$27 per payroll period for each participating employee in 2006. The County deposits the County contributions and employee deductions with the administrator. Any claims paid by the administrator in excess of the deposits are billed to the County. The County also pays an administrative charge for the services rendered by the administrator. Financial transactions relating to the self-insurance plan are recorded in the General Fund.

The County has not had an actuarial study of the self-insurance dental plan; it has concluded that the risk of any major losses covered by self-insurance under this plan is covered by the general taxing powers of the County. There were no accrued benefits at December 31, 2006 and 2005. The following discloses the claims activity during fiscal years 2006 and 2005.

	Year Ended December 31	
	2006	2005
Beginning liability	\$ -	\$ -
Current year claims	242,244	231,946
Claim payments	(242,244)	(231,946)
End of Year Liability	\$ -	\$ -

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

C. Contingent Liabilities

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

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

D. Joint Ventures

Kandiyohi - Region 6W Community Corrections Agencies Detention Center (Prairie Lakes Youth Programs)

Kandiyohi County entered into a joint powers agreement to create and operate the Kandiyohi - Region 6W Community Corrections Agencies Detention Center (commonly referred to as the Prairie Lakes Youth Programs) pursuant to Minn. Stat. § 471.59. The Detention Center provides detention services to juveniles under the jurisdiction of the counties who are parties to the agreement (Chippewa, Lac qui Parle, Swift, and Yellow Medicine, all of which are served by the Region 6W Community Corrections Agency) and Kandiyohi County.

Control of the Youth Program is vested in a Joint Board, which is composed of one Commissioner from each participating county. An Advisory Board has also been established, which is composed of the directors of the Kandiyohi County Community Corrections Agency and the Region 6W Community Corrections Agency, and the directors of the family services or human services departments of the counties participating in the agreement. The Youth Program is located at the Willmar Regional Treatment Center in space rented from the State of Minnesota.

At December 31, 2006, the Youth Program had long-term debt of \$101,376, all of which was compensated absences. Financing is provided by charges for services to member and nonmember counties. Complete financial information can be obtained from the Youth Program's Office, P. O. Box 894, Willmar, Minnesota 56201.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures (Continued)

Minnesota River Board

Kandiyohi County entered into a joint powers agreement with other counties to create the Minnesota River Board. The Board promotes the orderly water quality improvement and management of the Minnesota River Watershed through information sharing, education, coordination, and related support to the member counties by assisting in the implementation and goal achievement of comprehensive water plans which counties may develop and implement pursuant to Minn. Stat. §§ 103B.311 and 103B.315.

The County is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project. In the event of termination of the agreement, all property, real and personal, held by the Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

Control is vested in an Executive Board of five officers elected from the membership of the Board, consisting of one representative and alternate from each County Board of Commissioners included in this agreement.

Complete financial information for the Minnesota River Board can be obtained from its administrative offices at Administration Building No. 14, 600 East Fourth Street, Chaska, Minnesota 55108.

Southwestern Minnesota Adult Mental Health Consortium

In November 1997, the County entered into a joint powers agreement with Big Stone, Chippewa, Cottonwood, Jackson, Lac qui Parle, McLeod, Meeker, Nobles, Pipestone, Redwood, Renville, Rock, Swift, and Yellow Medicine Counties; and Lincoln, Lyon, and Murray Counties, represented by the Lincoln, Lyon and Murray Human Services Board, creating and operating the Southwestern Minnesota Adult Mental Health Consortium under the authority of Minn. Stat. § 471.59. The Consortium is headquartered in Windom, Minnesota, where Cottonwood County acts as fiscal host. The Consortium shall take actions and enter into such agreements as may be necessary to plan and develop within the Consortium's geographic jurisdiction, a system of care that will serve the needs of adults with serious and persistent mental illness. The

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium (Continued)

governing Board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds or appropriations for the development of the system of care.

The following is a summary of the Consortium's annual financial report for the year ended December 31, 2005 (the most recent information available):

Total Assets	\$ 1,148,132
Total Liabilities	497,546
Total Fund Equity	650,586
Total Revenues	1,960,287
Total Expenditures/Expenses	1,671,076
Increase (Decrease) in Fund Equity	289,211

The Consortium reported no long-term obligations at December 31, 2005.

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

Crow River Watershed

In April 1999, the County entered into a joint powers agreement with other counties to promote the orderly water quality improvement and management of the Crow River Watershed through information sharing, education, coordination, and related support to the member counties by assisting in the implementation and goal achievement of comprehensive water plans which counties may develop and implement pursuant to Minn. Stat. §§ 103B.311 and 103B.315. The governing board is composed of one Board member from each of the participating counties. Financing is provided by state proceeds. Current financial information is not available.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

E. Jointly-Governed Organizations

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

Coordinated Enforcement Effort (CEE) VI Task Force

The Task Force was established to receive and expend federal, state, and local grants and other related funds for the purpose of investigation of burglary, theft, narcotics, stolen property, and crimes of violence. Kandiyohi County has no operational or financial control over the CEE VI Task Force. During the year, Kandiyohi County did not contribute any funds to the Task Force. In an agent capacity, Kandiyohi County reports the cash transactions of the CEE VI Task Force as an agency fund on its financial statements.

Regional Library

Kandiyohi County participates in the Western Plains Library System in order to provide efficient and improved regional public library service.

The financial activities of the Western Plains Library System are reported as part of the Pioneerland Regional Library System. Financial information for the Library System is not available.

Putting All Communities Together (PACT) 4 Families Collaborative

PACT 4 was established in 1996 by a joint powers agreement among Kandiyohi, Meeker, Renville, and Yellow Medicine Counties. The agreement was established to provide coordinated services to children and families.

Kandiyohi County has no operational or financial control over the Collaborative.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

Kandiyohi County and City of Willmar Economic Development Commission
(EDC)

The EDC was established on July 1, 2003 by a joint-powers agreement between Kandiyohi County and the City of Willmar by resolution pursuant to Minn. Laws 1989, First Special Session, ch. 1, Art. 17, § 21. The EDC was set up to encourage, attract, promote, and develop economically sound industry and commerce within the County and City.

The EDC has six members. Kandiyohi County appoints three members and the City of Willmar appoints three members of the EDC. Each member is appointed to serve for three years. The Board appoints a fiscal agent to handle and be responsible for safekeeping the funds of the EDC. Kandiyohi County acts as the fiscal agent for the EDC and reports the activity of the EDC as an agency fund on its financial statements.

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

A. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the HRA. The HRA is reporting as of and for the year ended June 30, 2006.

The accounts of the HRA are organized and operated on the basis of funds, with each fund having a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. These funds are used to account for operations of the HRA and are grouped into the proprietary category. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The HRA's government-wide financial statements (the statement of net assets and the statement of activities) are prepared using the economic resources measurement focus and the accrual basis of accounting.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA) (Continued)

B. Operating 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 a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash

For the purpose of the statement of cash flows, all cash deposits and temporary investments with original terms of three months or less are considered to be cash.

D. Property and Equipment

Property and equipment are stated at historical or estimated historical cost and are depreciated using the straight-line method over their estimated useful lives ranging from 8 to 40 years.

E. Bond Issuance Costs

Bond issuance costs are stated at historical cost and are amortized using the straight-line method over 30 years.

F. Deposits and Investments

The HRA's cash and investments as of June 30, 2006, are summarized as follows:

Unrestricted		
Cash on deposit	\$	256,533
Investments (certificates of deposit)		178,548
Restricted		
Cash on deposit		<u>35,159</u>
Total	\$	<u><u>470,240</u></u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

F. Deposits and Investments (Continued)

In accordance with Minnesota statutes, the HRA maintains deposits at depository banks authorized by the Board. All such depositories are federally insured. The carrying amount of the HRA's deposits with financial institutions was \$470,240 as of June 30, 2006; the bank balance was \$482,197. There were no uninsured balances as of June 30, 2006.

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 June 30, 2006.

The HRA is authorized to invest available funds as described in Minn. Stat. ch. 118A. The following types of investments are allowed by Minnesota statutes:

- (a) direct obligations or obligations guaranteed by the United States or its agencies;
- (b) shares of investment companies registered under the Federal Investment Company Act of 1940 whose only investments are in securities described in Minnesota statutes;
- (c) general obligations of the State of Minnesota or any of its municipalities and other state and local government obligations as listed in Minnesota statutes;
- (d) bankers' acceptances of United States banks, eligible for purchase by the Federal Reserve System;
- (e) commercial paper issued by United States corporations or their Canadian subsidiaries that is of the highest quality and matures in 270 days or less;
- (f) repurchase or reverse repurchase agreements with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in United States government securities reporting to the Federal Reserve Bank of New York, certain Minnesota securities broker-dealers, or a bank qualified as a depository; and

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

F. Deposits and Investments (Continued)

- (g) guaranteed investment contracts issued or guaranteed by a United States commercial bank or domestic branch of a foreign bank or a United States insurance company or its Canadian or United States subsidiary, provided it ranks on a parity with the senior unsecured debt obligations of the issuer or guarantor and meets other requirements as stated in Minnesota statutes.

G. Receivables

Receivables for the HRA at June 30, 2006, were as follows:

Accounts	\$	30,072
Taxes receivable		60,542
Note receivable		99,480
		99,480
Total Receivables	\$	190,094

Of the note receivable, \$91,776 is not expected to be collected within the next year.

H. Property and Equipment

The HRA's property and equipment activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 58,916	\$ -	\$ -	\$ 58,916
Landscaping	23,443	-	-	23,443
	\$ 82,359	\$ -	\$ -	\$ 82,359
Total capital assets not depreciated				
Capital assets depreciated				
Buildings	\$ 1,331,468	\$ -	\$ -	\$ 1,331,468
Carpeting	48,615	-	-	48,615
Machinery, furniture, and equipment	48,362	-	-	48,362
	\$ 1,428,445	\$ -	\$ -	\$ 1,428,445
Total capital assets depreciated				
Less: accumulated depreciation	244,671	44,567	-	289,238
Total capital assets, depreciated, net	\$ 1,183,774	\$ (44,567)	\$ -	\$ 1,139,207
Total Capital Assets, Net	\$ 1,266,133	\$ (44,567)	\$ -	\$ 1,221,566

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

H. Property and Equipment (Continued)

Depreciation expense of \$ 44,567 was charged to housing and redevelopment expense.

I. Payables

Payables for the HRA at June 30, 2006, were as follows:

Accounts	\$	7,028
Accrued payroll taxes		40,597
Due to other governmental units, U.S. Department of Housing and Urban Development (HUD)		14,218
Total	\$	61,843

J. Property Taxes

Property tax levies are set by the HRA and are certified to the County each year for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Real property taxes are generally due from taxpayers in equal installments on May 15 and October 15. The County remits tax settlements to the HRA at various times during the year. Taxes collectible in a given calendar year are generally recognized as revenue during that fiscal year.

K. Long-Term Debt

Long-term debt outstanding at June 30, 2006, for the HRA consists of the following:

Type of Indebtedness	Final Maturity	Interest Rate (%)	Original Issue Amount	Remaining Commitment
Essential Function Housing Development Bond of 1997	2030	5.25 - 8.75	\$ 1,530,000	\$ 1,403,949

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA)

K. Long-Term Debt (Continued)

The estimated debt service requirements as of June 30, 2006, are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 32,664	\$ 69,456	\$ 102,120
2008	34,336	67,784	102,120
2009	36,092	66,028	102,120
2010	37,939	64,181	102,120
2011	39,880	62,240	102,120
2012 - 2016	232,173	278,427	510,600
2017 - 2021	297,962	212,638	510,600
2022 - 2026	382,392	128,208	510,600
2027 - 2030	310,511	26,989	337,500
Total	<u>\$ 1,403,949</u>	<u>\$ 975,951</u>	<u>\$ 2,379,900</u>

L. Lease Agreement

The HRA, operating under a shared services agreement with the Housing and Redevelopment Authority in and for the City of Willmar, Minnesota, (Willmar HRA) entered into a five-year lease commencing November 1, 2003, for office space with Kandiyohi County. Under the terms of the lease, the HRA and the Willmar HRA are required to make monthly lease payments to the County in the amount of \$3,092.

Under the shared services agreement with the Willmar HRA, each party to the agreement will pay 50 percent of the aforementioned lease agreement in addition to other cost-shared services. Total HRA rental expense for the year ended June 30, 2006, totaled \$18,550.

The HRA's portion of three-year future minimum rental payments is summarized as follows:

2007	\$ 18,552
2008	18,552
2009	<u>6,184</u>
Total	<u>\$ 43,288</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

6. Kandiyohi County Housing and Redevelopment Authority (HRA) (Continued)

M. Risk Management

The HRA is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; business interruption; errors or omissions; job-related illnesses or injuries to employees; and natural disasters. The HRA has purchased commercial insurance to mitigate its exposure for such losses. The various insurance policies are subject to deductible amounts and maximum coverages. If the deductibles and maximum coverages are exceeded, this could cause the HRA to suffer losses if a loss is incurred from such incidents. The ultimate outcome of uninsured losses cannot presently be determined, and no provision for any liability that may result, if any, has been made in the financial statements. Settled claims to date have not exceeded coverage levels, and insurance coverage, by major categories of risk, is consistent with coverage in the prior year.

N. Contingencies

The HRA receives grant funds, principally from HUD for the Vouchers Choice program. Monies from HUD are received directly from the federal agency. Certain expenditures are subject to audit by HUD, and the HRA is contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of the HRA, no material refunds will be required as a result of expenditures disallowed by HUD.

7. Subsequent Event

The Board of County Commissioners, in its meeting on January 16, 2007, made a motion to award a bond sale of current refundings of the \$3,015,000 G.O. Law Enforcement Facility Bonds, Series 1998, and of the \$6,500,000 G.O. Law Enforcement Facility Bonds, Series 1999, on February 13, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 1

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 8,973,156	\$ 8,973,156	\$ 8,946,727	\$ (26,429)
Special assessments	44,900	44,900	82,215	37,315
Licenses and permits	479,700	479,700	471,330	(8,370)
Intergovernmental	4,173,944	4,173,944	5,289,838	1,115,894
Charges for services	4,886,700	4,886,700	5,642,890	756,190
Gifts and contributions	7,700	7,700	5,966	(1,734)
Investment earnings	400,000	400,000	1,132,917	732,917
Miscellaneous	798,100	798,100	687,483	(110,617)
Total Revenues	\$ 19,764,200	\$ 19,764,200	\$ 22,259,366	\$ 2,495,166
Expenditures				
Current				
General government				
Commissioners	\$ 306,000	\$ 306,000	\$ 302,182	\$ 3,818
Courts	20,000	20,000	32,211	(12,211)
Law library	103,000	103,000	88,612	14,388
County administration	300,000	300,000	318,148	(18,148)
County auditor	1,121,900	1,121,900	1,138,446	(16,546)
County assessor	470,700	470,700	428,121	42,579
Elections	55,000	55,000	416,546	(361,546)
Records management	53,000	53,000	52,549	451
Data processing	690,000	690,000	699,856	(9,856)
Attorney	874,600	874,600	910,292	(35,692)
Recorder	461,300	461,300	403,520	57,780
Surveyor	95,800	95,800	104,132	(8,332)
Planning and zoning	449,600	449,600	610,703	(161,103)
Buildings and plant	444,200	444,200	422,355	21,845
Veterans service officer	134,700	134,700	145,619	(10,919)
Total general government	\$ 5,579,800	\$ 5,579,800	\$ 6,073,292	\$ (493,492)
Public safety				
Sheriff	\$ 4,592,700	\$ 4,592,700	\$ 4,309,916	\$ 282,784
Boat and water safety	48,600	48,600	46,260	2,340
Coroner	30,000	30,000	37,446	(7,446)
E-911 system	44,000	44,000	68,289	(24,289)
Group home	1,298,400	1,298,400	1,317,466	(19,066)
County jail	4,005,300	4,005,300	3,787,280	218,020
Law enforcement center	617,800	617,800	581,628	36,172
Community corrections	2,098,700	2,098,700	1,882,061	216,639
Civil defense	192,900	192,900	189,632	3,268
Total public safety	\$ 12,928,400	\$ 12,928,400	\$ 12,219,978	\$ 708,422
Health				
Nursing service	\$ 2,262,400	\$ 2,262,400	\$ 2,122,084	\$ 140,316

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 55,500	\$ 55,500	\$ 54,494	\$ 1,006
Parks	216,500	216,500	313,484	(96,984)
Other	55,800	55,800	57,383	(1,583)
Total culture and recreation	\$ 327,800	\$ 327,800	\$ 425,361	\$ (97,561)
Conservation of natural resources				
Cooperative extension	\$ 119,500	\$ 119,500	\$ 115,199	\$ 4,301
Soil and water conservation	122,600	122,600	122,600	-
Agricultural inspections	49,900	49,900	54,445	(4,545)
Agricultural society/County fair	20,000	20,000	20,000	-
Water planning	60,700	60,700	41,249	19,451
Other	195,200	195,200	207,128	(11,928)
Total conservation of natural resources	\$ 567,900	\$ 567,900	\$ 560,621	\$ 7,279
Economic development				
Community development	\$ 15,000	\$ 15,000	\$ 26,124	\$ (11,124)
Unallocated				
Insurance	\$ 193,100	\$ 193,100	\$ 824,878	\$ (631,778)
Debt service				
Principal	\$ -	\$ -	\$ 36,068	\$ (36,068)
Interest	\$ -	\$ -	\$ 12,304	\$ (12,304)
Total Expenditures	\$ 21,874,400	\$ 21,874,400	\$ 22,300,710	\$ (426,310)
Excess of Revenues Over (Under) Expenditures	\$ (2,110,200)	\$ (2,110,200)	\$ (41,344)	\$ 2,068,856
Other Financing Sources (Uses)				
Transfers in	\$ 814,200	\$ 814,200	\$ 2,426,035	\$ 1,611,835
Loans issued	-	-	177,573	177,573
Total Other Financing Sources (Uses)	\$ 814,200	\$ 814,200	\$ 2,603,608	\$ 1,789,408
Net Change in Fund Balance	\$ (1,296,000)	\$ (1,296,000)	\$ 2,562,264	\$ 3,858,264
Fund Balance - January 1	5,251,210	5,251,210	5,251,210	-
Fund Balance - December 31	\$ 3,955,210	\$ 3,955,210	\$ 7,813,474	\$ 3,858,264

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,655,289	\$ 2,655,289	\$ 2,656,115	\$ 826
Special assessments	-	-	9,320	9,320
Intergovernmental	10,906,711	10,906,711	10,556,845	(349,866)
Charges for services	300,000	300,000	560,818	260,818
Investment earnings	350,000	350,000	149,570	(200,430)
Total Revenues	\$ 14,212,000	\$ 14,212,000	\$ 13,932,668	\$ (279,332)
Expenditures				
Current				
Highways and streets				
Administration	\$ -	\$ -	\$ 681,841	\$ (681,841)
Maintenance	3,825,000	3,825,000	2,148,946	1,676,054
Construction	10,762,000	10,762,000	15,550,160	(4,788,160)
Equipment maintenance and shops	250,000	250,000	871,677	(621,677)
Total highways and streets	\$ 14,837,000	\$ 14,837,000	\$ 19,252,624	\$ (4,415,624)
Intergovernmental				
Highways and streets	-	-	256,191	(256,191)
Debt service				
Principal	205,000	205,000	205,000	-
Interest	91,000	91,000	184,709	(93,709)
Total Expenditures	\$ 15,133,000	\$ 15,133,000	\$ 19,898,524	\$ (4,765,524)
Excess of Revenues Over (Under) Expenditures	\$ (921,000)	\$ (921,000)	\$ (5,965,856)	\$ (5,044,856)
Other Financing Sources (Uses)				
Transfers in	421,000	421,000	-	(421,000)
Net Change in Fund Balance	\$ (500,000)	\$ (500,000)	\$ (5,965,856)	\$ (5,465,856)
Fund Balance - January 1	9,500,628	9,500,628	9,500,628	-
Increase (decrease) in reserved for inventories	-	-	(59,224)	(59,224)
Fund Balance - December 31	\$ 9,000,628	\$ 9,000,628	\$ 3,475,548	\$ (5,525,080)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,646,517	\$ 4,646,517	\$ 4,651,892	\$ 5,375
Intergovernmental	7,473,780	7,473,780	8,217,301	743,521
Charges for services	464,344	464,344	429,555	(34,789)
Total Revenues	\$ 12,584,641	\$ 12,584,641	\$ 13,298,748	\$ 714,107
Expenditures				
Current				
Human services				
Income maintenance	\$ 2,625,566	\$ 2,625,566	\$ 2,485,687	\$ 139,879
Social services	10,086,959	10,086,959	9,824,010	262,949
Total Expenditures	\$ 12,712,525	\$ 12,712,525	\$ 12,309,697	\$ 402,828
Net Change in Fund Balance	\$ (127,884)	\$ (127,884)	\$ 989,051	\$ 1,116,935
Fund Balance - January 1	5,874,782	5,874,782	5,874,782	-
Fund Balance - December 31	\$ 5,746,898	\$ 5,746,898	\$ 6,863,833	\$ 1,116,935

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 4

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 934,000	\$ 934,000	\$ 870,063	\$ (63,937)
Licenses and permits	100	100	820	720
Intergovernmental	94,000	94,000	92,797	(1,203)
Charges for services	2,997,775	2,997,775	2,662,540	(335,235)
Investment earnings	125,000	125,000	433,615	308,615
Miscellaneous	1,000	1,000	2,531	1,531
Total Revenues	\$ 4,151,875	\$ 4,151,875	\$ 4,062,366	\$ (89,509)
Expenditures				
Current				
Sanitation				
Solid waste	\$ 2,136,800	\$ 2,136,800	\$ 2,525,254	\$ (388,454)
Debt service				
Principal	755,000	755,000	755,000	-
Interest	87,300	87,300	87,332	(32)
Administrative (fiscal) charges	1,000	1,000	862	138
Total Expenditures	\$ 2,980,100	\$ 2,980,100	\$ 3,368,448	\$ (388,348)
Excess of Revenues Over (Under) Expenditures	\$ 1,171,775	\$ 1,171,775	\$ 693,918	\$ (477,857)
Other Financing Sources (Uses)				
Transfers in	\$ 236,000	\$ 236,000	\$ -	\$ (236,000)
Transfers out	(386,000)	(386,000)	(3,426,035)	(3,040,035)
Total Other Financing Sources (Uses)	\$ (150,000)	\$ (150,000)	\$ (3,426,035)	\$ (3,276,035)
Net Change in Fund Balance	\$ 1,021,775	\$ 1,021,775	\$ (2,732,117)	\$ (3,753,892)
Fund Balance - January 1	13,143,426	13,143,426	13,143,426	-
Fund Balance - December 31	\$ 14,165,201	\$ 14,165,201	\$ 10,411,309	\$ (3,753,892)

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Ditch, Eagle Lake Sewer, DARE, Forfeited Tax Sale, and Regional Treatment Center Special Revenue Funds; the Debt Service Fund; and the Capital Projects Fund. All annual appropriations lapse at fiscal year-end. Comparisons of estimated revenues and expenditures to actual are presented in the budgetary comparison schedules for the General Fund and the major special revenue funds.

The appropriated budget is prepared by fund, function, and department. Kandiyohi County's department heads may make transfers of appropriations within the department. Transfers of appropriations between departments require the approval of the Board of Commissioners. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the fund level.

The Board of Commissioners did not revise the budgetary appropriations at the fund, function, or department level during the fiscal year.

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

2. Excess of Expenditures Over Budget

The following is a summary of individual major funds that had expenditures in excess of budget for the year ended December 31, 2006:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 22,300,710	\$ 21,874,400	\$ 426,310
Special Revenue Funds			
Road and Bridge	19,898,524	15,133,000	4,765,524
Sanitary Landfill/Recycling Center	3,368,448	2,980,100	388,348

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SUPPLEMENTARY INFORMATION

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COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Capital Equipment Fund - to account for funds used to purchase capital equipment. Financing is provided by property taxes authorized by the County Board.

County Building Fund - to account for funds used for improvements to and purchases of County buildings. Financing is provided by property taxes authorized by the County Board.

Ditch Fund - to account for funds used by the various ditches. Financing is provided by special assessments.

Eagle Lake Sewer Fund - to account for funds used by the Eagle Lake sewer system. Financing is provided by special assessments.

Green Lake Sewer Fund - to account for funds used by the Green Lake sewer system. Financing is provided by special assessments and charges for services.

County Library Fund - to account for funds used by the library. Financing is provided primarily by property taxes authorized by the County Board.

DARE Fund - to account for funds used by the County to sponsor its Drug Abuse Resistance Education (DARE) program. Financing is provided by gifts and contributions from outside sources.

Health and Human Services Building Fund - to account for revenues collected from the lease of the County's Health and Human Services Building and the expenditures associated with the operation.

Forfeited Tax Sale Fund - to account for all funds received from the sale of land for forfeited taxes. Monies are held until disbursement to various entities.

Regional Treatment Center Fund - to account for revenues collected from the lease of the Regional Treatment Center Building and the expenditures associated with the operation.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	Capital Equipment	County Building	Ditch	Eagle Lake Sewer
<u>Assets</u>				
Cash and pooled investments	\$ 2,587,599	\$ 3,612,283	\$ 246,164	\$ 327,585
Taxes receivable				
Prior	12,834	21,605	-	-
Special assessments receivable				
Prior	-	-	2,429	1,283
Noncurrent	-	-	274,700	126,068
Accounts receivable	-	8,000	9	-
Accrued interest receivable	28,194	51,690	2,107	4,781
Due from other funds	-	-	9,480	-
Due from other governments	-	-	92,779	-
Total Assets	<u>\$ 2,628,627</u>	<u>\$ 3,693,578</u>	<u>\$ 627,668</u>	<u>\$ 459,717</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ -	\$ 35,050	\$ 74,999	\$ 404
Salaries payable	-	-	-	128
Contracts payable	-	-	-	-
Due to other funds	-	1,600	9,700	-
Due to other governments	-	-	114,243	349
Deferred revenue - unavailable	8,963	15,292	170,780	126,068
Total Liabilities	<u>\$ 8,963</u>	<u>\$ 51,942</u>	<u>\$ 369,722</u>	<u>\$ 126,949</u>
 Fund Balances				
Reserved for encumbrances	\$ -	\$ -	\$ -	\$ -
Unreserved				
Designated for unrealized gains on investments	475	-	-	-
Undesignated	2,619,189	3,641,636	257,946	332,768
Total Fund Balances	<u>\$ 2,619,664</u>	<u>\$ 3,641,636</u>	<u>\$ 257,946</u>	<u>\$ 332,768</u>
Total Liabilities and Fund Balances	<u>\$ 2,628,627</u>	<u>\$ 3,693,578</u>	<u>\$ 627,668</u>	<u>\$ 459,717</u>

Statement 1

Green Lake Sewer	County Library	DARE	Health and Human Services Building	Forfeited Tax Sale	Regional Treatment Center	Total
\$ 1,601,538	\$ 222,030	\$ 7,290	\$ 319,629	\$ 216,215	\$ 282,994	\$ 9,423,327
-	4,493	-	2,243	-	-	41,175
3,489	-	-	-	-	-	7,201
128,815	-	-	-	-	-	529,583
1,461	-	-	-	-	-	9,470
-	-	-	-	-	-	86,772
-	2,200	2,000	67	-	1,083	14,830
56,531	40,016	-	2,268	-	-	191,594
\$ 1,791,834	\$ 268,739	\$ 9,290	\$ 324,207	\$ 216,215	\$ 284,077	\$ 10,303,952
\$ 24,280	\$ 4,551	\$ -	\$ 6,068	\$ -	\$ 129,234	\$ 274,586
9,370	1,968	-	7,262	-	5,962	24,690
-	-	-	-	-	48,193	48,193
99	2,000	-	3,665	148	204	17,416
3,775	6,942	-	19,793	216,067	901	362,070
131,878	43,075	-	1,580	-	-	497,636
\$ 169,402	\$ 58,536	\$ -	\$ 38,368	\$ 216,215	\$ 184,494	\$ 1,224,591
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 211,234	\$ 211,234
-	-	-	-	-	-	475
1,622,432	210,203	9,290	285,839	-	(111,651)	8,867,652
\$ 1,622,432	\$ 210,203	\$ 9,290	\$ 285,839	\$ -	\$ 99,583	\$ 9,079,361
\$ 1,791,834	\$ 268,739	\$ 9,290	\$ 324,207	\$ 216,215	\$ 284,077	\$ 10,303,952

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

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

	<u>Capital Equipment</u>	<u>County Building</u>	<u>Ditch</u>	<u>Eagle Lake Sewer</u>
Revenues				
Taxes	\$ 678,237	\$ 1,107,559	\$ -	\$ -
Special assessments	-	-	291,359	132,999
Intergovernmental	146,606	239,224	-	-
Charges for services	-	-	-	-
Fines and forfeits	-	-	-	-
Gifts and contributions	-	-	-	-
Investment earnings	142,015	106,059	7,040	7,468
Miscellaneous	-	32,119	-	-
Total Revenues	\$ 966,858	\$ 1,484,961	\$ 298,399	\$ 140,467
Expenditures				
Current				
General government	\$ 144,502	\$ 141,488	\$ -	\$ -
Public safety	225,046	9,080	-	-
Highways and streets	318,644	-	-	-
Sanitation	-	-	-	150,564
Health	20,499	-	-	-
Culture and recreation	-	204,631	-	-
Conservation of natural resources	2,120	-	530,927	-
Intergovernmental				
Culture and recreation	-	-	-	-
Debt service				
Principal	-	1,906	-	-
Interest	-	545	-	-
Total Expenditures	\$ 710,811	\$ 357,650	\$ 530,927	\$ 150,564
Excess of Revenues Over (Under) Expenditures	\$ 256,047	\$ 1,127,311	\$ (232,528)	\$ (10,097)
Other Financing Sources (Uses)				
Transfers in	\$ 1,000,000	\$ -	\$ -	\$ -
Transfers out	(786,469)	(500,000)	-	-
Loan issued	-	-	-	-
Total Other Financing Sources (Uses)	\$ 213,531	\$ (500,000)	\$ -	\$ -
Net Change in Fund Balances	\$ 469,578	\$ 627,311	\$ (232,528)	\$ (10,097)
Fund Balances - January 1	2,150,086	3,014,325	490,474	342,865
Fund Balances - December 31	\$ 2,619,664	\$ 3,641,636	\$ 257,946	\$ 332,768

Statement 2

Green Lake Sewer	County Library	DARE	Health and Human Services Building	Forfeited Tax Sale	Regional Treatment Center	Total
\$ -	\$ 233,146	\$ -	\$ 116,860	\$ -	\$ -	\$ 2,135,802
2,002	-	-	-	-	-	426,360
-	120,107	-	25,222	-	-	531,159
727,971	-	-	103	-	-	728,074
-	-	8,457	-	-	-	8,457
-	-	150	-	-	-	150
-	-	-	-	-	-	262,582
7,808	28,500	-	561,202	40,386	502,847	1,172,862
\$ 737,781	\$ 381,753	\$ 8,607	\$ 703,387	\$ 40,386	\$ 502,847	\$ 5,265,446
\$ -	\$ -	\$ -	\$ 477,248	\$ 40,386	\$ 1,236,707	\$ 2,040,331
-	-	9,770	-	-	-	243,896
-	-	-	-	-	-	318,644
729,892	-	-	-	-	-	880,456
-	-	-	-	-	-	20,499
-	162,977	-	-	-	-	367,608
-	-	-	-	-	-	533,047
-	277,223	-	-	-	-	277,223
-	-	-	-	-	-	1,906
-	-	-	-	-	-	545
\$ 729,892	\$ 440,200	\$ 9,770	\$ 477,248	\$ 40,386	\$ 1,236,707	\$ 4,684,155
\$ 7,889	\$ (58,447)	\$ (1,163)	\$ 226,139	\$ -	\$ (733,860)	\$ 581,291
\$ -	\$ -	\$ -	\$ 500,000	\$ -	\$ -	\$ 1,500,000
-	-	-	(764,884)	-	-	(2,051,353)
-	-	-	-	-	870,000	870,000
\$ -	\$ -	\$ -	\$ (264,884)	\$ -	\$ 870,000	\$ 318,647
\$ 7,889	\$ (58,447)	\$ (1,163)	\$ (38,745)	\$ -	\$ 136,140	\$ 899,938
1,614,543	268,650	10,453	324,584	-	(36,557)	8,179,423
\$ 1,622,432	\$ 210,203	\$ 9,290	\$ 285,839	\$ -	\$ 99,583	\$ 9,079,361

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 5

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 677,586	\$ 677,586	\$ 678,237	\$ 651
Intergovernmental	139,014	139,014	146,606	7,592
Investment earnings	-	-	142,015	142,015
Total Revenues	\$ 816,600	\$ 816,600	\$ 966,858	\$ 150,258
Expenditures				
Current				
General government	\$ -	\$ -	\$ 144,502	\$ (144,502)
Public safety	-	-	225,046	(225,046)
Highways and streets	-	-	318,644	(318,644)
Health	-	-	20,499	(20,499)
Conservation of natural resources	-	-	2,120	(2,120)
Total Expenditures	\$ -	\$ -	\$ 710,811	\$ (710,811)
Excess of Revenues Over (Under) Expenditures	\$ 816,600	\$ 816,600	\$ 256,047	\$ (560,553)
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Transfers out	-	-	(786,469)	(786,469)
Total Other Financing Sources (Uses)	\$ -	\$ -	\$ 213,531	\$ 213,531
Net Change in Fund Balance	\$ 816,600	\$ 816,600	\$ 469,578	\$ (347,022)
Fund Balance - January 1	2,150,086	2,150,086	2,150,086	-
Fund Balance - December 31	\$ 2,966,686	\$ 2,966,686	\$ 2,619,664	\$ (347,022)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 6

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,105,669	\$ 1,105,669	\$ 1,107,559	\$ 1,890
Intergovernmental	226,831	226,831	239,224	12,393
Investment earnings	-	-	106,059	106,059
Miscellaneous	-	-	32,119	32,119
Total Revenues	\$ 1,332,500	\$ 1,332,500	\$ 1,484,961	\$ 152,461
Expenditures				
Current				
General government	\$ 235,000	\$ 235,000	\$ 141,488	\$ 93,512
Public safety	300,000	300,000	9,080	290,920
Culture and recreation	297,500	297,500	204,631	92,869
Debt service				
Principal	-	-	1,906	(1,906)
Interest	-	-	545	(545)
Total Expenditures	\$ 832,500	\$ 832,500	\$ 357,650	\$ 474,850
Excess of Revenues Over (Under) Expenditures	\$ 500,000	\$ 500,000	\$ 1,127,311	\$ 627,311
Other Financing Sources (Uses)				
Transfers out	(500,000)	(500,000)	(500,000)	-
Net Change in Fund Balance	\$ -	\$ -	\$ 627,311	\$ 627,311
Fund Balance - January 1	3,014,325	3,014,325	3,014,325	-
Fund Balance - December 31	\$ 3,014,325	\$ 3,014,325	\$ 3,641,636	\$ 627,311

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 7

**BUDGETARY COMPARISON SCHEDULE
GREEN LAKE SEWER SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Special assessments	\$ -	\$ -	\$ 2,002	\$ 2,002
Charges for services	737,038	737,038	727,971	(9,067)
Miscellaneous	800	800	7,808	7,008
Total Revenues	\$ 737,838	\$ 737,838	\$ 737,781	\$ (57)
Expenditures				
Current				
Sanitation	810,600	810,600	729,892	80,708
Net Change in Fund Balance	\$ (72,762)	\$ (72,762)	\$ 7,889	\$ 80,651
Fund Balance - January 1	1,614,543	1,614,543	1,614,543	-
Fund Balance - December 31	\$ 1,541,781	\$ 1,541,781	\$ 1,622,432	\$ 80,651

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 8

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 232,727	\$ 232,727	\$ 233,146	\$ 419
Intergovernmental	121,273	121,273	120,107	(1,166)
Miscellaneous	28,500	28,500	28,500	-
Total Revenues	\$ 382,500	\$ 382,500	\$ 381,753	\$ (747)
Expenditures				
Current				
Culture and recreation	\$ 160,400	\$ 160,400	\$ 162,977	\$ (2,577)
Intergovernmental				
Culture and recreation	278,000	278,000	277,223	777
Total Expenditures	\$ 438,400	\$ 438,400	\$ 440,200	\$ (1,800)
Net Change in Fund Balance	\$ (55,900)	\$ (55,900)	\$ (58,447)	\$ (2,547)
Fund Balance - January 1	268,650	268,650	268,650	-
Fund Balance - December 31	\$ 212,750	\$ 212,750	\$ 210,203	\$ (2,547)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 9

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 116,436	\$ 116,436	\$ 116,860	\$ 424
Intergovernmental	23,914	23,914	25,222	1,308
Charges for services	-	-	103	103
Miscellaneous	575,000	575,000	561,202	(13,798)
Total Revenues	\$ 715,350	\$ 715,350	\$ 703,387	\$ (11,963)
Expenditures				
Current				
General government	452,350	452,350	477,248	(24,898)
Excess of Revenues Over (Under) Expenditures	\$ 263,000	\$ 263,000	\$ 226,139	\$ (36,861)
Other Financing Sources (Uses)				
Transfers in	\$ 500,000	\$ 500,000	\$ 500,000	\$ -
Transfers out	(763,000)	(763,000)	(764,884)	(1,884)
Total Other Financing Sources (Uses)	\$ (263,000)	\$ (263,000)	\$ (264,884)	\$ (1,884)
Net Change in Fund Balance	\$ -	\$ -	\$ (38,745)	\$ (38,745)
Fund Balance - January 1	324,584	324,584	324,584	-
Fund Balance - December 31	\$ 324,584	\$ 324,584	\$ 285,839	\$ (38,745)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

AGENCY FUNDS

Agency funds account for assets held in a custodial capacity for others and/or other funds.

Buffalo Creek Watershed Fund - to account for collections and payments to the Buffalo Creek Watershed.

Current School Fund - to account for the collection of taxes and penalties and their distribution to the various school districts.

Deed Tax Fund - to account for the collection and distribution of deed tax.

Game and Fish Fund - to account for the County sales of game and fish licenses.

Mortgage Registry Tax Fund - to account for the collection of mortgage registry tax and its distribution to the various other funds and governmental units.

North Fork Crow River Watershed Fund - to account for collections and payments to the North Fork Crow River Watershed.

County-Wide Levy Fund - to account for the collection and payment of funds to the Mid-Minnesota Development Commission, Rural Development Finance Authority, and the Housing and Redevelopment Authority. Financing is provided by property taxes authorized by the County Board.

State Agency Fund - to account for the collection and distribution of various funds to the state.

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

Towns and Cities Fund - to account for the collections made by the County on behalf of the towns and cities and the subsequent distributions.

Putting All Communities Together (PACT) 4 Families Fund - to account for the funds collected from a collaborative of counties, school districts, and other member agencies which are used for family service purposes.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

AGENCY FUNDS
(Continued)

Kandiyohi County/City of Willmar EDC - to account for the funds collected from the Rural Development Finance Authority.

Coordinated Enforcement Effort (CEE) VI Task Force Fund - to account for the financial and payroll affairs of the CEE VI Drug Task Force under an agreement between the County and the CEE VI Task Force.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Statement 3

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>BUFFALO CREEK WATERSHED</u>				
<u>Assets</u>				
Cash and investments	\$ 18	\$ 950	\$ 968	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 18	\$ 950	\$ 968	\$ -
 <u>CURRENT SCHOOL</u>				
<u>Assets</u>				
Cash and investments	\$ 159,108	\$ 9,555,241	\$ 9,500,888	\$ 213,461
<u>Liabilities</u>				
Due to other governments	\$ 159,108	\$ 9,555,241	\$ 9,500,888	\$ 213,461
 <u>DEED TAX</u>				
<u>Assets</u>				
Cash and investments	\$ 51,156	\$ 573,566	\$ 586,938	\$ 37,784
<u>Liabilities</u>				
Due to other governments	\$ 51,156	\$ 573,566	\$ 586,938	\$ 37,784

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*Statement 3
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>GAME AND FISH</u>				
<u>Assets</u>				
Cash and investments	\$ 3,066	\$ 18,435	\$ 21,322	\$ 179
<u>Liabilities</u>				
Due to other governments	\$ 3,066	\$ 18,435	\$ 21,322	\$ 179
 <u>MORTGAGE REGISTRY TAX</u>				
<u>Assets</u>				
Cash and investments	\$ 73,287	\$ 767,904	\$ 777,072	\$ 64,119
<u>Liabilities</u>				
Due to other governments	\$ 73,287	\$ 767,904	\$ 777,072	\$ 64,119
 <u>NORTH FORK CROW RIVER WATERSHED</u>				
<u>Assets</u>				
Cash and investments	\$ (37,219)	\$ 265,138	\$ 261,787	\$ (33,868)
Due from other governments	37,623	-	-	37,623
Total Assets	\$ 404	\$ 265,138	\$ 261,787	\$ 3,755
<u>Liabilities</u>				
Due to other governments	\$ 404	\$ 265,138	\$ 261,787	\$ 3,755

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*Statement 3
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>COUNTY-WIDE LEVY</u>				
<u>Assets</u>				
Cash and investments	\$ 14,627	\$ 620,607	\$ 620,580	\$ 14,654
Taxes receivable - delinquent	965	-	-	965
Total Assets	\$ 15,592	\$ 620,607	\$ 620,580	\$ 15,619
<u>Liabilities</u>				
Due to other governments	\$ 15,592	\$ 620,607	\$ 620,580	\$ 15,619
 <u>STATE AGENCY</u>				
<u>Assets</u>				
Cash and investments	\$ 225,972	\$ 13,224,732	\$ 13,302,023	\$ 148,681
<u>Liabilities</u>				
Due to other governments	\$ 225,972	\$ 13,224,732	\$ 13,302,023	\$ 148,681
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and investments	\$ 273,183	\$ 45,663,356	\$ 45,769,446	\$ 167,093
Accrued interest receivable	1,862	2,689	1,862	2,689
Total Assets	\$ 275,045	\$ 45,666,045	\$ 45,771,308	\$ 169,782
<u>Liabilities</u>				
Due to other governments	\$ 275,045	\$ 45,666,045	\$ 45,771,308	\$ 169,782

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*Statement 3
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and investments	\$ 141,750	\$ 8,296,682	\$ 8,261,635	\$ 176,797
<u>Liabilities</u>				
Due to other governments	\$ 141,750	\$ 8,296,682	\$ 8,261,635	\$ 176,797
 <u>PACT 4 FAMILIES</u>				
<u>Assets</u>				
Cash and investments	\$ 4,999,055	\$ -	\$ 4,999,055	\$ -
Due from other funds	259,216	-	259,216	-
Total Assets	\$ 5,258,271	\$ -	\$ 5,258,271	\$ -
<u>Liabilities</u>				
Due to other governments	\$ 5,258,271	\$ -	\$ 5,258,271	\$ -
 <u>KANDIYOHI COUNTY/CITY OF WILLMAR EDC</u>				
<u>Assets</u>				
Cash and investments	\$ 174,797	\$ 170	\$ 39,341	\$ 135,626
<u>Liabilities</u>				
Due to other governments	\$ 174,797	\$ 170	\$ 39,341	\$ 135,626

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

*Statement 3
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>CEE VI TASK FORCE</u>				
<u>Assets</u>				
Cash and investments	\$ 209,177	\$ 607,952	\$ 602,432	\$ 214,697
Due from other governments	20,572	60,510	20,572	60,510
Total Assets	\$ 229,749	\$ 668,462	\$ 623,004	\$ 275,207
<u>Liabilities</u>				
Accounts payable	\$ 529	\$ 2,409	\$ 529	\$ 2,409
Due to other governments	229,220	666,053	622,475	272,798
Total Liabilities	\$ 229,749	\$ 668,462	\$ 623,004	\$ 275,207
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 6,287,977	\$ 79,594,733	\$ 84,743,487	\$ 1,139,223
Taxes receivable - delinquent	965	-	-	965
Accrued interest receivable	1,862	2,689	1,862	2,689
Due from other funds	259,216	-	259,216	-
Due from other governments	58,195	60,510	20,572	98,133
Total Assets	\$ 6,608,215	\$ 79,657,932	\$ 85,025,137	\$ 1,241,010
<u>Liabilities</u>				
Accounts payable	\$ 529	\$ 2,409	\$ 529	\$ 2,409
Due to other governments	6,607,686	79,655,523	85,024,608	1,238,601
Total Liabilities	\$ 6,608,215	\$ 79,657,932	\$ 85,025,137	\$ 1,241,010

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OTHER SCHEDULES

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 10

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

	2005		2006		2007	
	Amount	Net Tax Capacity Rates (%)	Amount	Net Tax Capacity Rates (%)	Amount	Net Tax Capacity Rates (%)
Tax Capacity						
Real property	\$ 28,553,836		\$ 32,502,347		\$ 37,086,911	
Personal property	769,916		817,164		771,637	
Less: tax increment	(303,358)		(324,070)		(358,550)	
Net Tax Capacity	\$ 29,020,394		\$ 32,995,441		\$ 37,499,998	
Taxes Levied for County Purposes						
General	\$ 10,272,077	32.069	\$ 10,615,000	29.358	\$ 11,709,850	28.849
Road and Bridge	2,900,000	9.054	3,200,000	8.851	3,658,000	9.012
Human Services	5,333,000	16.650	5,599,700	15.488	5,870,600	14.464
Health and Human Services	119,500	0.374	140,350	0.389	160,600	0.396
County Building	1,307,000	4.081	1,332,500	3.686	1,086,500	2.677
County Library*	242,400	1.096	278,000	1.092	313,600	1.097
Building Bonds Sinking	1,508,200	4.709	1,508,200	4.168	1,506,000	3.686
Capital Equipment	816,600	2.550	816,600	2.259	529,500	1.305
Rural Development Finance Authority	1,000	0.004	-	-	-	-
Kandiyohi Area Transit	6,000	0.021	9,000	0.028	9,000	0.025
Total Levy for County Purposes	\$ 22,505,777	70.608	\$ 23,499,350	65.319	\$ 24,843,650	61.511
Less Aids Payable by State**	(2,115,017)		(2,073,713)		(2,043,341)	
Net Levy for County Purposes	\$ 20,390,760		\$ 21,425,637		\$ 22,800,309	
Tax Capacity - Light and Power						
Assessed at 43%	\$ 22,028		\$ 21,760		\$ 23,200	
Assessed at 5%	2,784		2,637		2,774	
Total Tax Capacity - Light and Power	\$ 24,812		\$ 24,397		\$ 25,974	
Light and Power Tax Levies (distributed in accordance with Minn. Stat. § 273.42, as amended)						
Assessed at 43%	\$ 25,970	117.896	\$ 24,021	110.393	\$ 24,446	105.374
Assessed at 5%	3,282	117.896	2,911	110.393	2,923	105.374
Total Light and Power Tax Levies	\$ 29,252		\$ 26,932		\$ 27,369	

*Levies not applicable to properties within the City of Willmar.

**2007 aids payable by state are estimated.

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 10
(Continued)

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

	2005		2006		2007	
	Amount	Net Tax Capacity Rates (%)	Amount	Net Tax Capacity Rates (%)	Amount	Net Tax Capacity Rates (%)
Special Assessments						
Ditch liens and assessments	<u>\$ 125,747</u>		<u>\$ 77,419</u>		<u>\$ 75,401</u>	
Sewer systems liens and assessments	<u>\$ 1,318,095</u>		<u>\$ 1,320,734</u>		<u>\$ 1,312,166</u>	
Sanitary landfill liens and assessments	<u>\$ 854,508</u>		<u>\$ 864,838</u>		<u>\$ 874,260</u>	
Percentage of Collections for All Purposes	98.51%		98.51%			

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 11

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

	Maturities	Rates	Amount
Pooled Deposits and Investments			
Checking accounts			
Bremer Bank of Willmar		0.50%	\$ 1,886,862
US Bank of Willmar		0.55%	357,276
Heritage Bank, Willmar		0.50%	89,133
EDC - Bremer Bank		0.00%	46,493
Total checking accounts			\$ 2,379,764
Savings accounts			
Atwater State Bank		1.50%	\$ 8,666
Heritage Bank		0.50%	14,601
Citizens State Bank, Clara City		1.00%	64,338
Home State Bank		0.40%	71,887
Lake Region Bank		0.65%	80,151
Lake Region Bank		4.95%	4,615,609
Prinsburg State Bank		0.91%	25,963
Concorde Bank		0.79%	37,741
United Minnesota Bank		0.50%	19,063
United Prairie Bank		0.50%	99,730
Wells Fargo		4.11%	276,497
Total savings accounts			\$ 5,314,246
Certificates of deposit			
Bremer Bank of Willmar	February 20, 2007	5.12%	\$ 500,000
Bank of the West of Worthington	February 27, 2007	4.69%	2,000,000
Total certificates of deposit			\$ 2,500,000
Repurchase agreement			
Bremer Bank of Willmar		1.00%	\$ 820,977
U.S. government securities			
Morgan Keegan	June 5, 2009	2.25%	\$ 495,470
Morgan Keegan	July 27, 2007	4.50%	696,941
Total U.S. government securities			\$ 1,192,411
MAGIC Fund			
Cadre Financial Services		Various	\$ 5,623,155
Total pooled deposits and investments			\$ 17,830,553

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**Schedule 11
(Continued)**

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

	<u>Maturities</u>	<u>Rates</u>	<u>Amount</u>
Fund Deposits and Investments			
General Fund			
Certificates of deposit			
Atwater State Bank	January 10, 2007	3.54%	\$ 100,000
Heritage Bank of Willmar	April 30, 2008	0.75%	115,000
Home State Bank - Willmar	July 16, 2009	5.25%	200,000
Bremer Bank	Various	4.00% to 5.20%	<u>36,646</u>
Total certificates of deposit			\$ 451,646
Money market account			
Milestone Financial Services			<u>\$ 1,657,063</u>
U.S. government securities			
Morgan Keegan	Various	2.25% to 6.00%	<u>\$ 3,606,429</u>
Total General Fund			\$ 5,715,138
Road and Bridge Special Revenue Fund			
Certificate of deposit			
Concorde Bank	March 27, 2007	4.00%	<u>\$ 100,000</u>
U.S. government securities			
Milestone Financial Services	Various	5.00% to 5.75%	\$ 2,900,820
Morgan Keegan	Various	3.35% to 6.00%	<u>306,345</u>
Total U.S. government securities			\$ 3,207,165
Total Road and Bridge Special Revenue Fund			\$ 3,307,165
County Building Special Revenue Fund			
U.S. government securities			
Milestone Financial Services	Various	5.00% to 5.55%	\$ 1,994,150
Morgan Keegan	Various	2.00% to 5.30%	<u>997,750</u>
Total County Building Special Revenue Fund			\$ 2,991,900
Capital Equipment Special Revenue Fund			
U.S. government securities			
Milestone Financial Services	Various	3.00% to 5.00%	<u>\$ 2,000,475</u>
Ditch Special Revenue Fund			
Certificate of deposit			
United Prairie Bank	March 20, 2007	4.25%	<u>\$ 175,000</u>

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**Schedule 11
(Continued)**

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

	Maturities	Rates	Amount
Fund Deposits and Investments (Continued)			
Eagle Lake Sewer Special Revenue Fund			
Certificates of deposit			
Bremer Bank of Willmar	September 11, 2007	5.15%	\$ 50,000
United Prairie Bank	April 9, 2007	4.55%	136,096
Total Eagle Lake Special Revenue Fund			\$ 186,096
Sanitary Landfill/Recycling Center Special Revenue Fund			
U.S. government securities			
Milestone Financial Services	Various	3.00% to 6.00%	\$ 7,968,129
Morgan Keegan	Various	3.70% to 5.50%	1,623,893
Wachovia Securities	May 22, 2013	4.00%	237,192
Total Sanitary Landfill/Recycling Center Special Revenue Fund			\$ 9,829,214
County Cemetery Investment Trust Fund			
Certificate of deposit			
Bremer Bank of Willmar	Various	4.60%	\$ 25,000
Taxes and Penalties Agency Fund			
Certificate of deposit			
Bremer Bank of Willmar	Various	4.25% to 5.20%	\$ 113,531
Total Fund Deposits and Investments			\$ 24,343,519
Total Deposits and Investments			\$ 42,174,072

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**DITCH BALANCE SHEET
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2006**

	Assets					
	Treasurer's	Investments	Special Assessments Receivable		Receivables	Due from
	Cash	and Accrued	Delinquent	Deferred		Other
	Balance	Interest				Funds
County Ditches						
#7	\$ 1,325	\$ -	\$ -	\$ -	\$ -	\$ -
#7 Rep D	7,651	-	-	-	-	-
#8	(5,382)	-	-	15,088	-	87
#8A	(437)	-	-	1,242	-	241
#8 Lat A	593	-	-	-	-	-
#8 Lat B	20	-	-	-	-	-
#9	2,506	-	-	-	-	-
#9 Lat 1 Br A	23,055	-	-	-	-	-
#10 Impr C	(7,553)	-	5	6,566	-	-
#12	(460)	-	-	989	-	-
#15	(976)	-	-	-	-	-
#16A	(23,943)	-	-	11,146	-	-
#18A	(1,970)	-	-	2,254	-	189
#19	(22,416)	-	69	12,069	1	84
#20	1,726	-	-	-	-	-
#23A	1,616	-	-	-	-	-
#23A, Main & Br 1 Relocate	(22,668)	-	-	-	-	-
#24A	(13,773)	-	1	11,381	1	1,916
#24A Lat G	539	-	-	-	-	-
#24A Lat H	544	-	-	-	-	-
#24A Lat H-1	642	-	-	-	-	-
#24A Lat J	1,420	-	-	-	-	-
#26	(3,105)	-	-	3,824	-	187
#27	(22,373)	-	-	6,528	-	48
#28	90,812	-	-	-	-	-
#28 Impr Br 7	2,513	-	-	-	-	-
#28 Lat A Br 4	7,678	-	-	-	-	-
#28 Impr Br 5	119	-	-	-	-	-
#29	(1,922)	-	-	4,438	-	66
#31 Impr	135,763	126,505	-	-	-	-
#31 Lat A of Br 10 of Lat 10	633	-	-	-	-	-
#31 Lat A of Br 2 of Lat 10	12,870	-	-	-	-	-
#34	280	-	6	-	-	-
#37	1,980	-	652	9,179	-	-
#38	(19,240)	-	-	-	-	80
#40	120	-	-	-	-	-
#42	155	-	-	-	-	-
#43	45	-	-	-	-	-
#45	191	-	-	-	-	-
#46	(5,819)	-	-	3,752	-	-
#47	4,737	-	-	1,407	-	-
#48	1,743	-	-	-	-	-
#50	901	-	-	-	-	-
#51	3,673	-	-	-	-	-
#51 Lat A-1	(2,732)	-	-	3,681	-	341
#52	(25,369)	-	-	15,302	-	751

Schedule 12

	Due from Other Governments	Total Assets	Liabilities				Fund Balances - Unreserved Undesignated	Total Liabilities and Fund Balances
			Payables	Due to Other Funds	Deferred Revenue	Total Liabilities		
\$	-	\$ 1,325	\$ -	\$ -	\$ -	\$ -	\$ 1,325	\$ 1,325
	-	7,651	-	-	-	-	7,651	7,651
	449	10,242	-	2,492	3,406	5,898	4,344	10,242
	268	1,314	-	-	326	326	988	1,314
	-	593	-	-	-	-	593	593
	-	20	-	-	-	-	20	20
	-	2,506	-	-	-	-	2,506	2,506
	-	23,055	-	-	-	-	23,055	23,055
	-	(982)	-	-	(1)	(1)	(981)	(982)
	-	529	-	-	298	298	231	529
	-	(976)	-	600	-	600	(1,576)	(976)
	1,569	(11,228)	-	-	4,143	4,143	(15,371)	(11,228)
	733	1,206	-	-	469	469	737	1,206
	295	(9,898)	-	270	6,067	6,337	(16,235)	(9,898)
	-	1,726	-	-	-	-	1,726	1,726
	-	1,616	657	-	-	657	959	1,616
	-	(22,668)	645	-	-	645	(23,313)	(22,668)
	4,939	4,465	20,200	50	8,162	28,412	(23,947)	4,465
	-	539	-	-	-	-	539	539
	-	544	5	-	-	5	539	544
	-	642	-	-	-	-	642	642
	-	1,420	74	-	-	74	1,346	1,420
	-	906	-	-	1,256	1,256	(350)	906
	82	(15,715)	-	50	1,713	1,763	(17,478)	(15,715)
	-	90,812	456	-	-	456	90,356	90,812
	-	2,513	-	-	-	-	2,513	2,513
	-	7,678	-	-	-	-	7,678	7,678
	-	119	-	-	-	-	119	119
	103	2,685	-	-	1,227	1,227	1,458	2,685
	-	262,268	119	422	-	541	261,727	262,268
	-	633	-	-	-	-	633	633
	-	12,870	-	-	-	-	12,870	12,870
	-	286	-	-	6	6	280	286
	-	11,811	-	850	591	1,441	10,370	11,811
	12	(19,148)	-	-	2,771	2,771	(21,919)	(19,148)
	-	120	-	-	-	-	120	120
	-	155	-	-	-	-	155	155
	-	45	-	-	-	-	45	45
	-	191	-	-	-	-	191	191
	-	(2,067)	-	-	-	-	(2,067)	(2,067)
	-	6,144	-	-	-	-	6,144	6,144
	-	1,743	-	-	-	-	1,743	1,743
	-	901	-	-	-	-	901	901
	-	3,673	-	-	-	-	3,673	3,673
	195	1,485	1,328	-	1,076	2,404	(919)	1,485
	476	(8,840)	-	-	9,820	9,820	(18,660)	(8,840)

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**DITCH BALANCE SHEET
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2006**

	Assets					Due from Other Funds
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Receivables	
			Delinquent	Deferred		
County Ditches (Continued)						
#54	487	-	-	-	-	-
#54 Impr	26,867	-	-	-	-	-
#55	680	-	1,519	-	-	-
#56 Outlet	831	-	-	-	-	-
#58	(462)	-	60	1,604	4	49
#60	1,661	-	-	-	-	-
#61	743	-	-	-	-	-
#62	(7,578)	-	-	10,187	-	483
#63	1,536	-	-	-	-	-
#64	1,614	-	-	-	-	-
#65	2,418	-	-	-	-	-
State Ditch						
#1 Impr Div 2	48	-	1	-	-	-
Judicial Ditches						
#1 M & K	8,370	-	-	-	-	-
#1 Lat A, M & K	703	-	-	-	-	-
#1 Lat M & K	(46,809)	-	-	97,893	-	-
#1 Lat B, M & K	5,282	-	-	-	-	-
#1 Lat A of Lat B, M & K	4,508	-	-	-	-	-
#1 Br 4 of Lat B, M & K	1,744	-	-	-	-	-
#1 Lat C, M & K	338	-	-	-	-	-
#1 Lat D, M & K	597	-	-	-	-	-
#1 Lat E, M & K	1,093	-	-	-	-	-
#1 Br 2 of Lat F, M & K	(2,199)	-	-	7,171	-	618
#1 Lat G, M & K	3,541	-	-	-	-	-
#2 R & K	(9,353)	-	-	5,938	-	116
#2 Lat 3, R & K	(10,004)	-	-	2,234	-	40
#2 Lat 4, R & K	(9,500)	-	-	2,369	-	474
#2 Lat A of Lat 4, R & K	452	-	-	-	-	-
#2 Lat 5, R & K	(10,715)	-	-	4,857	-	937
#2 Lat 7, R & K	78	-	-	-	-	-
#2 Lat 8, R & K	959	-	-	-	-	-
#2 C & K	1,614	-	-	-	-	-
#2 St & K	211	-	-	-	-	-
#3 K & C	(3,522)	-	-	-	-	-
#3 Lat B, K & C	926	-	-	-	-	-
#3 Lat A of Lat B, K & C	1,760	-	-	-	-	-
#3 Lat C, C & K	184	-	-	-	-	-
#3 Lat D, C & K	34,789	50,602	-	-	-	-
#3 Impr Br 5 & 6, C & K	2,698	-	-	-	-	-
#3 Impr Br 7 & 8, C & K	753	-	-	-	-	-
#3 Impr Br 9, C & K	1,856	-	-	-	-	-
#3 Impr Br 10, C & K	205	-	-	-	-	-
#3 Br 10 of Lat A, C & K	597	-	-	-	-	-

Schedule 12
(Continued)

Due from Other Governments	Total Assets	Liabilities				Fund Balances - Unreserved Undesignated	Total Liabilities and Fund Balances
		Payables	Due to Other Funds	Deferred Revenue	Total Liabilities		
-	487	-	-	-	-	487	487
-	26,867	-	-	-	-	26,867	26,867
-	2,199	-	-	1,487	1,487	712	2,199
-	831	-	-	-	-	831	831
125	1,380	-	-	932	932	448	1,380
-	1,661	-	-	-	-	1,661	1,661
-	743	-	-	-	-	743	743
201	3,293	-	-	6,154	6,154	(2,861)	3,293
-	1,536	-	-	-	-	1,536	1,536
-	1,614	1,374	2,166	-	3,540	(1,926)	1,614
-	2,418	54	872	-	926	1,492	2,418
-	49	-	-	1	1	48	49
160	8,530	23	-	-	23	8,507	8,530
-	703	-	-	-	-	703	703
-	51,084	-	-	97,893	97,893	(46,809)	51,084
-	5,282	-	-	-	-	5,282	5,282
-	4,508	78	-	-	78	4,430	4,508
-	1,744	51	-	-	51	1,693	1,744
-	338	-	-	-	-	338	338
-	597	-	-	-	-	597	597
-	1,093	-	-	-	-	1,093	1,093
463	6,053	-	-	1,991	1,991	4,062	6,053
-	3,541	-	-	-	-	3,541	3,541
4,609	1,310	25,141	-	3,038	28,179	(26,869)	1,310
6,219	(1,511)	-	-	586	586	(2,097)	(1,511)
2,311	(4,346)	-	-	982	982	(5,328)	(4,346)
-	452	-	-	-	-	452	452
25	(4,896)	-	-	3,135	3,135	(8,031)	(4,896)
-	78	-	-	-	-	78	78
-	959	-	-	-	-	959	959
-	1,614	-	-	-	-	1,614	1,614
-	211	-	-	-	-	211	211
-	(3,522)	-	-	-	-	(3,522)	(3,522)
-	926	-	-	-	-	926	926
-	1,760	-	-	-	-	1,760	1,760
-	184	-	-	-	-	184	184
141	85,532	-	-	-	-	85,532	85,532
-	2,698	-	-	-	-	2,698	2,698
-	753	-	-	-	-	753	753
-	1,856	-	-	-	-	1,856	1,856
-	205	-	-	-	-	205	205
-	597	-	-	-	-	597	597

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

**DITCH BALANCE SHEET
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2006**

	Assets					Due from Other Funds
	Treasurer's Cash Balance	Investments and Accrued Interest	Special Assessments Receivable		Receivables	
			Delinquent	Deferred		
Judicial Ditches (Continued)						
#3 St & K	1,168	-	14	-	-	-
#3 Rep A, St & K	2,047	-	-	-	-	-
#7 C, K & R (& Rep F)	12,104	-	31	-	-	-
#7 Lat A, C, K & R	4,217	-	-	-	-	-
#7 Lat B, C, K & R	2,902	-	-	-	-	-
#7 Lat E, C, K & R	(305)	-	-	2,622	3	48
#10 R & K	225	-	-	-	-	-
#11 K & M	(7,528)	-	-	5,712	-	437
#16 R & K	(41,053)	-	-	15,091	-	1,419
#17 M & K	(47,994)	-	-	6,786	-	767
#17 Rep A, M & K	4,475	-	-	-	-	-
#17 Br 4 of Lat A, M & K	545	-	-	-	-	-
#17 Br 4 of Lat B, M & K	7,192	-	-	-	-	-
#18 Sw, K & C	776	-	13	-	-	-
#18 M & K	654	-	-	-	-	-
#18 Lat A, M & K	447	-	-	-	-	-
#18 Lat C, M & K	(5,531)	-	-	3,229	-	102
#19 Sw & K	(120)	-	-	161	-	-
#21 R, C & K	435	-	-	-	-	-
#21 Sw, K & C	688	-	58	-	-	-
#29 Rep B, R, M & K	107	-	-	-	-	-
Total	\$ 71,164	\$ 177,107	\$ 2,429	\$ 274,700	\$ 9	\$ 9,480

Schedule 12
(Continued)

Due from Other Governments	Total Assets	Liabilities				Fund Balances - Unreserved Undesignated	Total Liabilities and Fund Balances
		Payables	Due to Other Funds	Deferred Revenue	Total Liabilities		
293	1,475	-	1,150	-	1,150	325	1,475
-	2,047	-	-	-	-	2,047	2,047
3,934	16,069	75,997	-	20	76,017	(59,948)	16,069
-	4,217	1,386	-	-	1,386	2,831	4,217
-	2,902	-	-	-	-	2,902	2,902
64	2,432	-	-	363	363	2,069	2,432
-	225	-	100	-	100	125	225
1,865	486	79	-	528	607	(121)	486
17,457	(7,086)	38,988	678	9,770	49,436	(56,522)	(7,086)
40,206	(235)	22,017	-	1,864	23,881	(24,116)	(235)
-	4,475	-	-	-	-	4,475	4,475
-	545	-	-	-	-	545	545
-	7,192	-	-	-	-	7,192	7,192
-	789	-	-	13	13	776	789
5,447	6,101	-	-	-	-	6,101	6,101
-	447	-	-	-	-	447	447
38	(2,162)	-	-	602	602	(2,764)	(2,162)
-	41	-	-	33	33	8	41
-	435	-	-	-	-	435	435
100	846	570	-	58	628	218	846
-	107	-	-	-	-	107	107
\$ 92,779	\$ 627,668	\$ 189,242	\$ 9,700	\$ 170,780	\$ 369,722	\$ 257,946	\$ 627,668

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 13

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

	Total Primary Government	Housing and Redevelopment Authority Component Unit
Shared Revenue		
State		
Highway users tax	\$ 7,753,195	\$ -
County program aid	2,073,713	-
Market value credit	1,901,579	-
PERA rate reimbursement	73,608	-
Disparity reduction aid	21,101	-
Police aid	174,243	-
State financing revenue	35,801	-
Enhanced 911	125,116	-
	\$ 12,158,356	\$ -
Total Shared Revenue		
Reimbursement for Services		
State		
Minnesota Department of Human Services	\$ 2,445,528	\$ -
	\$ 2,445,528	\$ -
Payments		
Local		
Payments in lieu of taxes	\$ 349,957	\$ -
Other	1,512	-
	\$ 351,469	\$ -
Total Payments		
Grants		
State		
Minnesota Department of		
Education	\$ 468,591	\$ -
Corrections	761,060	-
Health	274,878	-
Natural Resources	851	-
Human Services	3,086,409	-
Veterans Affairs	4,200	-
Secretary of State	52,208	-
Water and Soil Resources Board	243,176	-
Office of Environmental Assistance	92,797	-
Pollution Control Agency	594	-
Board of Peace Officer Standards and Training	11,938	-
	\$ 4,996,702	\$ -
Total State		

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 13
(Continued)

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

	Total Primary Government	Housing and Redevelopment Authority Component Unit
Grants (Continued)		
Federal		
Election Assistance Commission	\$ 331,792	\$ -
Department of		
Agriculture	252,862	-
Housing and Urban Development	-	1,211,001
Justice	23,323	-
Labor	24,898	-
Transportation	2,276,171	-
Education	789	-
Health and Human Services	2,041,435	-
Homeland Security	55,250	-
	\$ 5,006,520	\$ 1,211,001
Total Federal	\$ 5,006,520	\$ 1,211,001
Total State and Federal Grants	\$ 10,003,222	\$ 1,211,001
Total Intergovernmental Revenue	\$ 24,958,575	\$ 1,211,001

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 14

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

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses unqualified opinions on the basic financial statements of Kandiyohi County.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Kandiyohi County and are reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." One of the significant deficiencies is a material weakness.
- C. No instances of noncompliance material to the financial statements of Kandiyohi County were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award programs for Kandiyohi County expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:

Highway Planning and Construction	CFDA #20.205
Help America Vote Act	CFDA #90.401
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Kandiyohi County was determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-8 Departmental Internal Accounting Control

Due to the limited number of office personnel within several County offices, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Kandiyohi County; however, the County's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting control point of view.

Control procedures which the County should consider include management's determination that:

- employees are submitting financial reports currently,
- financial records are maintained currently, and
- financial reports to the County Auditor/Treasurer and other governmental units are being reviewed for reasonableness and that they agree with cash.

We recommend Kandiyohi County's management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Client's Response:

The County is aware of the lack of segregation of accounting functions in several County offices because of limited office personnel. The County Auditor/Treasurer will continually oversee procedures to ensure that the internal control structure policies and procedures are implemented.

ITEM ARISING THIS YEAR

06-1 Audit Adjustments

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

During our audit, we identified the following material audit adjustments-

- Contracts payable and related expenditures were increased by \$672,166.
- Federal revenue of \$3,013,232 was reclassified from state revenue and charges for services.
- The activity in the cash with escrow accounts was recorded for \$281,404.
- Deferred revenue - unavailable of \$700,154 was recorded related to state-aid highway funding not received within the first 60 days after year-end.
- An addition to the General Fund cash and investments of \$1,657,063 was recorded related to the December 31, 2006, balance with an investment advisor.
- A \$294,480 loan receivable in the Debt Service Fund and a \$200,000 loan receivable in the General Fund were recorded.
- Due from the General Fund to the Capital Projects Fund of \$163,746 was recorded.
- Ditch Special Revenue Fund receivables of \$208,436 and payables of \$70,343 were recorded.

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

We recommend that the County establish internal control for determining all necessary entries required to convert the account activity, which is recorded on the cash basis, to the modified accrual basis, for financial statement purposes, in accordance with Generally Accepted Accounting Principles (GAAP).

Client's Response:

Kandiyohi County will continue to implement internal controls for making all necessary entries required to convert the account activity, which is recorded on the cash basis, to the modified accrual basis, for financial statement purposes, in accordance with GAAP.

PREVIOUSLY REPORTED ITEM RESOLVED

Disaster Recovery Plan (96-10)

The County did not have formal, Board-approved procedures for continued operations in the event of a disaster or major computer breakdown.

Resolution

The County developed a disaster recovery plan; however, the plan needs to be approved by the Board of County Commissioners.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-1 Cash Overdrafts

At December 31, 2006, the Capital Projects Fund had a cash overdraft of \$190,141. The Northfork Crow River Watershed Agency Fund had a cash overdraft of \$33,868.

Minn. Stat. §§ 385.31 and 385.32 provide that, if cash balances in the funds are insufficient, warrants are to be registered or funds borrowed from another fund with sufficient cash.

We recommend the County not make disbursements that cause a cash overdraft in a fund. We further recommend that, if appropriate, the County avail itself of one of the options provided by Minnesota statutes to avoid cash overdrafts.

Client's Response:

The Kandiyohi County Board of Commissioners will review the status of the Capital Projects Fund and if necessary an inter-fund transfer will be made in December 2007. The Northfork Crow River Watershed Agency Fund was given an advance for organizational expenses allowed by statute. The advance was reimbursed in January of 2007.

96-3

Individual Ditch System Cash Deficits

Thirty-two of the 109 individual ditch systems had deficit cash balances as of December 31, 2006, totaling \$382,811. Minn. Stat. § 385.31 permits the payment of expenditures provided there is money in that fund for that purpose. It also provides that warrants are to be registered if a specific fund has insufficient funds to pay for expenditures incurred against it. Minn. Stat. § 103E.655, subd. 2, allows for loans to be made from ditch systems with surplus funds or from the General Fund to a ditch system with insufficient cash to pay expenditures against it. Any such loans must be repaid with interest. Allowing any ditch system to maintain a deficit cash balance, in effect, constitutes an interest-free loan from funds of the County and, as such, is in noncompliance with Minnesota law.

We recommend the County eliminate these deficits in individual ditch systems by borrowing from an eligible fund with a surplus cash balance.

Client's Response:

In 2007 one-year ditch repair liens will be levied.

PREVIOUSLY REPORTED ITEM RESOLVED

**Compliance with Financial Institutions Reform, Recovery, and
Enforcement Act (FIRREA) of 1989 (96-5)**

The County did not have documentation demonstrating that it had perfected security interest in pledged collateral in compliance with FIRREA, 12 U.S.C. § 1823(e).

Resolution

The County received written collateral assignments from its depositories that were approved by each depository's Board of Directors for all funds on deposit during the year ended December 31, 2006. Furthermore, the assignment of collateral was continuously, from the time of its execution, an official record of the depository.

B. **MANAGEMENT PRACTICES**

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

96-11 **Ditch Special Revenue Fund - Equity Balance Deficits**

Twenty-five of the 109 individual ditch systems had deficit unreserved, undesignated fund balances as of December 31, 2006, totaling \$383,730. Minn. Stat. § 103E.735, subd. 1, provides that a repair fund may be established for any ditch system, not to exceed 20 percent of the assessed benefits of the ditch system, or \$40,000, whichever is larger.

We recommend the County eliminate these deficits in individual ditch systems by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus cash balance to provide for the repair and maintenance costs of a ditch system.

Client's Response:

In 2007 one-year ditch repair liens will be levied.

00-2 Capital Asset Accounting System

Governmental Accounting Standards Board (GASB) Statement 34 requires governments to include capital assets, including infrastructure assets, on the statement of net assets and to report depreciation expenses for those assets on the statement of activities. In addition, capital outlay expenditures in a governmental fund's statement of revenues and expenditures are eliminated in the statement of activities.

The capital asset accounting system should be interfaced with the general ledger so that the capital asset inventory can be updated automatically on an ongoing basis. The general ledger should contain features that prompt the user to provide the additional information when expenditures are recorded to capital outlay accounts. These features will assist the County in complying with the requirements of GASB Statement 34.

The County's current capital assets system is not interfaced with its general ledger; therefore, capital assets purchased are not recorded in the capital asset system when the expenditures are recorded in the general ledger. Generally, purchases of capital assets are recorded manually on the capital asset system after year-end. At that time, County personnel analyze all capital outlay and maintenance expenditure accounts for additions and obtain corroborating information from departments to determine total assets purchased.

We recommend that the County Board take steps to have the capital asset system interfaced with the general ledger.

Client's Response:

Kandiyohi County is scheduled to complete the Capital Asset Accounting System by December 31, 2007.

PREVIOUSLY REPORTED ITEMS RESOLVED

Stale Checks on Bank Reconciliations (96-12)

During our review of the previous years' bank reconciliations, we noticed outstanding checks over one year old, making reconciliations cumbersome and overly complicated.

Resolution

During our review of the bank reconciliations for the year ended December 31, 2006, outstanding checks were less than one year old.

Annual Financial Report (02-2)

Kandiyohi County has a responsibility to prepare financial statements and publish them for its citizens and others. In previous years, the Office of the State Auditor (OSA) has helped the County prepare its annual financial report. The annual financial report includes financial statements, related notes to the financial statements, and schedules.

Resolution

The County Board assigned staff to prepare the necessary information needed for the annual financial report for the year ended December 31, 2006, by the date mutually agreed to with the OSA.

C. **OTHER ITEM FOR CONSIDERATION**

Other Postemployment Benefits (OPEB)

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

Schedule 14
(Continued)

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

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

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

If applicable for Kandiyohi County, GASB Statements 43 and 45 would be implemented for the years ended December 31, 2008 and 2009, respectively.

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OTHER REQUIRED REPORTS

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

Board of County Commissioners
Kandiyohi County

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kandiyohi County as of and for the year ended December 31, 2006, and have issued our report thereon dated November 2, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Kandiyohi County Housing and Redevelopment Authority (HRA) for the year ended June 30, 2006, as described in our report on Kandiyohi County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 96-8 and 06-1 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 06-1 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Kandiyohi County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 96-1 and 96-3.

Also included in the Schedule of Findings and Recommendations are management practice comments and an other item for consideration. We believe these recommendations and information to be of benefit to Kandiyohi County, and they are reported for that purpose.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 2, 2007

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

Board of County Commissioners
Kandiyohi County

Compliance

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

Kandiyohi County's financial statements include the operations of the Kandiyohi County Housing and Redevelopment Authority (HRA), a component unit, which expended \$1,181,032 in federal awards during the year ended June 30, 2006, that are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the HRA because other auditors were engaged to perform a separate single audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kandiyohi County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

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

Internal Control Over Compliance

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

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kandiyohi County as of and for the year ended December 31, 2006, and have issued our report thereon dated November 2, 2007. Those financial statements also include the operations of the Kandiyohi County HRA discretely presented component unit for the year ended June 30, 2006, whose financial statements were audited by other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 2, 2007

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**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 15

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 235,374
Passed Through Minnesota Department of Human Services Administrative Matching Grants for Food Stamp Program	10.561	17,488
Total U.S. Department of Agriculture		\$ 252,862
U.S. Department of Justice		
Direct Public Safety Partnership and Community Policing Grants	16.710	\$ 23,323
U.S. Department of Labor		
Direct Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	\$ 24,898
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 2,229,184
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	38,236
Minimum Penalties for Repeat Offenders for DWI	20.608	8,751
Total U.S. Department of Transportation		\$ 2,276,171
U.S. Department of Education		
Passed Through Minnesota Department of Health Special Education Grants for Infants and Families with Disabilities	84.181	\$ 789
U.S. Election Assistance Commission		
Passed Through Minnesota Office of Secretary of State Help America Vote Act Grant	90.401	\$ 321,492
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Immunization Grants	93.268	\$ 2,180
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	206,241
Maternal and Child Health Services Block Grant	93.994	54,085

**KANDIYOHI COUNTY
WILLMAR, MINNESOTA**

Schedule 15
(Continued)

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

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Passed Through Minnesota Department of Human Services		
Promoting Safe and Stable Families	93.556	58,975
Temporary Assistance for Needy Families (TANF)	93.558	574,795
Child Care and Development Block Grant	93.575	484,515
Child Welfare Services-State Grants	93.645	13,478
Foster Care Title IV-E	93.658	291,201
Social Services Block Grant Title XX	93.667	332,645
Chafee Foster Care Independence Program	93.674	7,169
Community Mental Health Services Block Grant	93.958	16,151
Total U.S. Department of Health and Human Services		\$ 2,041,435
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Natural Resources		
Boating Safety Financial Assistance	97.012	\$ 23,366
Passed Through Minnesota Department of Public Safety		
State Domestic Preparedness Equipment Support Program	97.004	14,170
Emergency Management Performance Grants	97.042	17,714
Total U.S. Department of Homeland Security		\$ 55,250
Total Federal Awards		\$ 4,996,220

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Kandiyohi County. The County's reporting entity is defined in Note 1 to the basic financial statements. The schedule does not include \$1,181,032 in federal awards expended by the Kandiyohi County HRA component unit, which has a separate single audit performed by other auditors. The federal revenue on the Schedule of Intergovernmental Revenue is \$5,006,520. The \$10,300 difference between this schedule and the Schedule of Intergovernmental Revenue is related to the Help America Vote Act Grant. The \$10,300 was unspent; it is included as revenue and is reserved for election equipment at December 31, 2006.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2006, the County did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.